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April 18, 2006

Mr. John D. Megariotis
Assistant Director-Finance
State of New Jersey
Department of the Treasury
Division of Pensions & Benefits – CN295
Trenton, NJ 08625-0295

Re: June 30, 2005 Actuarial Valuation Report

Dear John:

Enclosed are 35 final copies of the Teachers' Pension and Annuity Fund of New Jersey June 30, 2005 Actuarial Valuation Report.

If you have any questions, or need additional copies, please call me.

Sincerely,

Scott Porter

cc: Henry Matwiejewicz

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Enclosure

**TEACHERS' PENSION AND ANNUITY FUND
OF NEW JERSEY**

June 30, 2005 Actuarial Valuation Report



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April 18, 2006

Board of Trustees
Teachers' Pension and Annuity Fund of New Jersey
State of New Jersey
Department of the Treasury
Division of Pensions and Benefits, CN 295
Trenton, NJ 08625-0295

Ladies and Gentlemen:

This report presents the results of the actuarial valuation of Teachers' Pension and Annuity Fund of New Jersey as of June 30, 2005. Section I contains highlights of the valuation including a general discussion and comments on the various schedules included in the report. The subsequent Sections contain schedules summarizing the underlying calculations, asset information, participant data, plan benefits and actuarial assumptions.

Purpose

The main purposes of this report are:

- to provide the annual state contribution in accordance with N.J. Statutes to be made in the Fiscal Year ending June 30, 2007 which represents the contribution for the valuation year beginning July 1, 2005;
- to determine the Annual Required Contribution in accordance with Governmental Accounting Standards Board Statements 25 and 27 for the Fiscal Year ending June 30, 2007 and,
- to review the experience under the plan for the valuation year ending June 30, 2005

Milliman's work product was prepared exclusively for the use or benefit of the State of New Jersey Division of Pension and Benefits for a specific and limited purpose as listed above. It is a complex, technical analysis that assumes a high level of knowledge concerning the Teachers Pension and Annuity Fund's operations, and uses the Division's data, which Milliman has not audited. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work

product, but should engage qualified professionals for advice appropriate to its own specific needs.

Data Reliance

In performing this analysis, we relied on data and other information provided by the State of New Jersey Division of Pensions and Benefits. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Variability of Results

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Certification

We hereby certify that, to the best of our knowledge, this report is complete and accurate and all costs and liabilities were determined in conformance with generally accepted actuarial principles and practices based on actuarial assumptions and methods adopted by the Board or mandated by statute.

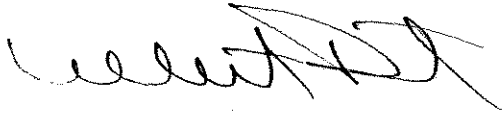
Board of Trustees
April 18, 2006
Page 3

We are members of the American Academy of Actuaries and meet its Qualification Standard to render this actuarial opinion.

Respectfully submitted,

MILLIMAN, INC.

By: *Scott Porter*
Scott F. Porter, F.S.A.
Member American Academy of Actuaries

By: 
William A. Reimert, F.S.A.
Member American Academy of Actuaries

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TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

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TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

A. Summary of Principal Results

PARTICIPANT DATA

	<u>June 30, 2005</u>		<u>June 30, 2004</u>		<u>June 30, 2003</u>	<u>Percentage</u>	<u>Percentage</u>
	<u>Valuation</u>		<u>Valuation</u>		<u>Valuation</u>	<u>Change</u>	<u>Change</u>
						<u>2004 to 2005</u>	<u>2003 to 2004</u>
Active Contributing Members							
Number	139,245		136,838		134,383	1.8 %	1.8 %
Number of Veteran Members	1,522		1,719		1,913	(11.5)	(10.1)
Average Pay	\$ 60,723	\$	58,819	\$	57,330	3.2	2.6
Total Payroll	8,455,402,150		8,048,606,703		7,704,164,859	5.1	4.5
Total Appropriation Payroll	8,454,072,109		8,047,272,269		7,702,854,159	5.1	4.5
Avg. Member Accumulated Contributions	46,635		44,789		42,839	4.1	4.6
Total Member Accumulated Contributions	6,493,706,672		6,128,804,702		5,756,897,444	6.0	6.5
Active Non-Contributing Members							
Number	12,628		12,259		11,499	3.0 %	6.6 %
Number of Veteran Members	98		106		97	(7.5)	9.3
Average Pay	\$ 42,357	\$	41,066	\$	39,769	3.1	3.3
Total Payroll	534,885,076		503,424,027		457,306,414	6.2	10.1
Avg. Member Accumulated Contributions	19,386		18,708		18,217	3.6	2.7
Total Member Accumulated Contributions	244,802,590		229,346,018		209,479,506	6.7	9.5

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

PARTICIPANT DATA

	<u>June 30, 2005</u>		<u>June 30, 2004</u>		<u>June 30, 2003</u>	<u>Percentage</u>	<u>Percentage</u>
	<u>Valuation</u>		<u>Valuation</u>		<u>Valuation</u>	<u>Change</u>	<u>Change</u>
						<u>2004 to 2005</u>	<u>2003 to 2004</u>
Service Retirees, Including Domestic Relations Beneficiaries							
Number	59,301		56,100		53,709	5.7 %	4.5 %
Average Annual Pension	\$ 31,913	\$	\$ 30,608	\$	\$ 29,417	4.3	4.0
Total Annual Pensions	1,892,492,477		1,717,126,891		1,579,974,749	10.2	8.7
Average Retirement Age of New Retirees	59.4		59.6		59.2	(0.3)	0.7
Average Annual Pension of New Retirees	\$ 42,185	\$	\$ 40,645	\$	\$ 39,597	3.8	2.6
Disabled Retirees							
Number	2,370		2,273		2,171	4.3 %	4.7 %
Average Annual Pension	\$ 22,495	\$	\$ 21,805	\$	\$ 21,015	3.2	3.8
Total Annual Pensions	53,313,284		49,562,156		45,623,733	7.6	8.6
Beneficiaries and Dependents							
Number	3,774		3,620		3,451	4.3 %	4.9 %
Average Annual Pension	\$ 18,762	\$	\$ 17,976	\$	\$ 17,143	4.4	4.9
Total Annual Pensions	70,806,308		65,074,906		59,160,122	8.8	10.0
Terminated Vested Participants							
Number	903		925		1,030	(2.4) %	(10.2) %
Average Annual Pension	\$ 10,590	\$	\$ 10,050	\$	\$ 9,714	5.4	3.5
Total Annual Pensions	9,563,112		9,295,908		10,005,540	2.9	(7.1)

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

STATUTORY PENSION CONTRIBUTIONS WITH BUDGET ADJUSTMENTS

	June 30, 2005 Valuation (State's Fiscal Year 2007 <u>Contributions)</u>	June 30, 2004 Valuation (State's Fiscal Year 2006 <u>Contributions)</u>	June 30, 2003 Valuation (State's Fiscal Year 2005 <u>Contributions)</u>	Percentage Change 2004 to 2005	Percentage Change 2003 to 2004
Normal Cost (1/60th formula) **	\$ 560,691,960	\$ 541,190,160	\$ 451,708,819	3.6 %	19.8 %
Excess Assets Available	<u>0</u>	<u>0</u>	<u>0</u>	0.0	0.0
Normal Contribution	560,691,960 *	541,190,160 *	451,708,819 *	3.6	0.0
Additional Formula Normal Cost	94,763,359	91,356,864	83,459,322	3.7 %	9.5 %
Benefit Enhancement Fund (BEF) Balance	<u>0</u>	<u>(380,295,561)</u>	<u>(637,266,658)</u>	(100.0)	(40.3)
Additional Formula Contribution	94,763,359 *	0 *	0 *	0.0	0.0
Accrued Liability Contribution	<u>500,685,252</u> *	<u>374,702,121</u> *	<u>194,739,407</u> *	33.6 %	92.4 %
Total Pension Contribution by Statute	\$ 1,156,140,571 *	\$ 915,892,281 *	\$ 646,448,226 *	26.2 %	41.7 %
State Appropriation for Pension ***	(693,684,343)	(59,854,999)	0	1,058.9 %	N/A %
Amount Covered by BEF ****	<u>0</u> *	<u>(290,273,287)</u> *	<u>(174,837,318)</u> *	(100.0) %	66.0 %
Remaining Pension Contribution	\$ 462,456,228 *	\$ 565,763,995 *	\$ 471,610,908 *	(18.3) %	20.0 %

* These amounts should be increased for assumed interest at the rate of 8.25% (8.75% for the valuation as of June 30, 2003) per annum if payment is delayed beyond June 30, 2006, June 30, 2005 and June 30, 2004, respectively.

** Excludes the non-contributory group life insurance term cost.

*** For the 2007 fiscal year, it is anticipated that 60% of the pension contribution will be appropriated.

**** For the 2006 fiscal year, represents the remaining balance in the Benefit Enhancement Fund.

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

ANNUAL REQUIRED CONTRIBUTION PER GASB 25 AND 27

	June 30, 2005 Valuation (State's <u>Fiscal Year 2007</u>)	June 30, 2004 Valuation (State's <u>Fiscal Year 2006</u>)	June 30, 2003 Valuation (State's <u>Fiscal Year 2005</u>)	Percentage Change <u>2004 to 2005</u>	Percentage Change <u>2003 to 2004</u>
Normal Cost *	\$ 742,157,093	\$ 734,570,135	\$ 655,014,288	1.0 %	12.1 %
Amortization Payment **	<u>557,842,519</u>	<u>353,350,469</u>	<u>157,363,168</u>	57.9 %	124.5 %
Subtotal	1,299,999,612	1,087,920,604	812,377,456	19.5 %	33.9 %
Interest Adjustment ***	<u>107,249,968</u>	<u>89,753,451</u>	<u>71,083,027</u>	19.5 %	26.3 %
Annual Required Contribution	\$ 1,407,249,580	\$ 1,177,674,055	\$ 883,460,483	19.5 %	33.3 %

* Reflects additional formula normal cost and full cost of pension adjustment benefits. For the 2007 fiscal year only, includes an actuarial determination of the cost of the non-contributory and contributory group life insurance benefits. Prior years included a term cost for the non-contributory group life insurance benefits and did not reflect the contributory benefits.

** Benefit Enhancement Fund is excluded from the actuarial accrued liabilities.

*** Additional one year of interest is included to reflect payment of contributions at end of fiscal year.

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

TOTAL STATUTORY CONTRIBUTIONS (INCLUDING PRM AND ERI)

	June 30, 2005	June 30, 2004	June 30, 2003	Percentage	Percentage
	Valuation (State's	Valuation (State's	Valuation (State's	Change	Change
	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005	2004 to 2005	2003 to 2004
	<u>Contributions)</u>	<u>Contributions)</u>	<u>Contributions)</u>		
Total Pension Contribution by Statute	\$ 1,156,140,571 *	\$ 915,892,281 *	\$ 646,448,226 *	26.2 %	41.7 %
Est. Non-contributory Group Life Insurance (NCGI)	34,980,000	33,980,000	28,368,723 **	2.9 %	19.8 %
Est. PostRetirement Medical (PRM) Premiums	661,640,000	616,315,978	494,695,969 **	7.4 %	24.6 %
PRM Percent of Payroll Contribution ***	52,415,247 *	49,893,088 *	48,142,838 *	5.1 %	3.6 %
Early Retirement Incentive (ERI-3)	<u>1,138,800</u> *	<u>1,095,001</u> *	<u>954,298</u> *	4.0 %	14.7 %
Total State Contribution for Pension, NCGI PRM and ERI, excluding amounts covered by BEF	\$ 1,906,314,618	\$ 1,617,176,348	\$ 1,218,610,054	17.9 %	32.7 %
Total Certain State College Contribution (Included Above)	5,537,754	5,772,884	5,224,614	(4.1) %	10.5 %

* These amounts should be increased for assumed interest at the rate of 8.25% (8.75% for the valuation as of June 30, 2003) per annum if payment is delayed beyond June 30, 2006, June 30, 2005 and June 30, 2004, respectively.

** Actual State contribution made to the Post Retirement Medical Fund, actual non-contributory group life insurance claims paid, and actual allocation of costs for certain State colleges for fiscal year 2005.

