

# The Prison Officers' Pension Fund of New Jersey Annual Report of the Actuary

Actuarial Valuation  
July 1, 2017

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500 Plaza Drive  
Secaucus, New Jersey 07096-1533

December 1, 2017

Board of Trustees  
Prison Officers' Pension  
Fund of New Jersey  
Trenton, New Jersey

Members of the Board:

The law governing the operation of the Prison Officers' Pension Fund of New Jersey provides for annual actuarial valuations of the Fund. The results of the July 1, 2017 valuation are submitted in this report, which also includes a comparison with the results of the July 1, 2016 valuation.

The valuation shows the financial condition of the Fund as of July 1, 2017 and gives the basis for determining the required annual contribution for the plan year beginning July 1, 2018.

The valuation was prepared on the basis of the same assumptions as were employed for the previous valuation, which include a 5.00% per annum rate of investment return.

The June 30, 2017 reporting requirements of the Governmental Accounting Standards Board Statement No. 67 are addressed in a separate report.

The State of New Jersey's Division of Pensions and Benefits reported the individual data for members of the Prison Officers' Pension Fund of New Jersey as of the valuation date for use in the preparation of this report. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Division of Pensions and Benefits. The accuracy of the results presented in this report is dependent on the accuracy of the data.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Any statements regarding funded ratios have no specific relevance to any funded position that might be determined in the event a settlement is contemplated. An analysis of the potential range of future results is beyond the scope of this valuation.

Use of this report for any other purpose or by anyone other than the Board or staff of the State of New Jersey's Division of Pensions and Benefits may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. You should ask Conduent to review any statement you wish to make on the results contained in this report. Conduent will accept no liability for any such statement made without prior review by Conduent.

In my opinion, the actuarial assumptions used are appropriate for purposes of the valuation and are reasonably related to the experience of the System and to reasonable long-term expectations. These assumptions were selected in accordance with applicable Actuarial Standards of Practice published by the Actuarial Standards Board.



I am a Fellow of the Society of Actuaries and a Member of the American Academy of Actuaries. I meet the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and I am available to answer questions concerning it.

The Table of Contents, which follows, highlights the Sections of the Report.

Respectfully submitted,

A handwritten signature in black ink that reads "Aaron Shapiro". The signature is written in a cursive, flowing style.

Aaron Shapiro, F.S.A., E.A., M.A.A.A.  
Principal, Consulting Actuary  
Conduent HR Consulting, LLC

# Table of Contents

## Section I

Summary of Key Results .....	1
------------------------------	---

## Section II

Employee Data .....	3
---------------------	---

## Section III

Assets, Liabilities and Contributions .....	5
---	---

- A. Market Value of Assets as of June 30, 2017
- B. Reconciliation of Market Value of Assets from June 30, 2016 to June 30, 2017
- C. Development of Actuarial Value of Assets as of July 1, 2017
- D. Accrued Liabilities as of July 1, 2017
- E. Tracking of Unfunded Accrued Liability/(Surplus)
- F. Development of State Contribution
- G. Fund Projection

## Section IV

Comments Concerning the Valuation .....	8
---	---

## Appendix A

Brief Summary of the Benefit and Contribution Provisions as Interpreted for Valuation Purposes .....	10
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## Appendix B

Outline of Actuarial Assumptions and Methods .....	12
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## Appendix C

Tabulations Used as a Basis for the 2017 Valuation .....	13
Table 1 – Service Retirements	
Table 2 – Ordinary Disability Retirements	
Table 3 – Accidental Disability Retirements	
Table 4 – Active Members’ Death Benefits	
Table 5 – Retired Members’ Death Benefits	

## Section I – Summary of Key Results

The Prison Officer's Pension Fund of New Jersey was established under Chapter 220 of the Laws of 1941 and permitted prison officer members of the then State Employees' Retirement System to transfer to the new Fund. Effective January 1, 1960, the Fund was closed to new employees. This report, prepared as of July 1, 2017, presents the results of the annual actuarial valuation to the Fund.

For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized on the following pages.

