



**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

Schedules of Pension Amounts

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM**

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Independent Auditors' Report

The Treasurer
State of New Jersey:

We have audited the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense excluding that attributable to employer-paid member contributions (specified column totals) included in the accompanying schedule of pension amounts of the State of New Jersey State Police Retirement System as of and for the year ended June 30, 2014, and the column titled net pension liability (specified column total) included in the accompanying schedule of pension amounts of the State of New Jersey State Police Retirement System as of June 30, 2013 and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the specified column totals included in the schedules of pension amounts based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified column totals included in the schedules of pension amounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the specified column totals included in the schedule of pension amounts. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the specified column totals included in the schedule of pension amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the specified column totals included in the schedule of pension amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the specified column totals included in the schedule of pension amounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense excluding that attributable to employer-paid member contributions for the State of New Jersey State Police Retirement System as of and for the year ended June 30, 2014, and the net pension liability for the State of New Jersey State Police Retirement System as of June 30, 2013 in accordance with U.S. generally accepted accounting principles.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of New Jersey, Division of Pensions and Benefits, which includes the State Police Retirement System, as of and for the year ended June 30, 2014, and our report thereon, dated April 1, 2015, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the State of New Jersey, Division of Pensions and Benefits management, the Treasurer of the State of New Jersey, State of New Jersey and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Short Hills, New Jersey
November 13, 2015

**STATE OF NEW JERSEY DIVISION OF PENSIONS AND BENEFITS
STATE POLICE RETIREMENT SYSTEM**

Schedules of Pension Amounts

As of and for the Year ended June 30, 2014 and As of June 30, 2013

<u>Net pension liability</u>		<u>Deferred outflows of resources – June 30, 2014</u>			<u>Deferred inflows of resources – June 30, 2014</u>			<u>Year ended June 30, 2014</u>
<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Differences between expected and actual experience</u>	<u>Changes of assumptions</u>	<u>Total deferred outflows of resources</u>	<u>Differences between expected and actual experience</u>	<u>Changes of assumptions</u>	<u>Net difference between projected and actual investment earnings on pension plan investments</u>	<u>Total pension expense excluding that attributable to employer-paid member contributions</u>
\$ 2,260,131,313	2,308,162,329	—	74,654,429	74,654,429	—	—	122,037,662	131,851,172

See accompanying notes to schedules of pension amounts.

STATE OF NEW JERSEY
STATE POLICE RETIREMENT SYSTEM

Notes to Schedules of Pension Amounts

June 30, 2014 and 2013

(1) Plan Description

The State of New Jersey, State Police Retirement System (SPRS) is a single-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

The vesting and benefit provisions are set by N.J.S.A. 43:6A. SPRS provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of service, as defined and members are always fully vested in their contributions. Mandatory retirement is at age 55. Voluntary retirement is prior to age 55 with 20 years of credited service. Benefit is an annual retirement allowance equal to the greater of (a), (b), or (c), as follows: (a) 50% of final compensation; (b) For members retiring with 25 or more years of service, 65% of final compensation, plus 1% for each year of service in excess of 25 years, to a maximum of 70% of final compensation. (c) For members as of August 29, 1985 who would not have 20 years of service by age 55, benefit as defined in (a) above. For members as of August 29, 1985 who would have 20 years of service but would not have 25 years of service at age 55, benefit as defined in (a) above plus 3% for each year of service.

(2) Basis of Presentation

The schedules of pension amounts (the Schedules) present amounts that are considered elements of the financial statements of SPRS or the State of New Jersey. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of SPRS or the State of New Jersey. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of SPRS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(3) Contributions

The contribution policy for SPRS is set by N.J.S.A. 53:5A and requires contributions by active members and the State of New Jersey. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined amount which includes the normal cost and unfunded accrued liability. For fiscal year 2014 and 2013, the State contributed an amount less than the actuarial determined amount.

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STATE POLICE RETIREMENT SYSTEM**

Notes to Schedules of Pension Amounts

June 30, 2014 and 2013

(4) Net Pension Liability and Actuarial Information

Components of Net Pension Liability

The components of the net pension liability of the State for SPRS as of June 30, 2014 and 2013 are as follows:

		2014	2013
Total pension liability	\$	4,246,118,723	4,048,757,035
Plan fiduciary net position		1,937,956,394	1,788,625,722
Net pension liability	\$	2,308,162,329	2,260,131,313
Plan fiduciary net position as a percentage of the total pension liability		45.64%	44.18%

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.01%
Salary increases:	
2012-2021	3.45%
Thereafter	4.45%
Investment rate of return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables (set back three years for males) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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June 30, 2014 and 2013

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in SPRS's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	6.00%	0.80%
Core Bonds	1.00%	2.49%
Intermediate-Term Bonds	11.20%	2.26%
Mortgages	2.50%	2.17%
High Yield Bonds	5.50%	4.82%
Inflation-Indexed Bonds	2.50%	3.51%
Broad US Equities	25.90%	8.22%
Developed Foreign Equities	12.70%	8.12%
Emerging Market Equities	6.50%	9.91%
Private Equity	8.25%	13.02%
Hedge Funds / Absolute Return	12.25%	4.92%
Real Estate (Property)	3.20%	5.80%
Commodities	2.50%	5.35%

Discount Rate

The discount rate used to measure the total pension liability was 5.12% and 5.29% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2032. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2032, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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June 30, 2014 and 2013

Sensitivity of Net Pension Liability

The following presents the net pension liability of SPRS as of June 30, 2014 and 2013, respectively, calculated using the discount rate as disclosed above as well as what SPRS's net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

<u>As of June 30, (rates used)</u>	<u>At 1% decrease</u>	<u>At current discount rate</u>	<u>At 1% increase</u>
2014 (4.12%, 5.12%, 6.12%)	\$ 2,927,246,593	2,308,162,329	1,806,733,074
2013 (4.29%, 5.29%, 6.29%)	2,850,392,936	2,260,131,313	1,782,526,016

(5) Deferred Outflows of Resources and Deferred Inflows of Resources

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2014:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred Outflows of Resources:						
Changes of assumptions	2014	5.14 years	\$ —	92,686,900	18,032,471	74,654,429
Total			<u>—</u>	<u>92,686,900</u>	<u>18,032,471</u>	<u>74,654,429</u>
Deferred Inflows of Resources:						
Difference between projected and actual earnings on pension plan investments	2014	5 years	\$ —	152,547,077	30,509,415	122,037,662
Total			<u>—</u>	<u>152,547,077</u>	<u>30,509,415</u>	<u>122,037,662</u>

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Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

	2015	\$	(12,476,944)
	2016		(12,476,944)
	2017		(12,476,944)
	2018		(12,476,946)
	2019		2,524,545
	Total	\$	<u><u>(47,383,233)</u></u>

(6) Pension Expense

The components of total pension expense, excluding that attributable to employer-paid member contributions, for the year ending June 30, 2014 are as follows:

Service cost (a)	\$	88,919,195
Interest on total pension liability (a)		213,714,531
Member contributions		(24,034,496)
Administrative expense		280,026
Expected investment return net of investment expenses		(134,551,140)
Recognition of deferred inflows/outflows of resources:		
Amortization of assumption changes or inputs		18,032,471
Amortization of projected versus actual investment earnings on pension plan investments		<u>(30,509,415)</u>
Pension expense	\$	<u><u>131,851,172</u></u>

(a) The service cost and interest cost components have been revised from the amounts previously reported for the fiscal year ending June 30, 2014 GASB Statement No. 67 actuary's report to reallocate interest accrued on the service cost of \$4,703,825 to the interest on total pension liability component.