*** No State appropriation was made for the 2005 and 2006 fiscal years.

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

LOCAL EMPLOYER CONTRIBUTIONS AND EMPLOYEE CONTRIBUTION REDUCTIONS

	June 30, 2005 <u>Valuation</u>	June 30, 2004 <u>Valuation</u>	June 30, 2003 <u>Valuation</u>	Percentage Change <u>2004 to 2005</u>	Percentage Change <u>2003 to 2004</u>
Employee Contribution Reduction for 2007, 2006 and 2005 calendar years, respectively	0.0%	0.0%	0.0%	0.0 %	0.0 %
Early Retirement Incentive Contributions payable April 1, 2007, April 1, 2006 and April 1, 2005, respectively					
ERI 1 - Local Employers	\$ 1,370,038	\$ 1,862,363	\$ 1,991,341	(26.4) %	(6.5) %
ERI 2 - Local Employers	1,727,650	3,594,338	3,940,282	(51.9) %	(8.8) %
ERI 4 - Local Employers *	<u>3,460,643</u>	<u>948,817</u>	<u>N/A</u>	264.7 %	N/A
Total	\$ 6,558,331	\$ 6,405,518	\$ 5,931,623	2.4 %	8.0 %
Terminal Funding Contribution payable April 1, 2007, April 1, 2006 and April 1, 2005, respectively					
Location #00200	\$ 118,630	\$ 0	\$ 0	N/A	N/A
Location #00535	0	0	75,277	N/A	N/A
Location #00845	2,393	0	0	N/A	N/A
Location #00980	47,069	0	0	N/A	N/A
Location #02075	0	396,878	0	N/A	N/A
Location #02083	0	125,514	0	N/A	N/A
Location #07012	64,103	0	0	N/A	N/A

* ERI 4 was introduced by Chapter 128 and 129, P.L. 2003 for Local employers. Contributions will be payable over 15 years beginning April 1, 2006 for members retired prior to June 30, 2004 and April 1, 2007 for members retired prior to June 30, 2005.

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY

(continued)

A. Summary of Principal Results (continued)

	ASSETS AND LIABILITIES				
	June 30, 2005	June 30, 2004	June 30, 2003	Percentage	Percentage
	<u>Valuation *</u>	<u>Valuation *</u>	<u>Valuation</u>	<u>Change</u>	<u>Change</u>
				2004 to 2005	2003 to 2004
Market Value of Pension Assets	\$ 29,610,249,605	\$ 28,618,463,144	\$ 26,447,330,285	3.5 %	8.2 %
Actuarial Value of Pension Assets	\$ 34,688,666,392	\$ 34,633,790,549	\$ 34,651,825,932	0.2 %	(0.1) %
Actuarial Accrued Pension Liability	\$ 42,926,758,983	\$ 40,447,690,339	\$ 37,383,732,882	6.1 %	8.2 %
Unfunded Pension Liability					
Based on Market Value	\$ 13,316,509,378	\$ 11,829,227,195	\$ 10,936,402,597	12.6 %	8.2 %
Based on Actuarial Value	\$ 8,238,092,591	\$ 5,813,899,790	\$ 2,731,906,950	41.7 %	112.8 %
Funded Ratio					
Based on Market Value	69.0 %	70.8 %	70.7 %	(1.8) %	0.1 %
Based on Actuarial Value	80.8 %	85.6 %	92.7 %	(4.8) %	(7.1) %

* Reflects revised economic assumptions (8.25% interest rate, 5.45% average salary inflation rate and 3.00% assumed inflation rate).

Section I - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments

This report summarizes the results of the actuarial valuation of the Teacher's Pension and Annuity Fund (TPAF) as of June 30, 2005 excluding the contributory lump sum death benefits.

The statutory contribution requirements are highlighted on Summary Exhibits shown on pages 3 (pension only) and 5 (pension, PRM and ERI). Included on these exhibits is our understanding of the effect of the fiscal year 2006 State budget on contributions to the system for the 2006 and 2007 fiscal years. These exhibits are discussed in detail in the paragraphs below.

Page 4 contains a Summary Exhibit on the Annual Required Contribution (ARC) per GASB 25 and 27. GASB 25 and 27 do not (1) exclude the Benefit Enhancement Fund from the Actuarial Value of Assets, (2) permit the normal cost to be paid by the BEF, (3) permit a phase-in of the pension adjustment normal cost or 4) allow the use of a term cost funding method for the non-contributory group life insurance. Furthermore, since the contributory group life insurance is provided through TPAF, an actuarial cost for these benefits is included in the ARC. Expected employee contributions of 0.4% of pay offset the normal cost portion of the contributory group life insurance. For the 2007 fiscal year, the ARC includes an actuarial determination of the cost of the non-contributory and contributory group life insurance. Prior years included the term cost for the non-contributory group life insurance. The ARC for the 2007 fiscal year is \$1,407.2 million as compared to the sum of the required statutory pension contribution of \$1,156.1 million and the estimated non-contributory group life insurance term cost of \$35.0 million for a total of \$1,191.1 million.

The required statutory pension contribution has increased to \$1,156.1 million for the State's fiscal year 2007 from \$915.9 for the State's fiscal year 2006 (excluding ERI-3 and non-contributory group life insurance contributions), the excess assets remain at \$0 as of July 1, 2005 and the 2.0% member contribution reduction will not apply in 2007. (Effective January 1, 2004, the employee contribution rate returned to the 5.0% level and this level has remained in effect thereafter.) The primary reason for these changes is the adverse investment performance during the three fiscal years ending June 30, 2003 and the lack of State contributions to the system.

This valuation reflects our understanding of the effect of the fiscal year 2006 State budget on contributions to the system for the 2006 and 2007 fiscal years as outlined below:

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments (continued)

- For the 2006 fiscal year, the State has appropriated \$94.9 million to cover the non-contributory group life insurance claims (estimated \$34.0 million) and the ERI-3 contribution (\$1.1 million) with the remaining amount (\$59.8 million) allocated toward the pension contribution of \$915.9 million.
- The remaining balance in the Benefit Enhancement Fund (BEF) of \$290.3 million will be applied to cover approximately 32% of the 2006 fiscal year pension contribution. Since that will exhaust the BEF, the State's contribution will increase in future years by the Additional Formula Contribution.
- An appropriation to cover the remaining portion of the 2006 fiscal year pension contribution (\$565.8 million) was not made. This increases the Unfunded Actuarial Accrued Liability as of July 1, 2005 by \$565.8 million resulting in an increase in the 2007 fiscal year Accrued Liability Contribution of \$34.4 million. The accumulated value of statutory pension contributions not appropriated by the State in fiscal years 2004, 2005 and 2006 equals \$1,532.5 million. The Unfunded Actuarial Accrued Liability as of July 1, 2005 is \$8,238.1 million.
- The payroll portion of the Post-Retirement Medical Contribution for the 2006 fiscal year (\$49.9 million) is not expected to be made. Therefore, we have not anticipated the PRM Fund to increase and the expected earnings on assets for fiscal year 2007 have been set to \$0.
- For the 2007 fiscal year, it is anticipated that 60% of the \$1,156.1 million statutory pension contribution (\$693.7 million) will be appropriated by the State. In addition, it is anticipated that the State will appropriate amounts to cover the Post Retirement Medical premiums (PRM est. \$661.6 million), the non-contributory group life insurance claims (NCGI est. \$35.0 million) and the ERI-3 contribution (\$1.1 million). The remaining 40% of the statutory pension contribution (\$462.4 million) and the payroll portion of the PRM contribution (\$52.4 million) are not anticipated to be appropriated. Therefore, it is anticipated that the State will appropriate \$1,391.4 million or 73% of the total pension, PRM, NCGI and ERI contributions of \$1,906.3 million. In displaying the results of this actuarial valuation, we have not reduced the contribution otherwise due under statute to reflect the expectation that funds will not be appropriated.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments (continued)

As mandated by statute, only 20% of the difference between the expected actuarial value of assets and the market value is recognized in calculating the actuarial value of assets. Due to the significant drop in the equity markets since the market re-start as of 1999, the actuarial value of assets as of June 30, 2005 is 117% of market value. This is a reduction from the prior year's ratio of 121%. Section III(G) shows the impact of using the market value of assets to determine the statutory pension contribution.

The actuarial accrued liability figures reflect the full additional actuarial liability due to pension adjustment benefits for actives, retirees, terminated vested members and beneficiaries. For purposes of calculating employer contributions, the portion of the normal cost attributable to the pension adjustment benefits for active members is reflected separately and its cost is being phased-in over a period beginning with the March 31, 1987 valuation. The current valuation reflects a 51.29% phase-in of the pension adjustment normal cost for active members.

The actuarial accrued liability excludes the actuarial liability associated with the group life insurance benefits. The State will appropriate funds to cover the actual amount of the non-contributory group life insurance claims. The accrued liability shown for the post retirement medical benefits is the balance in the Post Retirement Medical Fund; an actuarially computed accrued liability was not calculated. The post retirement medical benefits are financed on a modified term cost basis. In this valuation, we provide estimates of these amounts.

This valuation also reflects members who retired prior to July 1, 2005 under ERI-4 pursuant to Chapters 128 and 129, P.L. 2003 for local employers. The additional actuarial liability as of July 1, 2005 due to this chapter for members retiring during the past plan year is \$80.8 million. Some employers have made estimated contributions toward this amount and any amounts not yet accounted for in the Plan's financial statements were added to the assets as a contribution receivable. This additional liability will be payable over a 15-year period beginning in fiscal year 2007. Members retiring after June 30, 2005 under ERI-4 were treated as active members. Their additional actuarial liabilities under ERI-4 will be reflected in the first valuation subsequent to their retirement dates.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments (continued)

As of July 1, 2005, the actuarial liabilities of the Fund exceeded the valuation assets. Thus there are no excess assets. If excess assets existed, 50% would be available for contribution reductions. Since there are no excess assets, no additional member contribution reductions will result from this valuation. Therefore, the member contribution rate will continue to be 5% for the 2007 calendar year.

The balance in the Benefit Enhancement Fund (BEF) as of July 1, 2005 has been reduced to \$0.0 million after reduction to reflect the application of \$290.3 million to the 2006 fiscal year pension contribution. This fund was established to reduce the State's Additional Formula Contribution from Chapter 133, P.L. 2001. The Additional Formula Contribution equals \$94.8 million for the 2007 fiscal year. There are no excess assets as of July 1, 2005, so no contribution will be made to the BEF.

The net pension normal cost based on the 1/60 formula payable as of July 1, 2005 is \$518.0 million. This is \$18.1 million more than the comparable normal cost of \$499.9 million payable on July 1, 2004. This increase is due to the continued phase-in of the pension adjustments (\$3.3 million) and increases in payroll and the number of active participants (\$14.8 million).

The additional formula normal cost payable as of July 1, 2005 is \$87.5 million. This is \$3.1 million more than the additional formula normal cost of \$84.4 million payable on July 1, 2004. This increase is due to increases in payroll and the number of active participants.

The Post Retirement Medical Contribution increased from the \$666.2 million shown in the prior valuation to \$714.1 million. This increase of \$47.9 million, or 7%, is primarily due to an increasing retired population and a slight increase in the premium rates for those less than 65 offset by a premium decrease for retirees greater than 65. The premium rates increased by approximately 4% for retirees less than 65 and decreased by approximately 3% for retirees greater than 65 due to the effect of a Medicare D subsidy.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments (continued)

TPAF experienced an actuarial loss, based on the actuarial assumptions adopted in the 2003 Experience Study, during the period July 1, 2004 - June 30, 2005 of \$(1,325.7) million, or 3.1% of the Actuarial Accrued Liability as of July 1, 2005. This loss combined with the lack of State contributions and the amortization methodology resulted in an increase in the unfunded accrued liability of \$2,424.2 million from \$5,813.9 as of July 1, 2004 to \$8,238.1 as of July 1, 2005 and an increase in the accrued liability contribution of \$126.0 million from \$374.7 million payable June 30, 2005 to \$500.7 million payable June 30, 2006. The accrued liability contribution payable June 30, 2006 is based on a 30-year amortization at an interest rate of 8.25% with payments increasing by 4% per year. This methodology results in an amortization payment for the 2007 fiscal year that is less than the interest accrued on the unfunded liability.

The major factors contributing to this loss are summarized below and are compared to the experience for the prior two plan years.

	<u>June 30, 2005</u>	<u>Gain/(Loss)</u> <i>(Amounts in Millions)</i>	
		<u>June 30, 2004</u>	<u>June 30, 2003</u>
Economic Factors:			
Investment Return	\$(1,269.6)	\$(1,503.8)	\$(2,051.1)
Salary Increases	(31.3)	162.9	83.2
Pension Adjustments (COLA)	84.5	222.6	187.7
Expenses	(14.6)	(9.2)	(10.3)
Demographic Factors:			
Active Members	7.4	(222.9)	(264.9)
New Entrants	(60.8)	(54.8)	(50.5)
Non-Contributing Members	(23.3)	(24.0)	(19.9)
Retirees and Beneficiaries	(18.0)	36.2	124.9
Total	<u>\$(1,325.7)</u>	<u>\$(1,393.0)</u>	<u>\$(2,000.9)</u>

Total pension assets (excluding PRMF) earned investment returns of approximately 8.84% on a market value basis and 4.50% on an actuarial value basis for the period ending June 30, 2005. The resulting loss to the plan of \$(1,269.6) million represents the shortfall in the actuarial value of assets relative to the 8.25% assumed investment return.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

B. General Comments (continued)

Salary increases for contributory members who were active on both July 1, 2004 and July 1, 2005 averaged 6.39% versus the average anticipated salary scale assumption of 5.45%. This produced an actuarial loss of \$31.3 million. Salaries for new entrants averaged \$42,248, which is significantly below the average salary of all contributory members of \$60,723. This resulted in the average salary of all contributory members increasing by only 3.2% over last year, with total contributory payroll growing by 5.1%.