Valuation Date	July 1, 2017	July 1, 2016
<u>Participant Data</u>		
Active Members	0	0
Retired Members and Beneficiaries	77	90
Total Participants	<u>77</u>	<u>90</u>
Annual Compensation	\$ 0	\$ 0
Annual Retirement Allowances	\$ 488,522	\$ 579,478
<u>Assets</u>		
Market Value of Assets	\$ 5,620,868	\$ 6,111,233
Actuarial Value of Assets	\$ 5,620,868	\$ 6,111,233
<u>Contribution Amounts</u>		
Recommended		
Normal Contribution	\$ 0	\$ 0
Accrued Liability Contribution	<u>0</u>	<u>0</u>
Total Contribution	\$ 0	\$ 0

The major benefit and contribution provisions of the statute as reflected in the valuation are summarized in Appendix A. There were no changes from the provisions used in the previous valuation.

The actuarial assumption and methods used for valuing the Fund are summarized in Appendix B. There were no changes in actuarial assumption and methods used in the previous valuation.

The combination of the plan provisions, actuarial assumptions and member and beneficiary data is used to generate the overall required level of employer contributions. The recommended contribution is developed in Section III F.

The valuation also generates a balance sheet which summarizes in some detail the total present and prospective assets and liabilities of the Fund. A summary comparison of the balance sheets as of July 1, 2016 and July 1, 2017 is set forth in the following table.

**Table I****Comparative Balance Sheet**

	2017	2016
<b><u>Assets</u></b>		
Actuarial value of assets of Fund	\$ 5,620,868	\$ 6,111,233
Unfunded accrued liability/(surplus)	<u>(2,771,136)</u>	<u>(2,650,134)</u>
Total Assets	\$ 2,849,732	\$ 3,461,099
<b><u>Accrued Liabilities</u></b>		
Present value of benefits to present beneficiaries payable from the Retirement Reserve Fund	\$ 2,849,732	\$ 3,461,099
Present value of benefits to present active members	<u>0</u>	<u>0</u>
Total Accrued Liabilities	\$ 2,849,732	\$ 3,461,099

## Section II – Employee Data

The data employed for the valuation was furnished to the actuary by the Division of Pensions and Benefits. Appendix C contains summary tables which present the number and retirement allowances of members classified by age. The following summarizes and compares the Fund membership as of July 1, 2016 and July 1, 2017 by various categories.

### Active Membership

There has been no active participants in the Plan since July 1, 1994.

