

**STATE OF NEW JERSEY**  
**DIVISION OF PENSIONS AND BENEFITS**

Management's Discussion and Analysis

June 30, 2011

**Overall Financial Condition of the Funds**

For the defined benefit pension trust funds, the combined funded ratio is 70.5% based on the revised current actuarial valuation dated July 1, 2010, reflecting impact of Chapter 78, P.L. 2011, with an unfunded actuarial accrued liability of \$36.3 billion on an actuarial basis per GASB Statement No. 25 as compared to 66.0% based on the prior year valuation with an unfunded actuarial accrued liability of \$45.8 billion. The reduction in the unfunded pension liabilities and the increase in the overall funded ratio are mainly attributable to the suspension of cost-of-living adjustments on pension benefits effective July 1, 2011 under pension and health benefits reform legislation passed on June 28, 2011 (Chapter 78, P.L. 2011). In addition to the suspension of cost-of-living-adjustment, other reform measures required under this legislation, including increased employee contribution requirements and benefit reductions impacting new pension plan members, are expected to help to improve the overall funded status of the defined benefit pension plans over the long-term.

For the SHBP – Education, total expenses incurred exceeded total revenues recognized by \$24.4 million, reducing the year-end surplus from \$393.6 million to \$369.2 million. The reduction is due in part to rates that were set to utilize some of the funds surplus balance. For the SHBP – State, revenues exceeded incurred expenses by \$105.5 million, reducing the deficit at the beginning of the year of \$89.3 million to a \$16.2 million surplus at year end. This is primarily due to the State of New Jersey's funding obligation described on the previous page. For the SHBP – Local, revenues exceeded incurred expenses by \$2.4 million, increasing the year-end surplus from \$150.7 million to \$153.1 million which can be attributable to rate increases and claims experience.

For the state health benefit program funds for fiscal year 2011, based on the current actuarial valuation dated July 1, 2010, the State had a \$21.1 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) under Governmental Accounting Standards Board (GASB) Statement No. 43 for the SHBP – State active and retired members and \$38.2 billion for the SHBP – Education employees and retirees that become the obligation of the State of New Jersey upon retirement. In comparison, based on the prior year actuarial valuation, the State had a \$20.5 billion unfunded actuarial accrued liability for the SHBP – State active and retired members and \$36.3 billion for the SHBP – Education employees and retirees. The SHBP – Local fiscal year 2011 unfunded actuarial accrued liability for OPEB based on the same actuarial valuation was \$12.1 billion, and for the prior year actuarial valuation the liability was \$10.0 billion.

During the year, the ABP and the PAF received sufficient funding to meet their benefit obligations.

For the State Employees Deferred Compensation Plan and the Supplemental Annuity Collective Trust, members are 100% vested in the present value of their contributions, and the funds have sufficient assets to meet future benefit obligations.

**Contacting System Financial Management**

This financial report is designed to provide our members, beneficiaries, investors, and other interested parties with a general overview of the Funds' finances and to show the Funds' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.