For annuitants receiving benefits since 2002, the pension adjustments were based on a CPI increase of 2.18%, which is lower than the 3.0% actuarial assumption for CPI increases. This resulted in an actuarial gain of \$84.5 million.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits

Assets

Section II summarizes the System assets taken into account in the preparation of the actuarial valuation. Subsection A summarizes the market value of System assets as of June 30, 2005 and includes the present value of expected contributions from local employers for retirements as of June 30, 2005.

Subsection B reconciles the development of the market value of pension and post retirement medical assets separately, starting from the market values as of June 30, 2004. Subsection C summarizes the development of the actuarial value of pension assets as of July 1, 2005. The exhibit reflects the growth in the pension assets based on the expected investment income at an assumed rate of 8.25% adjusted to reflect 20% of the excess of the market value of pension assets as of the valuation date in excess of the expected actuarial value. The balance in the Post Retirement Medical Fund is added to the actuarial value of pension assets to obtain the actuarial value of total system assets.

Subsection D estimates the annual rate of return for the year ending June 30, 2005 on the actuarial value and the market value of pension assets. Subsection E summarizes the estimated annual rates of return for the five previous plan years. The 5-year compounded annual return on the actuarial value of assets and the market value of assets are 4.01% and 1.18%, respectively.

Actuarial Liabilities and Contributions

Section III summarizes the actuarial liabilities and the development of the required State contribution for the plan year beginning July 1, 2005. The State is statutorily required to make three contributions, a Normal Cost Contribution, an Accrued Liability Contribution and an Additional Formula Normal Cost Contribution, which in general are determined under the Projected Unit Credit funding method. The Normal Cost and Additional Formula Normal Cost under the Projected Unit Credit funding method is defined as the present value of the benefits attributed to the current year. The Normal Cost reflects the phase-in of the cost of pension adjustment benefits. The Unfunded Accrued Liability (Surplus) is determined as the difference between the Actuarial Accrued Liability used to develop contributions and the Adjusted Actuarial Value of Assets (excludes the BEF and the liability for member reductions granted in previous valuations). The actuarial liabilities used to

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

develop contributions reflect the assumptions developed in the 2003 Experience Study and the economic assumptions prescribed by the Treasurer first reflected in the June 30, 2004 Actuarial Valuation.

Subsection A summarizes the development of the Actuarial Accrued Liability as of July 1, 2005 for all current members and indicates the portion of those present values attributable to active participants, retirees and beneficiaries, and terminated vested participants. These liabilities include the full liability for pension adjustment benefits for all members. The non-contributory lump sum death benefits payable from active service, terminated vested status and retiree status have been excluded from the Actuarial Accrued Liability as of July 1, 2005 since those benefits are funded on a term cost basis. Projected benefits based on compensation in excess of the 401(a)(17) compensation cap for a group of grandfathered employees for certain School Districts under Chapter 113, P.L. 1997 have been included in the determination of the Accrued Liability.

Subsection A also indicates the balance in the Post Retirement Medical Benefits Fund.

Subsection B summarizes the development of the pension Normal Cost under the 1/60 and 1/55 formulas payable July 1, 2005. The schedule shows the portion of the Normal Cost attributable to: (1) the basic allowances and (2) pension adjustment benefits for active members and (3) expected member contributions. The Normal Cost due to pension adjustments reflects the 51.29% phase-in of the pension adjustment benefits. The Normal Cost as of July 1, 2005 was developed based on the Projected Unit Credit Method. Projected benefits based on compensation in excess of the 401(a)(17) compensation cap for a group of grandfathered employees for certain School Districts under Chapter 113, P.L. 1997 have been included in the determination of the Normal Cost.

Subsection C summarizes the development of the Excess Valuation Assets which are \$0 as of July 1, 2005. The Excess Valuation Assets are determined by subtracting the Actuarial Accrued Liability for basic allowances and pension adjustment benefits, the Post Retirement Medical Premium Fund, the present value of the total projected normal cost in excess of the projected phased-in normal cost for pension adjustment benefits of active members and the BEF (prior to reduction for the additional formula normal contribution for fiscal year 2007) from the Valuation Assets.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

Subsection D shows the development of the Contribution Reductions from Excess Assets. The contribution reductions include member contribution reductions, the pension normal contribution based on the 1/60 formula and the BEF contribution. Since there are no Excess Assets as of June 30, 2005, there will be no 2007 calendar year member contribution reduction, no offset to the pension Normal Contribution based on the 1/60 formula and no BEF contribution based on the statutory method for determining the State contributions.

Subsection E summarizes the development of the BEF as of July 1, 2005 and the Additional Formula Normal Contribution. Chapter 133, P.L. 2001 established the BEF as of June 30, 1999. The BEF has been reduced to \$0 to cover a portion of the State's fiscal year 2006 pension contribution in accordance with the fiscal year 2006 State budget. The BEF is credited with excess assets not to exceed actual member contributions made to the system nor the present value of expected additional normal costs due to the formula change. Since the BEF has been reduced to \$0, there is no offset to the additional formula normal cost.

Subsection F summarizes the development of the State's estimated fiscal year 2007 Total Required Contributions comprising four components: pension, non-contributory group life insurance, postretirement medical and ERI. The total pension contribution of \$1,156,140,571 equals the Normal Contribution of \$560,691,960 based on the 1/60 formula plus the Additional Formula Normal Contribution of \$94,763,359 plus the Accrued Liability Contribution of \$500,685,252. The non-contributory group life insurance contribution represents a one year term cost of lump sum death benefits payable during active service, terminated vested status and retiree status and is estimated to be \$34,980,000. The estimated Post Retirement Medical Contribution of \$714,055,247 comprises three pieces: (1) an estimated amount necessary to pay anticipated premiums for the State's 2007 fiscal year's benefits of \$661,640,000 less (2) the expected return on the Post Retirement Medical Benefits Fund assets of \$0 plus (3) 3/5% of the valuation year payroll of active members (fiscal year 2006 payroll) of \$52,415,247. The State's ERI-3 contribution is \$1,138,800. The Total Required Contribution for the State's fiscal year 2007 is estimated to be \$1,906,314,618. This is an estimate because the State will contribute the actual 2007 fiscal year non-contributory group life insurance benefits and post retirement medical premiums; not the estimated amounts shown above.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

Subsection G shows the Required Contribution (before and after the reduction due to Excess Valuation Assets and the BEF) as a percentage of appropriation payroll on two bases: (1) after reflecting the actual phase-in of the pension adjustment benefits – 22.53% and (2) as if the pension adjustment liabilities were fully phased-in and the Market Value of Assets were used to determine the Accrued Liability Contribution – 27.07%.

Subsection H shows the fiscal year 2007 Required Contribution based on the 1/60 formula, the Additional Formula Contribution, the Accrued Liability Contribution, the estimated non-contributory group life insurance contribution and the estimated Post Retirement Medical Contribution payable by the State and certain State Colleges after application of the excess assets and the BEF. The State's contribution is allocated between the Department of Higher Education, Department of Education, County Colleges, Charter Schools and other.

Subsection I shows the calculation of the total actuarial gain (loss). The general comments section outlines the areas where experience differed from that expected.

Actuarial Balance Sheet

Section IV provides the actuarial balance sheet summarizing the assets and liabilities by Fund as of June 30, 2005. The assets credited to the various funds include the portion of the investment income allocated to each fund for the year and ending June 30, 2005. The liabilities presented are based on the actuarial accrued liabilities summarized in Section III without any phase-in adjustments.

The actuarial balance sheet indicates the following transfers should be made:

(1) Retirement Reserve Fund

When a member retires, or when he dies and an allowance is payable to his beneficiary, the allowance including cost-of-living adjustments is paid from the Retirement Reserve Fund. The member's own contributions with interest are transferred from the Annuity Savings Fund, and the balance of the reserve on

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

the total allowance is transferred from the Contingent Reserve Fund. As of June 30, 2005, the Retirement Reserve Fund has present assets of \$20,785,834,413 including accrued interest. The liabilities of the fund amount to \$21,245,111,710 so that there is a deficit of \$459,277,297 in the fund as of the valuation date. It is recommended that the fund be put in balance as of June 30, 2005 by a transfer of assets from the Contingent Reserve Fund, and this transfer is shown in the balance sheet.

(2) Pension Fund

The reserves held in the Pension Fund represent the reserves on retirement allowances payable to non-veteran members who retired prior to 1956. As of June 30, 2005, the Pension Fund has assets credited to it amounting to \$103,512 including accrued interest. The liabilities of the fund amount to \$128,057 so that there is a deficit of \$24,545 in the fund as of the valuation date. It is recommended that the fund be put in balance as of June 30, 2005 by a transfer of assets from the Contingent Reserve Fund, and this transfer is shown in the balance sheet.

(3) Annuity Savings Fund and Contingent Reserve Fund

The Annuity Savings Fund, which is the fund to which members' contributions with interest are credited, has assets amounting to \$6,813,180,653 as of June 30, 2005 after accrued interest has been added. The Contingent Reserve Fund is the fund to which contributions made by the State and local employers to provide the benefits paid from retirement fund monies are credited. The assets creditable on an actuarial value basis to the Contingent Reserve Fund amount to \$6,338,207,669 as of June 30, 2005 after adjustment is made on account of accrued interest and the amounts transferable to the Pension Fund and Retirement Reserve Fund and from the BEF and the Special Reserve Fund. If a market value basis was used, assets creditable to the Contingent Reserve Fund after transfers would amount to \$1,259,790,882.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

If a member withdraws from active service before qualifying for retirement, the amount of his accumulated deductions is paid to him from the Annuity Savings Fund. If he dies before retirement and no survivorship benefit is payable, his accumulated deductions are paid to his beneficiary from the Annuity Savings Fund. If he retires, or if he dies leaving a beneficiary eligible for a survivorship benefit, his accumulated deductions are transferred from the Annuity Savings Fund to the Retirement Reserve Fund, and the reserve on the allowance which is not provided by his own deductions is transferred from the Contingent Reserve Fund to the Retirement Reserve Fund. Any lump sum benefit payable upon the death of a member before or after retirement is paid by The Prudential Insurance Company of America.

(4) Benefit Enhancement Fund

The reserves held in the BEF are used to fund the additional formula normal contributions. The BEF is credited with excess assets not to exceed actual member contributions made to the system nor the present value of the expected additional formula normal contributions. No additional excess assets will be credited to the BEF after the maximum amount is attained. If excess assets permit, monies are transferred from the Contingent Reserve Fund. As of June 30, 2005, the BEF has present assets including accrued interest of \$290,273,287. For the 2006 fiscal year, the entire balance in the BEF is covering a portion of the State's pension contribution. This amount is to be transferred to the Contingent Reserve Fund, and this transfer is shown in the balance sheet.

(5) Special Reserve Fund

The Special Reserve Fund is the fund to which any excess interest earnings are transferred and against which any losses from the sale of securities are charged. The maximum limit on the accumulations in this fund is set at one percent of the market value of the investments of the retirement fund; any amounts in excess of this limit are creditable to the Contingent Reserve Fund. The Special Reserve Fund is considered as an asset of the retirement fund. This fund has assets amounting to \$328,374,407 as of June 30, 2005, which is in excess of the statutory limit. It is recommended that the excess amount of

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

\$36,336,104 be transferred to the Contingent Reserve Fund, and this transfer is shown in the balance sheet.

(6) Post Retirement Medical Benefits Fund

The Post Retirement Medical Benefits Fund is established to hold contributions in respect to future post retirement medical benefits. The fund has assets of \$618,917 as of June 30, 2005. These assets have been included as retirement system assets. The balance in the fund should increase by 3/5 of 1% of payroll. An offsetting liability equal to this fund balance has also been established.

Accounting Information

Section V presents the accounting information required under Governmental Accounting Standards Statement No. 25 (GASB 25). Schedule A outlines the development of the Annual Required Contribution (ARC). The ARC comprises the employer's normal cost plus a specified amortization of the unfunded actuarial accrued liability (UAAL). Beginning with fiscal year 2007, an actuarial determination of the cost for non-contributory and contributory group life insurance benefits is included in the calculation since these benefits are paid from TPAF. Prior years included a term cost for the non-contributory group life insurance and excluded the contributory group life insurance. The ARC increased by \$74.3 million as a result of including the group life insurance benefit costs in the ARC to \$1,407.2 million. The amortization method selected for this system is a closed level percentage of projected payroll based on an assumed payroll growth rate of 4.0% for 30 years.

Schedule B shows the projection of the Estimated Net Pension Obligation (NPO) as of June 30, 2007. The NPO represents the cumulative difference between the Annual Pension Costs for the system and the contributions made. After the expected contribution of \$728.7 million which represents 60% of the pension contribution for the State's fiscal year 2007 plus the estimated non-contributory group life insurance claims for fiscal year 2007, the NPO as of June 30, 2007 is expected to be \$3,446.1 million.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

Schedule C is the Schedule of Funding Progress. This schedule presents the Actuarial Accrued Liability, the Actuarial Value of Assets, the Unfunded Accrued Liability, the funded ratio (assets as a percentage of Actuarial Accrued Liability), and the Unfunded Accrued Liability as a percentage of covered payroll. Six years of historical information are shown in compliance with GASB 25.