### Retired Members and Beneficiaries

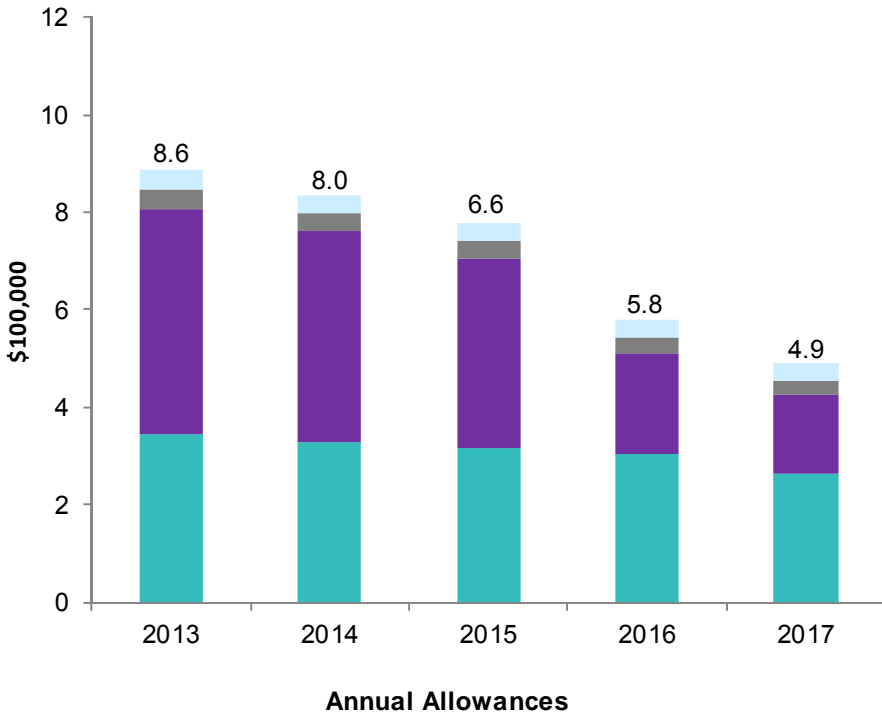
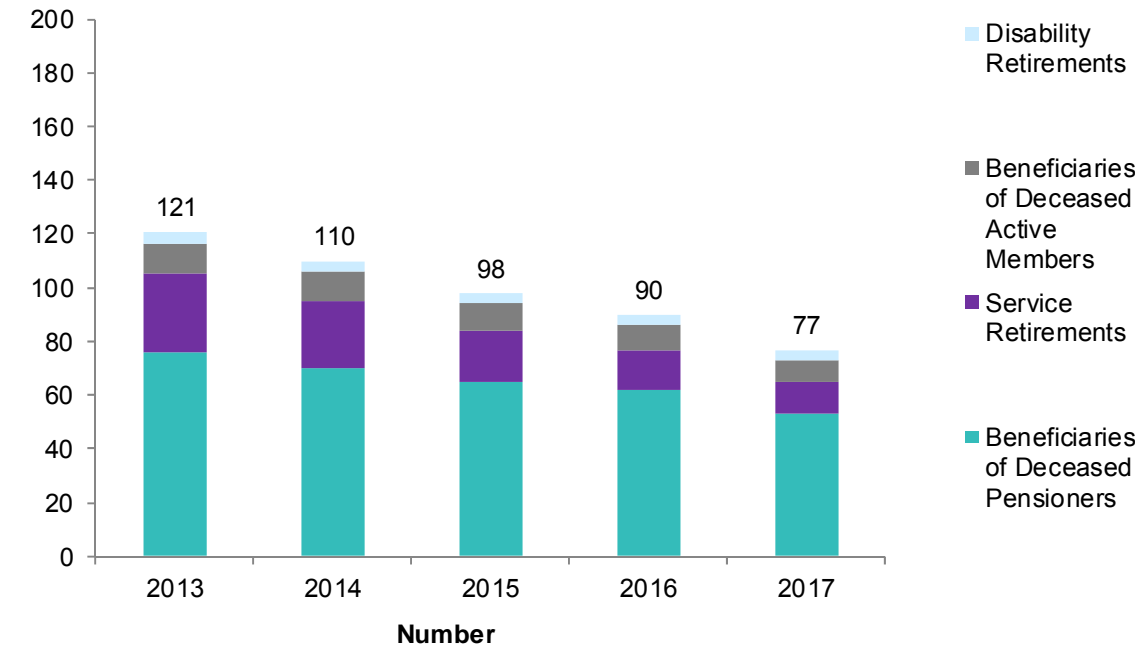
Group	2017		2016	
	Number	Annual Allowances	Number	Annual Allowances
Service Retirements	12	\$ 159,101	15	\$ 207,173
Ordinary Disability Retirements	2	\$ 15,356	2	\$ 15,356
Accidental Disability Retirements	2	\$ 19,649	2	\$ 19,649
Active Members' Death Benefits	8	\$ 29,629	9	\$ 33,164
Retired Members' Death Benefits	53	\$ 264,787	62	\$ 304,136

Graphic presentations of the statistical data on membership for the five preceding years are shown on the following pages.



# The Prison Officers' Pension Fund Of New Jersey

## Summary of Retired Participants



## Section III - Assets, Liabilities and Contributions

### A. Market Value of Assets as of June 30, 2017

1. Assets		
a. Cash	\$	284,097
b. Investment Holdings		5,417,728
c. Accrued Interest		17
d. Pension Adjustment Receivable		0
e. Total	\$	<u>5,701,842</u>
2. Liabilities		
a. Pension Payroll Payable	\$	24,475
b. Pension Adjustment Payroll Payable		50,957
c. Withholdings Payable		5,574
d. Administrative Expense Payable		1,464
e. Other Accounts Payable		<u>(1,496)</u>
f. Total	\$	<u>80,974</u>
3. Receivable	\$	0
4. Market Value of Assets as of June 30, 2017 = (1(e)) - (2(f)) + (3)	\$	<u>5,620,868</u>

