



**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

Schedules of Pension Amounts

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM**

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KPMG LLP
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Independent Auditors' Report

The Treasurer
State of New Jersey:

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

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

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

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



Opinions

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

Other Matters

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

Restriction on Use

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

KPMG LLP

Short Hills, New Jersey
November 13, 2015

STATE OF NEW JERSEY
JUDICIAL RETIREMENT SYSTEM

Notes to Schedules of Pension Amounts

June 30, 2014 and 2013

(1) Plan Description

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

The vesting and benefit provisions are set by N.J.S.A. 43:6A. JRS provides retirement benefits as well as death and disability benefits. Retirement is mandatory at age 70. Service retirement benefits are available to members who have reached certain ages and various years of service. Benefits of 75% of final salary are available to members at age 70 with 10 or more years of judicial service; members between ages 65-69 with 15 or more years of judicial service or between ages 60-64 with 20 or more years of judicial service. Benefits of 50% of final salary are available to those with both judicial service and non-judicial service for which five or more consecutive years were judicial service. These benefits are available at age 65 or older with 15 years or more of aggregate service or age 60 or older with 20 or more years of aggregate service. Benefits of 2% of final salary for each year of public service up to 25 years plus 1% of final salary for each year in excess of 25 years are available at age 60 with five consecutive years of judicial service plus 15 years in the aggregate of public service or at age 60 while serving as a judge.

Early retirement benefits of 2% of final salary for each year of service up to 25 years and 1% of final salary for each year over 25 years is available to members who retire before age 60, have 5 or more consecutive years of judicial service, and 25 or more years in aggregate public service. The amount of benefits is actuarially reduced for the number of months remaining until the member reaches age 60.

(2) Basis of Presentation

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

(3) Contributions

The contribution policy for JRS is set by N.J.S.A. 43:6A and requires contributions by active members and the State of New Jersey. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined amount which includes the normal cost and unfunded accrued liability. For fiscal year 2014 and 2013, the State contributed an amount less than the actuarial determined amount.

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(4) Net Pension Liability and Actuarial Information

Components of Net Pension Liability

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

	2014	2013
Total pension liability	\$ 900,743,760	850,984,555
Plan fiduciary net position	231,483,835	225,830,817
Net pension liability	\$ 669,259,925	625,153,738
Plan fiduciary net position as a percentage of the total pension liability	25.70%	26.54%

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

Inflation rate	3.01%
Salary increases:	
2012-2021	2.50%
Thereafter	3.50%
Investment rate of return	7.90%

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

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

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Long-Term Expected Rate of Return

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

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

Discount Rate

The discount rate used to measure the total pension liability was 4.58% and 4.88% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2021. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2021, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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Sensitivity of Net Pension Liability

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

<u>As of June 30, (rates used)</u>	<u>At 1% decrease</u>	<u>At current discount rate</u>	<u>At 1% increase</u>
2014 (3.58%, 4.58%, 5.58%)	\$ 769,235,285	669,259,925	584,383,046
2013 (3.88%, 4.88%, 5.88%)	719,853,005	625,153,738	544,864,672

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

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2014:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred Outflows of Resources:						
Changes of assumptions	2014	3.84 years	\$ —	26,907,821	7,007,245	19,900,576
Total			\$ —	26,907,821	7,007,245	19,900,576
Deferred Inflows of Resources:						
Difference between projected and actual earnings on pension plan investments	2014	5 years	\$ —	18,338,326	3,667,665	14,670,661
Total			\$ —	18,338,326	3,667,665	14,670,661

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2015	\$ 3,339,580
2016	3,339,580
2017	2,218,421
2018	(3,667,666)
Total	\$ 5,229,915

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(6) Pension Expense

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

Service cost (a)	\$ 30,628,662
Interest on total pension liability (a)	41,826,802
Member contributions	(5,096,577)
Administrative expense	162,372
Expected investment return net of investment expenses	(16,109,710)
Recognition of deferred inflows/outflows of resources:	
Amortization of assumption changes or inputs	7,007,245
Amortization of projected versus actual investment earnings on pension plan investments	<u>(3,667,665)</u>
Pension expense	\$ <u><u>54,751,129</u></u>

- (a) The service cost and interest cost components have been revised from the amounts previously reported for the fiscal year ending June 30, 2014 GASB Statement No. 67 actuary's report to reallocate interest accrued on the service cost of \$1,494,679 to the interest on total pension liability component.