Schedule D is the Schedule of Employer Contributions. This schedule presents the ARC for the fiscal year, the employer contributions made for that fiscal year and the percentage of the ARC those contributions represent. For the fiscal year ending June 30, 2006, the employer contributions are 8.0% of the ARC and for the fiscal year ending June 30, 2007, the expected employer contributions are 51.8% of the ARC. Six years of historical information are shown in compliance with GASB 25.

Schedule E presents the funding policy for the fiscal year. This disclosure includes the valuation date, the Actuarial Cost Method, the amortization period and method, the Asset Valuation Method, and certain key actuarial assumptions.

Census Data

Section VI summarizes the census data provided by the Division of Pensions and Benefits and utilized in the preparation of the actuarial valuation. Subsection A provides a reconciliation of the current year participant counts from the prior valuation. Subsection B shows the appropriation count and salary information by group. Subsection C shows the number and annual retirement allowances with pension adjustments by beneficiary type. Subsection D shows information on members who retired since the last valuation split between those who retired with less than and more than 25 years of service. Subsections E and F present a profile of Contributory and Non-contributory members split by gender, summarized by 5-year age and service groupings. Subsection G provides a profile of terminated vested members, retired members, disabled members, and beneficiaries broken down into 5-year age categories. The census data represents the status of plan participants as of June 30, 2005.

In performing this analysis, we relied on data and other information provided by Teacher's Pension and Annuity Fund of New Jersey. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION I - SUMMARY (continued)

C. Discussion of Supporting Exhibits (continued)

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Actuarial Assumptions and Methods

Section VII summarizes the actuarial assumptions and methods utilized in the preparation of this actuarial valuation. Subsection A identifies the various assumptions. These assumptions are based on the assumptions developed in the Experience Study from July 1, 2000 to June 30, 2003 and the economic assumptions prescribed by the Treasurer first reflected in the June 30, 2004 Actuarial Valuation. Subsection B summarizes the actuarial valuation methodology set forth in Chapter 62, P.L. 1994 as modified by Chapters 115, P.L. 1997 and 133, P.L. 2001.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Summary of Principal Plan Provisions

Section VIII summarizes the principal plan provisions as of the valuation date and denotes any changes from the previous valuation.

Early Retirement Incentive Contribution Schedule

Appendix I presents the contribution schedule for the early retirement incentive programs (ERI-1, ERI-2, ERI-3 and ERI-4) by location for the 2007 fiscal year. It also provides the present value of the future contributions as of June 30, 2005. This list reflects locations who paid off their ERI liabilities through November 2005 as a result of Chapter 42, P.L. 2002.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION II - ASSETS

A. Market Value of Assets as of June 30, 2005

1. Assets

Cash	\$ (1,865,446)
Investment Holdings	29,203,830,326
Employers' Contributions Receivable - State	18,016,747
Employers' Contributions Receivable - Local	36,888,649
Employers' Contributions Receivable - Delayed Enrollments	315,818
Employers' Contributions Receivable - Delayed Appropriations	1,990,756
Members' Contributions Receivable	75,120,796
Accrued Interest on Investments	101,227,794
Accounts Receivable	1,428,292
Loans Receivable	212,373,896
Dividends Receivable	<u>63,220,255</u>
Total	\$ <u>29,712,547,883</u>

2. Liabilities

Pension Payroll Payable	\$ 129,643,282
Pension Adjustment Payroll Payable	19,251,349
Withholdings Payable	22,019,828
Death Benefits Payable	1,651,560
Administration Expense Payable	2,213,947
Accounts Payable - Other	<u>6,259,864</u>
Total	\$ <u>181,039,830</u>

3. Market Value of Assets as of June 30, 2005: (1) - (2) \$ 29,531,508,053

4. State's FY 2006 and 2007 Receivable Contributions from Local Employers 19,505,470

5. State's FY 2006 Receivable Contributions from State 59,854,999

6. Adjusted Market Value of Assets as of June 30, 2005:
(3) + (4) + (5) \$ 29,610,868,522

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION II - ASSETS

(continued)

B. Reconciliation of Market Value of Assets from June 30, 2004 to June 30, 2005

	<u>Pension</u>	<u>Post Retirement Medical</u>
1. Market Value of Assets as of June 30, 2004	\$ 28,618,463,144	\$ 426,066
2. Increases		
Member Contributions excluding transfers from Other Systems	\$ 450,510,727	\$ 0
Member Transfer Contributions	3,815,151	0
Other Employer Contributions including Transfers From Other Systems, Delayed Appropriations And Delayed Enrollments	6,595,553	0
Local Appropriations	62,082,523	494,695,969
Investment Income	<u>2,459,530,521</u>	<u>36,897</u>
Total	\$ <u>2,982,534,475</u>	\$ <u>494,732,866</u>
3. Decreases		
Withdrawal of Member Contributions and Transfer Contributions	\$ 29,235,759	\$ 0
Retirement Allowances	1,778,364,299	0
Pension Adjustment Benefits	220,083,163	0
Death Benefit Claims	28,368,723	0
Administrative Expense	14,056,539	0
Medical Benefits and Expenses	0	494,540,015
Total	\$ <u>2,070,108,483</u>	\$ <u>494,540,015</u>
4. Market Value of Assets as of June 30, 2005: (1) + (2) - (3)	\$ 29,530,889,136	\$ 618,917
5. FY 2006 and 2007 Receivable Contributions from Local Employers	19,505,470	0
6. FY 2006 Receivable Contributions from State	<u>59,854,999</u>	<u>0</u>
7. Adjusted Market Value of Assets as of June 30, 2005: (4) + (5) + (6)	\$ <u>29,610,249,605</u>	\$ <u>618,917</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION II - ASSETS

(continued)

C. Development of Actuarial Value of Assets as of July 1, 2005

1. Actuarial Value of Pension Assets as of July 1, 2004	\$ 34,633,790,549
2. Net Cash Flow without Investment Income	(1,547,104,529)
3. Investment Income at Actuarially Assumed Rate @ 8.25%	2,792,224,100
4. Receivable Contributions from State and Local Employers	<u>79,360,469</u>
5. Expected Actuarial Value of Pension Assets: (1) + (2) + (3) + (4)	35,958,270,589
6. Adjusted Market Value of Pension Assets as of June 30, 2005	29,610,249,605
7. Excess Market Value over Expected Actuarial Value Assets: (6) - (5)	(6,348,020,984)
8. 20% mark-up to reflect growth in Market Value: 20% * (7)	<u>(1,269,604,197)</u>
9. Actuarial Value of Pension Assets as of July 1, 2005: (5) + (8)	\$ 34,688,666,392
10. Post Retirement Medical Assets as of July 1, 2005	<u>618,917</u>
11. Total Actuarial Value of Assets as of July 1, 2005: (9) + (10)	\$ <u>34,689,285,309</u>
12. Pension Actuarial Value Ratio: (9) / (6)	117.2%

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION II - ASSETS

(continued)

D. Estimated Annual Rate of Return for year ending June 30, 2005

	<u>Pension</u> <u>Actuarial Value</u>	<u>Pension</u> <u>Market Value</u>
1. Value of Assets as of July 1, 2004	\$ 34,633,790,549	\$ 28,618,463,144
2. Employee Contributions	460,921,431	460,921,431
3. Receivable Contributions and prepaid appropriations from State and Locals	141,442,992	141,442,992
4. Benefit Payments and Expenses	2,070,108,483	2,070,108,483
5. Value of Assets as of June 30, 2005	34,688,666,392	29,610,249,605
6. Non-Investment Increment: (2) - (4)	(1,609,187,052)	(1,609,187,052)
7. Investment Increment: (5) - (1) - (3) - (6)	1,522,619,903	2,459,530,521
8. Time Weighted Value: (1) +.5 * (6)	33,829,197,023	27,813,869,618
9. Estimated Annual Rate of Return: (7) / (8)	4.50%	8.84%

E. Estimated Historical Rates of Return

<u>Plan Year Ending</u>	<u>Actuarial Value</u>	<u>Market Value</u>
June 30, 2005	4.50%	8.84%
June 30, 2004	4.32%	14.22%
June 30, 2003	2.79%	2.97%
June 30, 2002	2.98%	-8.25%
June 30, 2001	5.47%	-9.70%
5-Year Compounded Annual Rate of Return	4.01%	1.18%

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

A. Actuarial Accrued Liability as of July 1, 2005 - 1/55th Formula

1. Projected Benefits Payable to Beneficiaries and Retirees	
Service Retirees (Including ERI Benefits)	\$ 20,105,722,394
Disability Retirees	512,976,550
Beneficiaries	<u>626,540,823</u>
Total	\$ 21,245,239,767
2. Projected Benefits for Vested Terminated Members	89,296,436
3. Projected Benefits for Active Members	
Service Retirement	\$ 17,320,254,810
Ordinary Disability Retirement	281,397,238
Accidental Disability Retirement	20,545,304
Return of Members' Contributions - Death	95,888,344
Return of Members' Contributions - Withdrawal	90,167,567
Deferred Retirement	271,644,051
Pension Adjustment Benefits	3,141,848,131
Non-contributory Members	<u>370,477,335</u>
Total	\$ 21,592,222,780
4. Total Pension Accrued Liability: (1) + (2) + (3)	\$ 42,926,758,983
5. Post Retirement Medical Benefits Fund	<u>618,917</u>
6. Total Actuarial Accrued Liability used to develop contributions: (4) + (5)	\$ 42,927,377,900

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

B. Development of Normal Cost payable July 1, 2005

	<u>1/60th Formula</u>	<u>1/55th Formula</u>
1. Basic Allowances	\$ 854,137,606	\$ 928,712,251
2. Pension Adjustment Benefits for active members		
a. Full Amount of Pension Adjustment Benefits	142,894,808	155,861,372
b. Phase-in Percentage	51.29%	N/A
c. Phased-in Amount of Pension Adjustment Benefits	73,290,747	N/A
3. Gross Pension Normal Cost		
a. Full Amount of Pension Normal Cost: (1) + (2a)	\$ 997,032,414	\$ 1,084,573,623
b. Phased-in Amount of Pension Normal Cost for Contribution Purposes: (1) + (2c)	927,428,353	N/A
4. Expected Member Contributions	<u>409,468,113</u>	<u>409,468,113</u>
5. Net Pension Normal Cost		
a. Full Amount of Net Pension Normal Cost: (3a) - (4)	587,564,301	675,105,510
b. Net Phased-in Amount of Pension Normal Cost for Contribution Purposes: (3b) - (4)	517,960,240	N/A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

C. Development of Excess Valuation Assets as of July 1, 2005

1. Valuation Assets	\$ 34,689,285,309
2. Actuarial Accrued Liability for Basic Allowances & Pension Adjustment Benefits	42,926,758,983
3. Post Retirement Medical Premium Fund	618,917
4. Present Value of Total Projected Normal Cost in Excess of the Projected Phased-in Normal Cost for Pension Adjustment Benefits	596,019,883
5. Benefit Enhancement Fund (prior to reduction for additional formula normal cost)	<u>0</u>
6. Excess Valuation Assets as of July 1, 2005: (1)-(2)-(3)-(4)-(5), not less than \$0	\$ 0

D. Development of Contribution Reductions from Excess Assets

1. Excess Valuation Assets as of July 1, 2005	\$ 0
2. Liability for Reduction in Employee Contributions by 2% For July 1, 2005 - December 31, 2005 (established in 2003 valuation)	0
3. Liability for Reduction in Employee Contributions by 2% For Calander Year 2006 (established in 2004 valuation)	0
4. Excess Assets Available for Current Year Reductions: [(1)-(2)-(3)] x 50%, not less than \$0	0
5. Liability for Reduction in Employee Contributions by 2% For Calander Year 2007	0
6. Pension Normal Cost as of July 1, 2005 - 1/60th Formula	517,960,240
7. Net Normal Contribution as of July 1, 2005: (6) - [(4) - (5)], not less than \$0	517,960,240
8. Net Excess Assets as of July 1, 2005 prior to Benefit Enhancement Fund Contribution: (4) - (5) - (6), not less than \$0	\$ 0

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

**E. Development of Benefit Enhancement Fund and Additional Formula Contribution
As of July 1, 2005**

1. Benefit Enhancement Fund as of July 1, 2004	\$ 266,917,965
2. Accrued Interest	<u>23,355,322</u>
3. Benefit Enhancement Fund as of July 1, 2005	290,273,287
4. 2006 Fiscal Year Contribution Covered by the Benefit Enhancement Fund (34% of the amount of the 2006 FY Contribution not appropriated)	290,273,287
5. Additional Formula Normal Cost to be paid by Benefit Enhancement Fund	
a. Gross Normal Cost payable July 1, 2005 - 1/55th Formula	1,084,573,623
b. Gross Normal Cost payable July 1, 2005 - 1/60th Formula	<u>997,032,414</u>
c. Additional Formula Normal Cost: (a) - (b)	87,541,209
6. Net Benefit Enhancement Fund Balance as of July 1, 2005 before Fiscal Year 2007 Contribution: (3) - (4) - (5c), not less than \$0	0
7. State Additional Formula Contribution as of July 1, 2005: (5c) - [(3) - (4)], not less than \$0	87,541,209
8. Estimated Fiscal Year 2007 Employee Contributions	393,391,997
9. Limit on Fiscal Year 2007 Contribution to Benefit Enhancement Fund	
a. Present Value of Future Normal Costs as of June 30, 2005 - 1/55th Formula	10,815,357,030
b. Present Value of Future Normal Costs as of June 30, 2005 - 1/60th Formula	<u>9,925,877,882</u>
c. Limit: (a) - (b) - (6)	889,479,148
10. Excess Assets Available (D8)	0
11. Fiscal Year 2007 Allowable Contribution to Benefit Enhancement Fund: Lesser of (8), (9c), (10)	\$ 0