### B. Reconciliation of Market Value of Assets: June 30, 2016 to June 30, 2017

1. Market Value of Assets as of June 30, 2016	\$	6,111,233
2. Increases		
a. Members' Contributions @ 6%	\$	0
b. State Appropriations		0
c. Pension Adjustment		552,131
d. Investment Income		<u>30,847</u>
e. Total	\$	<u>582,978</u>
3. Decreases		
a. Retirement Allowances	\$	517,078
b. Benefit Expense – Pension Adjustment		552,131
c. Administrative Expenses		<u>4,134</u>
d. Total	\$	<u>1,073,343</u>
4. Receivable	\$	0
5. Market Value of Assets as of June 30, 2017 = (1) +(2(e)) - (3(d)) + (4)	\$	5,620,868

### C. Development of Actuarial Value of Assets as of July 1, 2017

1. Actuarial Value of Assets (Retirement Reserve Fund)	\$	5,620,868
2. Pension Adjustment Fund: A(2)(b) - A(1)(d)		<u>50,957</u>
3. Total Ledger Assets	\$	5,671,825

### D. Accrued Liabilities as of July 1, 2017

1. Active Members		
a. Service Retirement	\$	0
b. Death Before Retirement		0
c. Death After Retirement		0
d. Total	\$	<u>0</u>
2. Service Retirees	\$	986,117
3. Disability Retirees	\$	182,958
4. Beneficiaries	\$	1,680,657
5. Total Accrued Liability = 1(d) + (2) + (3) + (4)	\$	2,849,732

### E. Tracking of Unfunded Accrued Liability/(Surplus)

1. Unfunded Accrued Liability/(Net Surplus) as of July 1, 2016	\$	(2,650,134)
2. Interest on (1) at 5.00%		(132,507)
3. Contribution received		0
4. Interest on (3) at 5.00%		<u>0</u>
5. Expected Unfunded Accrued Liability/(Surplus) as of July 1, 2017 (1) + (2) - (3) - (4)	\$	(2,782,641)
6. Actual Unfunded Accrued Liability/(Surplus) as of July 1, 2017	\$	<u>(2,771,136)</u>
7. Actuarial Loss/(gain) = (6) - (5)	\$	11,505

## F. Development of State Contribution

1. Accrued Liability	\$	2,849,732
2. Actuarial Value of Assets	\$	<u>5,620,868</u>
3. Unfunded Accrued Liability/(Net Surplus) = (1) - (2)	\$	(2,771,136)
4. Amortization Years Remaining <sup>1</sup>		1
5. Total State Contribution as of July 1, 2018 = (3) x 1.05; not less than zero	\$	0

<sup>1</sup> The latest unfunded accrued liability payment schedule required the amortization of any plan gains or losses over the remainder of the 14-year period that began on July 1, 1989. Without additional guidance, we have assumed the immediate payment of any unfunded accrued liability

## G. Fund Projection

The following is an estimate of the expected receipts and disbursements for the Fund over the next year. The projection is based on the assumptions set forth in Appendix B. All receipts and disbursements are assumed to occur mid-year.

Year	July 1 Fund Balance	State Appropriations	Member Contributions	Pension Payments	Interest
2017	\$ 5,620,868	\$ 0	\$ 0	\$ 468,245	\$ 269,480

## Section IV - Comments Concerning the Valuation

### A. Components of Actuarial Experience

The variation in liabilities and contributions reflects the Fund's actual experience during the year. The Fund experienced a net actuarial loss during the year that ended June 30, 2017.

The actuarial loss was primarily due to the investment return on actual Fund assets, which was less than expected. For valuation purposes, a 5.00% per annum rate of return on investments was assumed. The actual return on the Fund's actuarial value of assets was approximately 0.53% for the period July 1, 2016 through June 30, 2017. This was partially offset by a net liability experience gain due to mortality.