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

F. Development of State's Fiscal Year 2007 Required Contributions

1. Net Pension Normal Contribution as of July 1, 2005: D(7)	\$ 517,960,240
2. Net Pension Normal Contribution as of June 30, 2006	560,691,960
3. Additional Formula Contribution as of July 1, 2005: E(7)	87,541,209
4. Additional Formula Contribution as of June 30, 2006	94,763,359
5. Accrued Liability Contribution	
a. Actuarial Accrued Liability for Basic Allowances & Pension	
Adjustment Benefits (excluding PRMF)	\$ 42,926,758,983
b. Adjusted Actuarial Value of Assets	
(excluding PRMF & BBF)	34,688,666,392
c. Reserve for previously earned reductions	
in Member Contributions	0
d. Unfunded Pension Accrued Liability: (a) - (b) + (c)	\$ 8,238,092,591
e. 30 - Year Amortization with 4% increasing payments of	
Unfunded Pension Accrued Liability payable June 30, 2006	500,685,252
6. Total Pension Contribution for State's Fiscal Year 2007: (2) + (4) + (5e)	\$ 1,156,140,571
7. State's FY 2007 Est. Non-contributory Group Life Insurance Contribution	34,980,000
8. State's Fiscal Year 2007 Estimated Post Retirement Medical Contribution	
a. Anticipated Fiscal Year 2007 Premiums	\$ 661,640,000
b. Expected Asset Return on Balance	0
c. 3/5% of Estimated FY 2006 Payroll	<u>52,415,247</u>
d. Subtotal: (a) - (b) + (c)	714,055,247
9. State's Fiscal Year 2007 ERI-3 Contribution	<u>1,138,800</u>
10. Total State's Fiscal Year 2007 Contribution for Pension, Non-contributory	
Group Life, Post Retirement Medical, and ERI: (6) + (7) + (8d) + (9)	\$ <u>1,906,314,618</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

G. Required Contribution as a Percentage of Appropriation Payroll

	Prior to Reduction due to Benefit Enhancement Fund and <u>Excess Assets</u>	Reflecting Reduction due to Benefit Enhancement Fund and <u>Excess Assets</u>
Basic Allowances Net of Member Contributions - 1/60th Formula	5.69%	5.69%
Active COLA (Phase-in percentage of 51.29%)-1/60th Formula	0.94%	0.94%
Additional Formula Normal Cost	1.12%	1.12%
Accrued Liability	<u>5.92%</u>	<u>5.92%</u>
Total Pension Contribution for State's Fiscal Year 2007	13.67%	13.67%
Estimated Non-contributory Group Life Insurance Benefits	0.41%	0.41%
Estimated Post Retirement Medical Benefits*	<u>8.45%</u>	<u>8.45%</u>
Total State's Fiscal Year 2007 Contribution for Pension, Non-contributory Group Life, and Post Retirement Medical	22.53%	22.53%

If COLA fully phased-in and Market Value of Assets used to determine the Accrued Liability Contribution, total percentage of payroll would equal^{**}: 27.07% 27.07%

* Contributions are the estimated 2007 fiscal year's actual post retirement medical premiums less anticipated interest on PRM Fund plus the 3/5% of compensation additional state contribution.

** Using the Market Value of Assets would result in an increase in the State's Fiscal Year 2007 contribution of 3.79% of payroll. This is the first valuation the effect of using the Market Value Assets versus the statutory Actuarial Value of Assets is shown.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTIONS

(continued)

H. Fiscal Year 2007 Required Contributions Payable by the State and Certain State Colleges

Group	After Application of Excess Assets & BEF		Accrued Liability Contribution	Estimated Non-Contributory Group Life Insurance	Estimated Post Retirement Medical Benefits
	Normal Contribution (1/60 Formula)	Additional Formula Contribution			
<u>Certain State Colleges</u>					
NJ Institute of Technology	\$20,034	\$3,386	\$17,890	\$1,250	\$286,879
Rowan University	51,377	8,683	45,878	3,205	862,762
New Jersey University	65,395	11,052	58,396	4,080	711,206
Kean University	77,468	13,093	69,177	4,833	731,688
William Patterson University	55,836	9,437	49,860	3,483	589,169
Montclair State U. (Group 4)	60,730	10,264	54,230	3,789	820,442
The College of NJ	23,897	4,039	21,340	1,491	672,788
Ramapo State College	0	0	0	0	9,223
Stockton State College	23,120	3,907	20,645	1,442	50,890
Montclair State U. (Group 6)	0	0	0	0	0
Total for Certain State Colleges	\$377,857	\$63,861	\$337,416	\$23,573	\$4,735,047
<u>State</u>					
Dept of Higher Education	0	0	0	0	0
Dept of Education	1,443,775	244,014	1,289,258	90,073	3,440,239
County Colleges	289,807	48,981	258,791	18,080	1,047,421
Charter Schools	3,250,845	549,430	2,902,931	202,811	476,740
Other	<u>555,329,676</u>	<u>93,857,073</u>	<u>495,896,856</u>	<u>34,645,463</u>	<u>704,355,800</u>
Total for State	\$560,314,103	\$94,699,498	\$500,347,836	\$34,956,427	\$709,320,200
Total for System	\$560,691,960	\$94,763,359	\$500,685,252	\$34,980,000	\$714,055,247

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION III - LIABILITIES AND CONTRIBUTION

(continued)

I. Analysis of Actual Experience for the Year Ended June 30, 2005

1. Unfunded Accrued Liability as of June 30, 2004	\$	5,813,899,790
2. Gross Normal Cost as of June 30, 2004		1,044,454,378
3. Interest: ((1) + (2)) * 8.25%		565,814,219
4. Non-contributory Group Life Insurance Claims Paid		28,368,723
5. Employee and Employer Contributions Made with Interest		<u>621,000,676</u>
6. Expected Unfunded Accrued Liability as of June 30, 2005: (1) + (2) + (3) + (4) - (5)	\$	6,831,536,434
7. Increase in liability due to ERI-4		80,833,406
8. Expected Unfunded Accrued Liability after changes as of June 30, 2005: (6) + (7)	\$	6,912,369,840
9. Actual Unfunded Accrued Liability as of June 30, 2005		<u>8,238,092,591</u>
10. Gain/(Loss): (8) - (9)	\$	<u>(1,325,722,751)</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION IV - ACTUARIAL BALANCE SHEET AS OF JUNE 30, 2005

<u>Assets</u>		<u>Liabilities</u>	
<u>Retirement Reserve Fund (RRF)</u>		<u>Payable from Retirement Reserve Fund</u>	
Credited to Fund w/ Distribution of Income	\$20,785,834,413	Retirees, Disableds and Beneficiaries	
Add/(deduct) reserve transferable from/(to) CRF	<u>459,277,297</u>	currently receiving benefits	\$21,245,111,710
Adjusted Total	21,245,111,710		
<u>Pension Fund (PF)</u>		<u>Payable from Pension Fund</u>	
Credited to Fund w/ Distribution of Income	103,512	Retirees, Disableds and Beneficiaries	
Add/(deduct) reserve transferable from/(to) CRF	<u>24,545</u>	currently receiving benefits	128,057
Adjusted Total	128,057		
Annuity Savings Fund (ASF) w/ Distribution of Income	6,813,180,653	<u>Payable from Annuity Savings Fund</u>	
		<u>and Contingent Reserve Fund</u>	
 		Active Members	21,592,222,780
<u>Contingent Reserve Fund (CRF)</u>		Term Vested Members	<u>89,296,436</u>
Credited to Fund w/ Distribution of Income	6,470,900,120	Total	21,681,519,216
Add/(Deduct) from/(to) RRF, PF & SRF	<u>(132,692,451)</u>		
Adjusted Total	6,338,207,669		
<u>Benefit Enhancement Fund (BEF)</u>	290,273,287		
Add/(deduct) reserve transferable from/(to) CRF	<u>(290,273,287)</u>		
Adjusted Total	0		
<u>Special Reserve Fund (SRF)</u>	328,374,407		
Add/(deduct) reserve transferable from/(to) CRF	<u>(36,336,104)</u>		
Adjusted Total	292,038,303		
Post Retirement Medical Benefits Fund	618,917	Post Retirement Medical Benefits Fund	618,917
Total Actuarial Value of Assets as of June 30, 2005	\$34,689,285,309		
Present Value of Prospective Contributions to the CRF			
and BEF for service accrued as of July 1, 2005	<u>8,238,092,591</u>		
Total Assets	\$42,927,377,900	Total Liabilities	\$42,927,377,900

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

**SECTION V - GASB NO. 25 and 27 ACCOUNTING INFORMATION FOR
STATE'S FISCAL YEAR 2007**

A. Development of Annual Required Contribution as of June 30, 2007

1. Actuarial Value of Assets as of July 1, 2005		
a. Actuarial Value of Pension Assets	\$34,689,285,309	
b. Post Retirement Medical Benefits Fund	618,917	
c. Market Value of Contributory Group Insurance Premium Fund	<u>100,723,483</u>	
d. Actuarial Value of Assets for GASB purposes: (a) - (b) + (c)		\$34,789,389,875
2. Actuarial Accrued Liability as of July 1, 2005		
a. Actuarial Accrued Liability for pension benefits	\$42,927,377,900	
b. Post Retirement Medical Benefits Fund	618,917	
c. Non-contributory and Contributory Group Insurance Benefits	<u>1,041,168,316</u>	
d. Accrued Liability for GASB purposes: (a) - (b) + (c)		<u>43,967,927,299</u>
3. Unfunded Accrued Liability as of July 1, 2005: (2d) - (1d)		\$9,178,537,424
4. Amortization Payment payable July 1, 2005		515,327,962
5. Net Normal Cost as of July 1, 2005		
a. Basic Allowances and pension adjustments (including full cost of pension adjustment benefits)	\$1,084,573,623	
b. Non-contributory and Contributory Group Insurance Benefits	42,405,591	
c. Expected Employee Contributions for pension benefits	409,468,113	
d. Expected Employee Contributions for Contributory Group Insurance Benefits	<u>31,915,634</u>	
e. Net Normal Cost as of July 1, 2005: (a) + (b) - (c) - (d)		<u>685,595,467</u>
6. Annual Required Contribution as of June 30, 2007		
a. Annual Required Contribution as of July 1, 2005: (4) + (5e)		\$1,200,923,429
b. Interest to Expected Payment Date		<u>206,326,151</u>
c. Annual Required Contribution: (a) + (b)		\$1,407,249,580

Section V - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION V - ACCOUNTING INFORMATION FOR STATE'S FISCAL YEAR 2007

(continued)

B. Projection of Net Pension Obligation as of June 30, 2007

1. Estimated Net Pension Obligation as of June 30, 2006		\$2,708,648,521
2. Annual Pension Cost for Fiscal Year 2007		
a. Annual Required Contribution	\$1,407,249,580	
b. Interest on Net Pension Obligation	223,463,503	
c. Adjustment to ARC	<u>164,623,103</u>	
d. Annual Pension Cost: (a) + (b) - (c)		1,466,089,980
3. Expected Fiscal Year 2007 Contributions (60% of pension contribution plus est. NCGI)		<u>728,664,343</u>
4. Estimated Net Pension Obligation as of June 30, 2007: (1) + (2d) - (3)		\$3,446,074,158

C. Schedule of Funding Progress

Valuation Year	(1) Actuarial Value of Assets for GASB Purposes	(2) Accrued Liability for GASB Purposes	(3) Unfunded Accrued Liability (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Appropriation Payroll	(6) Unfunded Accrued Liability as a % of Payroll: (3) / (5)
2000	30,203,205,322	27,404,618,051	(2,798,587,271)	110.21%	6,571,641,181	-42.59%
2001	35,351,379,511	32,745,357,185	(2,606,022,326)	107.96%	6,948,381,383	-37.51%
2002	35,148,246,433	35,146,591,842	(1,654,591)	100.00%	7,348,993,141	-0.02%
2003	34,651,825,932	37,383,732,882	2,731,906,950	92.69%	7,702,854,159	35.47%
2004	34,633,790,549	40,447,690,339	5,813,899,790	85.63%	8,047,272,269	72.25%
2005	34,789,389,875	43,967,927,299	9,178,537,424	79.12%	8,454,072,109	108.57%

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION V - ACCOUNTING INFORMATION FOR STATE'S FISCAL YEAR 2007

(continued)

D. Schedule of Employer Contributions

<u>State's Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Employer Contributions</u>	<u>Percentage of ARC Contributed</u>
2002	\$0	\$0	100.00%
2003	194,435,594	0	0.00%
2004	686,284,850	0	0.00%
2005	883,460,483	0	0.00%
2006	1,177,674,055	93,834,999	7.97%
2007	1,407,249,580	728,664,343	51.78%

E. Funding Policy for State's Fiscal Year 2007

Valuation Date	July 1, 2005
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent, Closed
Payroll Growth Rate for Amortization	4.00%
Remaining Amortization Period	30 years
Asset Valuation Method	Actuarial Value
<u>Actuarial Assumptions</u>	
Investment Rate of Return	8.25%
Projected Salary Increases**	5.45%
Cost-of-Living Adjustments	60% of the assumed CPI at 3%

** Variable scale, designed to average 5.45%

Section V - D&E

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

A. Reconciliation with Prior Year

	<u>Active Contrib</u>	<u>Active NonContrib</u>	<u>Deferred Vested</u>	<u>Retirees</u>	<u>Disableds</u>	<u>Beneficiaries</u>	<u>Domestic Relations Beneficiaries</u>	<u>Total</u>
Members as of June 30, 2004	136,838	12,259	925	55,786	2,273	3,620	314	212,015
Terminated Vested	(79)	(49)	128	-	-	-	-	0
Terminated Non-Vested	(580)	(2,492)	-	-	-	-	-	(3,072)
Retired	(4,352)	(191)	(143)	4,686	-	-	-	0
Disabled	(134)	(34)	-	-	168	-	-	0
Died with Beneficiary	-	-	-	(286)	(18)	304	-	0
Died without Beneficiary	(91)	(28)	(1)	(1,250)	(56)	(170)	-	(1,596)
Payments Began	-	-	-	-	-	-	60	60
Payments Ceased	-	-	-	-	-	-	(16)	(16)
New Actives and Rehires	10,555	251	(6)	-	-	-	-	10,800
Changed to Contributing	1,974	(1,974)	-	-	-	-	-	0
Changed to Noncontributing	(4,886)	4,886	-	-	-	-	-	0
Data Corrections	=	=	=	<u>7</u>	<u>3</u>	<u>20</u>	=	<u>30</u>
Members as of June 30, 2005	<u>139,245</u>	<u>12,628</u>	<u>903</u>	<u>58,943</u>	<u>2,370</u>	<u>3,774</u>	<u>358</u>	<u>218,221</u>

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

B. Appropriation Number and Salary by Group *

<u>Group</u>	<u>Number</u>	<u>Salaries</u>
Department of Higher Education	0	\$ 0
Department of Education	294	21,769,127
New Jersey Institute of Technology	3	302,073
State Colleges	55	5,046,620
County Colleges	47	4,369,688
Charter Schools	1,064	49,016,002
Other	<u>137,767</u>	<u>8,373,568,599</u>
Total	<u>139,230</u>	\$ <u>8,454,072,109</u>

* Excludes veterans hired prior to 1955 and Chapter 198 members

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

C. Number and Annual Benefits Including Pension Adjustments of Retirees, Beneficiaries, and Dependents on Roll

<u>Group</u>	<u>Number</u>	<u>Annual Benefit</u>
Service and Early Retirements	59,301	\$ 1,892,492,477
Ordinary Disability Retirements	2,177	46,892,093
Accidental Disability Retirements	193	6,421,191
Ordinary Death Benefits	5	2,086
Accidental Death Benefits	4	84,746
Dependents of Deceased Beneficiaries	3,665	68,602,457
Dependents of Deceased Beneficiaries who elected to receive annuities certain instead of lump sum	<u>100</u>	<u>2,117,019</u>
Total	<u>65,445</u>	\$ <u>2,016,612,069</u>

Section VI - C

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

D. New* Retirees from Active Contributory Status

	<u>Less than 25 years of service</u>	<u>At least 25 years of service</u>	<u>Total</u>
Number of Retirements	320	3,996	4,316**
Total Annual Pension	6,549,676	175,520,652	182,070,328
Average Annual Pension	20,468	43,924	42,185
Average Age at Retirement	63.4	59.1	59.4
Average Service at Retirement	15.3	32.2	31.0

* Members indicated as retired since last actuarial valuation.

** Includes 28 and 434 members who retired under ERI-IV with less than and at least 25 years of service, respectively.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA
(continued)

E. Age, Service and Salary Profile of Active Contributing Participants

Age Group	Males									Total	Average Annual Salary
	Years of Service										
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+		
15-19	2	0	0	0	0	0	0	0	0	2	\$45,715
20-24	432	0	0	0	0	0	0	0	0	432	40,298
25-29	3,176	719	1	0	0	0	0	0	0	3,896	42,756
30-34	1,679	2,519	267	0	0	0	0	0	0	4,465	48,432
35-39	1,012	1,589	1,323	163	1	0	0	0	0	4,088	56,029
40-44	746	774	758	777	170	0	0	0	0	3,225	61,634
45-49	616	618	508	575	852	309	1	0	0	3,479	67,975
50-54	569	499	448	523	676	1,621	884	0	0	5,220	75,905
55-59	542	357	386	394	433	833	2,445	1,117	2	6,509	83,634
60-64	207	161	154	125	155	177	317	907	187	2,390	84,944
65 & Up	<u>52</u>	<u>56</u>	<u>67</u>	<u>57</u>	<u>46</u>	<u>36</u>	<u>42</u>	<u>90</u>	<u>180</u>	<u>626</u>	84,820
Total	9,033	7,292	3,912	2,614	2,333	2,976	3,689	2,114	369	34,332	

Average Age = 44.9
 Average Service = 14.8
 Average Age at Entry = 30.1
 Average Annual Salary = \$65,867

Age Group	Females									Total	Average Annual Salary
	Years of Service										
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+		
15-19	1	0	0	0	0	0	0	0	0	1	\$40,880
20-24	2,336	3	0	0	0	0	0	0	0	2,339	39,811
25-29	10,879	2,675	3	0	0	0	0	0	0	13,557	42,655
30-34	4,735	6,896	816	1	0	0	0	0	0	12,448	46,581
35-39	2,764	3,355	3,320	553	1	0	0	0	0	9,993	51,479
40-44	2,635	2,245	1,590	2,760	589	0	0	0	0	9,819	56,467
45-49	2,632	2,978	1,915	2,162	2,700	794	2	0	0	13,183	59,840
50-54	1,884	2,673	2,599	2,918	2,617	4,195	1,659	0	0	18,545	66,731
55-59	894	1,235	1,597	2,656	3,026	2,526	3,874	1,291	1	17,100	72,723
60-64	251	298	441	862	1,387	1,308	703	889	184	6,323	75,112
65 & Up	<u>35</u>	<u>71</u>	<u>104</u>	<u>183</u>	<u>273</u>	<u>357</u>	<u>238</u>	<u>165</u>	<u>179</u>	<u>1,605</u>	77,212
Total	29,046	22,429	12,385	12,095	10,593	9,180	6,476	2,345	364	104,913	

Average Age = 44.4
 Average Service = 13.2
 Average Age at Entry = 31.2
 Average Annual Salary = \$58,992

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

F. Age, Service and Salary Profile of Non-Contributing Participants

Age Group	Males									Total	Average Annual Salary
	Years of Service										
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+		
15-19	0	0	0	0	0	0	0	0	0	0	\$0
20-24	7	0	0	0	0	0	0	0	0	7	39,941
25-29	268	8	0	0	0	0	0	0	0	276	38,586
30-34	207	69	2	0	0	0	0	0	0	278	40,755
35-39	174	57	47	1	0	0	0	0	0	279	44,616
40-44	124	23	46	13	1	0	0	0	0	207	48,035
45-49	122	23	63	26	8	1	0	0	0	243	46,636
50-54	131	17	84	46	17	7	2	0	0	304	46,886
55-59	98	20	128	66	44	4	6	1	0	367	45,705
60-64	75	6	21	25	15	7	2	1	0	152	45,147
65 & Up	<u>47</u>	<u>3</u>	<u>5</u>	<u>8</u>	<u>6</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>75</u>	35,271
Total	1,253	226	396	185	91	23	10	3	1	2,188	

Average Age = 45.0
 Average Service = 6.8
 Average Age at Entry = 38.2
 Average Annual Salary = \$44,112

Age Group	Females									Total	Average Annual Salary
	Years of Service										
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+		
15-19	1	0	0	0	0	0	0	0	0	1	\$50,850
20-24	56	0	0	0	0	0	0	0	0	56	36,227
25-29	1,229	132	0	0	0	0	0	0	0	1,361	38,871
30-34	1,396	1,127	79	1	0	0	0	0	0	2,603	42,190
35-39	683	605	564	13	0	0	0	0	0	1,865	44,229
40-44	391	139	465	90	4	0	0	0	0	1,089	43,521
45-49	357	84	301	106	23	0	0	0	0	871	42,179
50-54	307	82	452	154	46	17	3	0	0	1,061	42,095
55-59	232	37	493	282	66	15	4	1	0	1,130	41,760
60-64	97	15	75	53	20	3	3	3	0	269	38,809
65 & Up	<u>68</u>	<u>11</u>	<u>21</u>	<u>13</u>	<u>10</u>	<u>4</u>	<u>1</u>	<u>4</u>	<u>2</u>	<u>134</u>	34,730
Total	4,817	2,232	2,450	712	169	39	11	8	2	10,440	

Average Age = 40.5
 Average Service = 7.0
 Average Age at Entry = 33.5
 Average Annual Salary = \$41,989

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

G. Age and Benefit Profiles

Terminated Vested Participants

Age	Male		Female		Total	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
Under 35	0	\$0	1	\$7,884	1	\$7,884
35-39	1	18,744	5	53,580	6	72,324
40-44	6	47,880	18	202,944	24	250,824
45-49	7	71,976	25	278,712	32	350,688
50-54	30	328,080	123	1,252,716	153	1,580,796
55-59	117	1,065,732	451	4,842,564	568	5,908,296
60 & Up	<u>25</u>	<u>244,380</u>	<u>94</u>	<u>1,147,920</u>	<u>119</u>	<u>1,392,300</u>
Total	186	\$1,776,792	717	\$7,786,320	903	\$9,563,112
		Average Age	=	55.9		
		Average Annual Pension	=	\$10,590		

Service Retired Participants

Age	Male		Female		Total	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
Under 50	5	\$163,000	28	\$427,310	33	\$590,310
50-54	164	5,510,965	497	15,177,764	661	20,688,729
55-59	2,536	105,083,038	4,126	156,440,054	6,662	261,523,092
60-64	4,859	200,792,132	7,650	261,796,510	12,509	462,588,642
65-69	4,043	163,437,918	6,757	217,258,382	10,800	380,696,300
70-74	3,899	147,217,837	5,889	174,434,900	9,788	321,652,737
75-79	3,122	103,627,016	5,160	129,042,433	8,282	232,669,449
80-84	1,765	47,374,212	3,536	70,622,223	5,301	117,996,435
85-89	803	17,336,024	2,278	38,700,782	3,081	56,036,806
90-94	323	6,632,643	1,160	18,745,624	1,483	25,378,267
95-99	78	1,716,880	541	9,540,371	619	11,257,251
100 & Up	<u>6</u>	<u>131,880</u>	<u>76</u>	<u>1,282,579</u>	<u>82</u>	<u>1,414,459</u>
Total	21,603	\$799,023,545	37,698	\$1,093,468,932	59,301	\$1,892,492,477
		Average Age	=	70.3		
		Average Annual Pension	=	\$31,913		

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

G. Age and Benefit Profiles (continued)

Disabled Retired Participants

Age	Male		Female		Total	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
Under 35	0	\$0	0	\$0	0	\$0
35-39	0	0	8	153,615	8	153,615
40-44	7	156,103	23	500,998	30	657,101
45-49	20	492,425	78	1,745,170	98	2,237,595
50-54	57	1,484,024	223	5,582,983	280	7,067,007
55-59	141	3,488,405	376	8,980,025	517	12,468,430
60-64	90	2,194,991	395	9,449,316	485	11,644,307
65-69	121	2,715,462	285	6,673,409	406	9,388,871
70-74	60	1,143,403	197	3,904,253	257	5,047,656
75-79	40	690,223	112	1,928,127	152	2,618,350
80-84	23	333,906	69	1,143,118	92	1,477,024
85 & Up	2	132,665	36	420,663	45	553,328
Total	568	\$12,831,607	1,802	\$40,481,677	2,370	\$53,313,284
		Average Age	=	62.9		
		Average Annual Pension	=	\$22,495		

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VI - CENSUS DATA

(continued)

G. Age and Benefit Profiles (continued)

Beneficiaries and Dependents

Age	Male		Female		Total	
	Number	Annual Pension	Number	Annual Pension	Number	Annual Pension
Under 25	5	\$59,211	6	\$68,615	11	\$127,826
25-29	4	114,132	4	59,641	8	173,773
30-34	3	42,608	5	118,373	8	160,981
35-39	2	45,183	8	130,572	10	175,755
40-44	9	178,658	13	223,763	22	402,421
45-49	17	308,820	38	805,044	55	1,113,864
50-54	36	630,318	59	1,184,830	95	1,815,148
55-59	82	1,457,736	144	3,589,795	226	5,047,531
60-64	89	1,924,785	230	5,750,899	319	7,675,684
65-69	100	2,124,618	343	8,311,884	443	10,436,502
70-74	87	1,610,371	420	10,028,323	507	11,638,694
75-79	93	1,477,763	591	12,083,650	684	13,561,413
80-84	84	1,070,200	502	7,633,472	586	8,703,672
85-89	64	763,220	450	5,875,801	514	6,639,021
90-94	23	216,770	200	2,250,000	223	2,466,770
95-99	6	55,865	44	483,509	50	539,374
100 & Up	<u>1</u>	<u>6,932</u>	<u>12</u>	<u>120,947</u>	<u>13</u>	<u>127,879</u>
Total	705	\$12,087,190	3,069	\$58,719,118	3,774	\$70,806,308
		Average Age	=	74.4		
		Average Annual Pension	=	\$18,762		

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions

Interest: 8.25% per annum, compounded annually (as prescribed by the State Treasurer).

CPI: 3.0% per annum, compounded annually (as prescribed by the State Treasurer). The pension adjustment is 60% of the cumulative increase.

Future Payroll Growth: 4.0% per annum, compounded annually.

Salary Scale: Salary increases vary by years of employment averaging 5.45% (as prescribed by the State Treasurer). Schedule of increasing rates are shown below.

<u>Years of Employment</u>	<u>Annual Rate</u>
0-3	5.70%
4-15	6.60
16	5.70
17-19	4.80
20	5.50
21-25	4.80
26-30	4.60
31+	4.40

Section VII - A

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions (continued)

Termination: Withdrawal rates vary by age, years of employment and gender. Illustrative rates are shown below:

<u>Years of Employment</u>	<u>Less Than 10 Years of Employment</u>		
	<u>Male</u>	<u>Female</u>	
		<u><40</u>	<u>40+</u>
0	8.29%	7.61%	7.61%
1	6.36	6.58	6.58
2	5.61	5.77	5.77
3	4.18	6.68	3.60
4	3.44	6.53	2.38
5	2.90	6.15	1.84
6	2.53	6.15	1.65
7	2.19	5.86	1.65
8	1.65	5.47	1.27
9	1.45	4.35	1.08

<u>Age</u>	<u>Annual Rates for Those With Deferred Annuity Benefits*</u>		<u>Annual Rates for Receiving Return of Contributions</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.83%	2.28%	0.55%	0.76%
30	0.83	2.28	0.55	0.76
35	0.68	1.80	0.46	0.61
40	0.46	0.98	0.30	0.29
45	0.39	0.57	0.18	0.13
50	0.52	0.64	0.11	0.09
55	0.93	1.20	0.08	0.08

*Members must have attained 10 years of service or 60 years of age in order to receive an annuity benefit.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions (continued)

Retirement: Rates of retirement vary by age, gender and eligibility for an unreduced pension and post-retirement medical benefits (attainment of age 55 and 25 years of service). Illustrative rates are shown below.

Less than Age 55 or Less than 25 Years of Service	First Eligibility		After First Eligibility			
	Age	Male	Female	Male	Female	
<47	1.1%	1.3%	N/A	N/A	N/A	N/A
48	1.4	1.5	N/A	N/A	N/A	N/A
49	1.6	1.7	N/A	N/A	N/A	N/A
50	1.9	2.0	N/A	N/A	N/A	N/A
51	2.3	2.5	N/A	N/A	N/A	N/A
52-54	2.8	3.0	N/A	N/A	N/A	N/A
55	N/A	N/A	15.0%	16.0%	N/A	N/A
56	N/A	N/A	18.0	19.0	12.0%	13.0%
57	N/A	N/A	18.0	19.0	13.0	13.5
58	N/A	N/A	20.0	20.0	14.0	14.0
59	N/A	N/A	20.0	20.0	15.0	14.5
60	12.0%	10.0%	22.0	32.0	21.0	20.0
61	12.0	10.0	23.0	34.0	23.0	22.0
62	12.0	10.0	40.0	48.0	36.0	32.0
63	12.0	10.0	43.0	45.0	30.0	26.5
64	12.0	10.0	43.0	45.0	30.0	26.5
65	17.0	20.0	43.0	57.0	38.0	36.0
66-70	18.0	16.0	50.0	50.0	30.0	30.0
71+	20.0	20.0	50.0	50.0	30.0	30.0

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions (continued)

Disability: Incidence of disabilities among active members only apply upon the attainment of 10 years of service until the attainment of age 55 and 25 years of service. The rates vary by age, gender and type of disability. Illustrative rates are shown below:

<u>Age</u>	<u>Ordinary</u>		<u>Accidental</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.0301%	0.0379%	0.0090%	0.0060%
30	0.0473	0.0550	0.0090	0.0060
35	0.0609	0.0674	0.0090	0.0060
40	0.0701	0.0893	0.0090	0.0060
45	0.1023	0.1317	0.0090	0.0060
50	0.1421	0.1759	0.0090	0.0060
55	0.3732	0.3506	0.0090	0.0060

Pre-retirement Mortality: Illustrative rates of mortality of active members which vary by age and gender are shown below. No accidental deaths are assumed.

<u>Age</u>	<u>Ordinary</u>	
	<u>Male</u>	<u>Female</u>
25	0.0369%	0.0284%
30	0.0348	0.0291
35	0.0582	0.0351
40	0.0866	0.0478
45	0.1287	0.0709
50	0.1867	0.0973
55	0.2602	0.1428
60	0.4074	0.2294
65	0.6466	0.4439
70	0.9387	0.8636

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions (continued)

Post-retirement Mortality: Rates of mortality vary by age, gender and type of retirement. A generational approach is applied using Scale AA to account for future mortality improvement for non-disabled annuitants. The base year is 2003. Illustrative rates for the base year and Scale AA are shown below:

<u>Age</u>	<u>Service Retirements and Beneficiaries</u>		<u>Scale AA</u>		<u>Disability Retirement</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
45	0.4158%	0.1565%	1.3%	1.6%	2.2570%	0.7450%
50	0.5593	0.2447	1.8	1.7	2.8975	1.1535
55	0.7210	0.3489	1.9	0.8	3.5442	1.6544
60	1.0556	0.5617	1.6	0.6	4.2042	2.1839
65	1.2047	0.7511	1.4	0.5	5.0174	2.8026
70	1.9959	1.1942	1.5	0.6	6.2583	3.7635
75	3.4828	1.9731	1.4	0.8	8.2067	5.2230
80	6.1521	3.4266	1.0	0.7	10.9372	7.2312
85	10.8381	7.2836	0.7	0.6	14.1603	10.0203

Non-contributory Members: 30% are assumed to return to contributory status.

Marriage: Husbands are assumed to be 3 years older than wives. Among the active population, 80% of participants are assumed to be married. No children are assumed. Neither the percentage married nor the number of children assumptions are necessarily individually explicit, but they are considered reasonable, when viewed as a single combined assumption.

Form of Payment: Modified Cash Refund Annuity.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VII - ACTUARIAL ASSUMPTIONS AND METHODS
AS OF JUNE 30, 2005

A. Actuarial Assumptions (continued)

Post Retirement Medical: Projected 2006-2007 Per Retiree Benefit Costs (based on June 30, 2005 health plan distribution, 2006 estimated renewal rates provided by the Division, medical trends of 11%-14%, and the Social Security Standard premium for Medicare Part B trended at 13.0%):

Pre-Medicare: \$15,654.16

Medicare Eligible: \$9,497.56

B. Actuarial Valuation Method

The Projected Unit Credit Method was used as required by Chapter 62, P.L. 1994 as modified by Chapters 115, P.L. 1997 and 133, P.L. 2001. Non-contributory life insurance benefits are funded on a term cost basis.

C. Asset Valuation Method

A five year average of market value with write-up was used. This method takes into account appreciation (depreciation) in investments in order to smooth asset values by averaging the excess of the actual over the expected income, on a market value basis, over a five year period. Cash flows are based on an accrual accounting approach. This method is prescribed by statute. The market value of assets is used for the Postretirement Medical Fund and the Contributory Group Insurance Premium Fund for GASB purposes.

D. Changes in Actuarial Assumptions

The per capita benefit costs for postretirement medical benefits have changed since the previous valuation. The costs were previously \$15,019.43 for pre-Medicare and \$9,747.01 for Medicare eligible.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

1. Type of Plan

The Plan is a contributory, defined benefit plan. Contributions by Members are 5% of compensation. If the Fund has excess assets, member contributions may be reduced by as much as 2%.

2. Effective Date

The Plan was established in 1919. It was reorganized and integrated with Social Security in 1955. Social Security integration was eliminated in 1966, i.e., reductions in retirement benefits based on Social Security benefits were eliminated.

3. Eligibility for Membership

Employees appointed to positions requiring certification as members of a regular teaching or professional staff of a public school system in New Jersey are required to enroll as a condition of employment. Employees of the Department of Education holding unclassified, professional and certificated titles are eligible for membership. Temporary or substitute employees are not eligible.

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30.
- b. Credited Service: A year of Credited Service for each year an employee is a Member of the Retirement System plus service, if any, covered by a prior service liability.
- c. Final Compensation: This is the average annual compensation for the three consecutive years of Creditable Service immediately preceding retirement or the highest three fiscal years of Membership Service.
- d. Final Year Compensation: This is the compensation upon which contributions by a Member to the Annuity Savings Fund are based in the last year of Membership Service.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

4. Definitions (continued)

- e. Aggregate Member Contributions: This is the sum of all amounts deducted from the compensation of a Member or contributed by him or on his behalf without interest.
- f. Class A Member: Any member who contributes towards retirement allowance based on 1/64th benefit rate per year of creditable service.
- g. Class B Member: Any member who contributes towards a retirement allowance based on 1/55th benefit rate per year of creditable service.

5. Retirement Benefits

a. Service Retirement

Service Retirement Eligibility: Eligibility means age 60 with no minimum service requirement.

Service Retirement Benefit: An employee's annual service retirement allowance is equal to a member annuity plus an employer pension which together equals 1/64th of Final Compensation for each year of service for Class A members and 1/55th of Final Compensation for each year of service for Class B members.

Note: See Section 12 for special benefits for veteran members.

b. Early Retirement

Early Retirement Eligibility: A Member may retire after completion of 25 years of Creditable Service.

Early Retirement Benefit: The benefit may be either:

- (i) the lump sum withdrawal benefit described in 6.a. below; or
- (ii) the service retirement benefit reduced by 1/4 of one percent for each month the retirement date precedes age 55.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

6. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service.

Lump Sum Withdrawal Benefit: The benefit equals a refund of Aggregate Member Contributions plus, if the member has completed three years of service, interest accumulated at 2.0% per annum allowed thereon.

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to age 60 and after 10 years of Creditable Service.

Deferred Retirement Benefit: The benefit may be either:

- (i) the lump sum withdrawal benefit described in 6.a. above; or
- (ii) a deferred retirement benefit, commencing at age 60, equal to a member annuity plus an employer pension which together provide a retirement allowance equal to the service retirement benefit based on Final Compensation and Creditable Service at date of termination.

7. Death Benefits

a. Ordinary Death (Insured) Benefit - Lump Sum (Non-Contributory)

Pre-retirement Death Benefit Eligibility: Any current active member is eligible.

Pre-retirement Death Benefit: The benefit is a lump sum benefit equal to the Aggregate Contributions with interest allowed thereon plus an amount equal to 1-1/2 times Compensation at date of death.

Post-retirement Death Benefit Prior to Age 60 Eligibility: Eligible if disabled or retired early.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

7. Death Benefits (continued)

Post-retirement Death Benefit Prior to Age 60 Benefit: The benefit is as follows:

- (i) For death while a Disabled Retiree the benefit is equal to 1-1/2 times Compensation.
- (ii) For death while an Early Retiree, the benefit is equal to 3/16 times Compensation.
- (iii) For death while vested terminated, the benefit is equal to his Aggregate Contributions with interest allowed thereon.

Post-retirement Death Benefit After Age 60 Eligibility: Eligible after attainment of age 60 for service, deferred and disabled retirements (if not disabled, 10 years of Creditable Service required for members enrolling on or after July 1, 1971).

Post-retirement Death Benefit After Age 60 Benefit: The benefit payable is equal to 3/16 times Compensation.

- b. Contributory Death Benefit: An additional, employee-paid, death benefit is also available through group insurance purchased by the Board of Trustees. Contributions for this benefit are required by Members during the first year of enrollment. Participation may be terminated after the first year. The benefit prior to retirement is 2 times compensation. The benefit after retirement is 1/4 times final year compensation (coverage at retirement, and 10 years of participation for Members enrolling on or after July 1, 1970, is required).

c. Pre-retirement Accidental Death Benefit:

Eligibility: A death resulting from injuries received from an accident during performance of duty and not a result of willful negligence is eligible.

Pre-retirement Lump Sum Benefit: The benefit is a lump sum equal to 1-1/2 times Compensation.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

7. Death Benefits (continued)

Pre-retirement Accidental Death Benefit: The benefit payable is as follows:

- (i) The annuity benefit to a widow or widower is equal to 50% of Compensation, payable for life until remarriage.
- (ii) The annuity benefit, when there is no spouse, or the spouse is remarried, is equal to 20% of Compensation for one child, 35% for two children, 50% for three or more children. The benefit is payable while the children are under age 18 and it is payable for life if they are disabled.
- (iii) The annuity benefit, when there is no spouse or children, is equal to 25% of Compensation for one dependent parent and 40% for two dependent parents.
- (iv) The benefit, when there is no relation as stated above, is equal to the Aggregate Contributions with interest allowed thereon and is payable to a beneficiary or to the Member's estate. This is also the minimum benefit payable under (i), (ii) and (iii) above.

8. Disability Benefits

a. Ordinary Disability Retirement

Eligibility: A Member is eligible for Ordinary Disability Retirement if he (she) has 10 years of Creditable Service and is totally and permanently incapacitated from the performance of usual or available duties.

Ordinary Disability Retirement Benefit: The total retirement allowance is equal to the greater of:

- (i) 1.64% of Final Compensation times the number of years of Creditable Service; or
- (ii) 43.6% of Final Compensation.

Note: See Section 12 for special benefits for veteran members.

Section VIII

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY
SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS
AS OF JUNE 30, 2005

8. Disability Benefits (continued)

b. Accidental Disability Retirement

Eligibility: A Member is eligible upon total and permanent incapacitation as a direct result of a traumatic event occurring during and as a result of the performance of regular or assigned duties.

Accident Disability Retirement Benefit: The benefit payable is equal to a Member annuity plus an employer pension which together equals 72.7% of the Compensation at date of injury.

9. Cost-of-Living Pension Adjustment Benefits: All retirees and eligible beneficiaries will receive an annual adjustment of at least 60% of the cumulative change in the Consumer Price Index. This adjustment is first available on the 25th month after retirement or death.

10. Additional Old-Plan Benefit: An additional pension is payable to any retiree who was a member of the old Teachers' Retirement Fund. This pension is the actuarial equivalent of his contributions to the old Teachers' Retirement Fund without interest.

11. Special Minimum Benefit: A member who retired prior to 1955 with 20 or more years of service may receive a minimum pension of \$500 a month inclusive of any amounts payable under any pension adjustments.

12. Special Benefits for Veterans:

a. Service Retirement: Eligible if member attains age 60 and completes 20 years of service or attains age 55 and completes 25 years of service. Benefit equals 54.5% of highest 12-month contributory compensation.

b. Chapter 97 Benefit: Eligible if age 55 and completes 35 years of service. Benefit equals 1/55th of final year compensation for each year of service.

13. Post Retirement Medical Benefits: The Fund pays medical premiums including Medicare for retired members and covered dependents who retire after 25 years of service or under the disability provisions of the Fund.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VIII – SUMMARY OF PRINCIPAL PLAN APROVISIONS AS OF JUNE 30, 2005

14. Benefit and Compensation Limits

The provisions of IRC Section 415 and IRC Section 401(a)(17), which limit benefits paid and limit compensation used in determining benefits, has been reflected in this report.

The IRC Section 415 limit is \$170,000 and the 401(a)(17) compensation cap is \$210,000 and is applied on a calendar year basis.

15. Forms of Payment

- a. Maximum Option – Single life annuity.
- b. Option 1 – Single life annuity with return of reserve option.
- c. Option 2 – 100% joint and survivor annuity.
- d. Option 3 – 50% joint and survivor annuity.
- e. Option 4 – Other percentage joint and survivor annuity.
- f. Option A – 100% pop-up joint and survivor annuity.
- g. Option B – 75% pop-up joint and survivor annuity.
- h. Option C – 50% pop-up joint and survivor annuity.
- i. Option D – 25% pop-up joint and survivor annuity.

16. Contributions

- a. Member Contributions: Each member becoming a member on or after January 1, 1956 contributes at the rate of contribution applicable to Class B members.
 - (i) Class B Membership: Any member on December 31, 1955 may elect to be classified as a Class B member and contribute at the rate of contribution applicable to Class B members at his age at membership. Any such member may elect to increase his accumulated deductions by the amount required by the Board to receive credit as a Class B member for all or part of his service prior to such election.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS
AS OF JUNE 30, 2005

- (ii) Class A Membership: Any member who is not a veteran and does not elect to be classified as a Class B member continues to contribute at the rate of contribution applicable to his age at membership which was payable prior to the establishment of the integrated system, except that if he became a member subsequent to June 30, 1946 he will pay after January 1, 1955 at the rate of contribution in effect on June 30, 1946 applicable to his age at membership.

Prior to July 1, 1979 different contribution rates were established for men and women. Effective on that date members contribute at rates intermediate between the rates previously applicable to male and female members, computed to provide the same present value of future employee contributions at each entry age on the basis of the membership as constituted on the effective date.

b. Local Employer Contributions

- (i) Early Retirement Incentive Contributions: The State and Local employers which elected to participate in the early retirement incentive programs authorized by Chapters 137, 229 and 231, P.L. 1991, Chapters 48, 138 and 163, P.L. 1993, Chapter 23, P.L. 2001 and Chapters 128 and 129, P.L. 2003 pay contributions to cover the additional liability for these programs over amortization periods chosen by the employer (15 years for Chapters 128 and 129) or the amortization period for the Unfunded Accrued Liability of the system (Chapter 23).
- (ii) Chapter 113 Contributions: Certain School Districts have elected to exempt a select group of employees from the compensation limit under IRC Section 401(a)(17) incorporated under Chapter 113. These school districts will pay the full cost of this exemption at a member's date of retirement.

17. Changes in Plan Provisions Since Prior Valuation

There have been no changes since the previous valuation.

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

APPENDIX I - EARLY RETIREMENT INCENTIVE CONTRIBUTION SCHEDULE

<u>Group Number</u>	<u>Location Name</u>	ERI 1	ERI 1	ERI 2	ERI 2
		<u>Present Value</u> <u>June 30, 2005</u>	<u>Fiscal Year</u> <u>2007 Payment</u>	<u>Present Value</u> <u>June 30, 2005</u>	<u>Fiscal Year</u> <u>2007 Payment</u>
3	981 NJ INST OF TECH	\$227,669	\$25,621	\$349,106	\$22,438
5	1001 ATLANTIC COMMUNITY COLLEGE	73,807	8,306	N/A	N/A
6	911 ALLAMUCHY BD OF ED	N/A	N/A	116,917	10,609
6	300 ASBURY PARK BD OF ED	3,697,684	416,124	N/A	N/A
6	969 ATLANTIC CO VOCATIONAL SCHOOLS	222,444	25,033	N/A	N/A
6	4014 BERLIN BORO BD OF ED	N/A	N/A	170,646	36,464
6	4015 BERLIN TWP BD OF ED	211,763	23,831	190,212	26,439
6	412 BOONTON TWP BD OF ED	144,211	16,229	N/A	N/A
6	774 BYRAM TWP BD OF ED	253,642	28,544	N/A	N/A
6	4017 CHESILHURST BORO BD OF ED	32,194	3,623	28,921	4,020
6	4018 CLEMENTON BD OF ED	119,801	13,482	107,613	14,958
6	232 CRANBURY TWP BD OF ED	N/A	N/A	5,771	N/A
6	121 EAST WINDSOR REG SCHOOL DIST	N/A	N/A	237,256	32,978
6	6012 ESSEX CO EDUCATIONAL SERV COMM	221,084	24,880	N/A	N/A
6	329 FARMINGDALE BD OF ED	N/A	N/A	198,983	42,519
6	4033 GLOUCESTER CITY BD OF ED	N/A	N/A	159,204	N/A
6	753 GREEN BROOK BD OF ED	336,860	37,909	N/A	N/A
6	8082 GUTTENBERG BORO BD OF ED	181,177	20,389	N/A	N/A
6	956 HUDSON CO VOCATIONAL SCHOOL	N/A	N/A	785,356	71,263
6	6040 IRVINGTON TWP BD OF ED	N/A	N/A	3,786,046	526,252
6	8030 KEARNY TWP BD OF ED	N/A	N/A	344,421	N/A
6	521 LAKEHURST BORO BD OF ED	94,654	10,652	N/A	N/A
6	645 LAKELAND REGIONAL	851,005	95,769	N/A	N/A
6	790 LENAPE VALLEY REG H S DIST	N/A	N/A	118,756	N/A
6	2052 LITTLE FERRY BD OF ED	N/A	N/A	6,828	N/A
6	3027 MEDFORD TWP BD OF ED	N/A	N/A	116,984	N/A
6	111 MERCER CO SPECIAL SERVICES	420,771	47,352	N/A	N/A
6	953 MERCER CO VOCATIONAL SCHOOLS	N/A	N/A	381,596	81,540
6	346 MONMOUTH BEACH BD OF ED	115,385	12,985	N/A	N/A
6	987 MONMOUTH CO VOCATIONAL SCHOOLS	680,802	76,615	N/A	N/A
6	4043 MT EPHRAIM BD OF ED	N/A	N/A	\$11,667	N/A
6	3036 PEMBERTON TWP BD OF ED	\$2,334,996	\$262,772	\$141,178	N/A
6	210 PERTH AMBOY BD OF ED	N/A	N/A	\$1,840,510	\$393,283
6	4069 PINE HILL BORO BD OF ED	\$306,283	\$34,468	\$163,621	\$22,743
6	1010 PLEASANTVILLE BD OF ED	\$1,261,530	\$141,968	\$1,160,860	\$161,357
6	984 SALEM CO VOCATIONAL SCHOOL	\$51,377	\$15,292	N/A	N/A
6	531 SEASIDE HEIGHTS BD OF ED	N/A	N/A	\$11,452	\$2,447
6	5071 SHILOH BOROUGH BD OF ED	\$12,583	\$1,416	N/A	N/A
6	794 VERNON TWP BD OF ED	N/A	N/A	\$329,631	N/A
6	641 WANAQUE BD OF ED	N/A	N/A	\$309,677	\$28,100
6	8070 WEST NEW YORK TWP BD OF ED	N/A	N/A	\$2,757,778	\$250,240
6	934 WHITE TWP BD OF ED	\$237,950	\$26,778	N/A	N/A
	Grand total for Local Employers	\$12,089,672	\$1,370,038	\$13,830,990	\$1,727,650

TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY

APPENDIX I - EARLY RETIREMENT INCENTIVE CONTRIBUTION SCHEDULE

(continued)

<u>Group Number</u>	<u>Location Name</u>	ERI 3	ERI 3	ERI 4	ERI 4
		<u>Present Value</u> <u>June 30, 2005</u>	<u>Fiscal Year</u> <u>2007 Payment</u>	<u>Present Value</u> <u>June 30, 2005</u>	<u>Fiscal Year</u> <u>2007 Payment</u>
2 90400	EDUCATION DEPARTMENT	\$10,228,978	\$646,552	N/A	N/A
2 90416	MARIE KATZENBACK SCH FOR DEAF	\$1,820,315	\$115,058	N/A	N/A
2 90207	OFFICE OF ADM LAW	\$430,690	\$27,223	N/A	N/A
3 981	NJ INST OF TECH	\$427,087	\$26,995	N/A	N/A
4 90411	NEW JERSEY UNIVERSITY	\$2,123,753	\$134,238	N/A	N/A
4 90412	KEAN UNIVERSITY	\$1,110,834	\$70,214	N/A	N/A
4 90414	MONTCLAIR STATE UNIVERSITY	\$878,805	\$55,547	N/A	N/A
4 90410	ROWAN UNIVERSITY	\$360,236	\$22,770	N/A	N/A
4 90415	THE COLLEGE OF NEW JERSEY	\$225,876	\$14,277	N/A	N/A
4 90413	WILLIAM PATERSON UNIVERSITY	\$410,173	\$25,926	N/A	N/A
6 8010	BAYONNE BOARD OF ED	N/A	N/A	\$8,158,967	\$948,817
6 122	EWING TWP BD OF ED	N/A	N/A	\$189,340	\$23,835
6 110	HAMILTON TWP BD OF ED	N/A	N/A	(\$3,077,005)	N/A
6 8083	HARRISON TWP BD OF ED	N/A	N/A	\$1,608,542	\$202,492
6 335	HOWELL TWP BD OF ED	N/A	N/A	(\$1,974,477)	N/A
6 956	HUDSON CO VOCATIONAL SCHOOL	N/A	N/A	\$967,519	\$121,796
6 242	MILLTOWN BORO BD OF ED	N/A	N/A	(\$63,821)	N/A
6 952	PASSAIC CO VOC SCH	N/A	N/A	\$17,085,355	\$2,150,796
6 9034	STOCKTON BOROUGH BD OF ED	N/A	N/A	\$102,527	\$12,907
6 515	TOMS RIVER SCHOOL DIST	N/A	N/A	(\$2,399,940)	N/A
Grand total for State Locations and Local Employers		\$18,016,747	\$1,138,800	\$20,597,007	\$3,460,643