The following outlines the effect of the primary actuarial experience components:

• Investment (Gain)/Loss	\$ 261,844
• Other (Gain)/Loss, including mortality, changes in employee data	<u>(250,339)</u>
• Total Actuarial (Gain)/Loss	\$ 11,505

### B. Schedule of Assets and Liabilities

The following presents a ten-year schedule of the System's assets, liabilities and funded ratio. The System's assets and funded ratio are provided on a market value (including receivables) basis and actuarial value of assets (including receivables) basis.

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Value of Assets (b)	Actuarial Accrued Liability (c)	Funded Ratio	
				Market Value (a)/(c)	Actuarial Value (b)/(c)
6/30/2017	\$ 5,620,868	\$ 5,620,868	\$ 2,849,732	197.2%	197.2%
6/30/2016	\$ 6,111,233	\$ 6,111,233	\$ 3,461,099	176.6%	176.6%
6/30/2015	\$ 6,704,568	\$ 6,704,568	\$ 3,889,524	172.4%	172.4%
6/30/2014	\$ 7,383,201	\$ 7,383,201	\$ 4,301,307	171.7%	171.7%
6/30/2013	\$ 8,171,920	\$ 8,171,920	\$ 4,748,938	172.1%	172.1%
6/30/2012	\$ 9,044,236	\$ 9,044,236	\$ 5,395,505	167.6%	167.6%
6/30/2011	\$ 9,997,650	\$ 9,997,650	\$ 5,096,792	196.2%	196.2%
6/30/2010	\$ 11,018,367	\$ 11,018,367	\$ 5,635,024	195.5%	195.5%
6/30/2009	\$ 11,986,919	\$ 11,986,919	\$ 6,136,441	195.3%	195.3%
6/30/2008	\$ 12,890,441	\$ 12,890,441	\$ 6,789,017	189.9%	189.9%

### C. Schedule of Employer Pension Contributions

The following table presents a ten-year schedule that provides information about the System's actuarially determined contribution and the percentage of the actuarially determined contribution recognized by the System as contributed.

Fiscal Year Ending June 30	Actuarially Determined Contribution (a)	Actual Pension Contribution (b)	Contribution Deficiency (a) - (b)	Percentage of Contribution Made	
				Annual (b)/(a)	Five-Year Average
2018	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2017	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2016	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2015	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2014	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2013	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2012	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2011	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2010	\$ 0	\$ 0	\$ 0	100.0%	100.0%
2009	\$ 0	\$ 0	\$ 0	100.0%	100.0%

# Appendix A

## Brief Summary of the Benefit and Contribution Provisions as Interpreted for Valuation Purposes

### Eligibility for Membership

Employees of State penal institutions, employed prior to January 1, 1960 who did not transfer to the Police & Firemen's Retirement System in accordance with Chapter 205 of Public Law 1989. The System no longer accepts new members.

### 1. Definitions

#### Plan Year

The 12-month period beginning on July 1 and ending on June 30.

#### Service

A year is credited for each year an employee is a member of the retirement system.

#### Average Final Compensation (AFC)

Average annual compensation (or base salary) for 3 years of Service immediately preceding retirement. (Effective June 30, 1996, Chapter 113, P.L. 1997 provided that the amount of compensation used for employer and member contributions and benefits under the program cannot exceed the compensation limitation of Section 401(a)(17) of the Internal Revenue Code.)

#### Accumulated Deductions

The sum (without interest) of all required amounts deducted from the compensation of a member or contributed by him or on his behalf.

### 2. Benefits

#### Service Retirements

25 years of service, or age 55 and 20 years of service. The benefit is a life annuity equal to the greater of A., B., and C. below:

- A. 2% of AFC up to 30 years of service plus 1% for each year in excess of 30 and prior to age 65;
- B. 50% of final pay; and
- C. For a member with 25 years of service, 2% of AFC up to 30 years of service plus 1% for each year in excess of 30.

#### Vested Retirements

Eligible upon termination of employment. Benefits are summarized as follows:

Termination with 10 or more years of service: Benefit is a deferred life annuity equal to 2% of AFC for service up to 30 years plus 1% for service over 30 years.

Termination with less than 10 years of service: Refund of accumulated deductions.

### Ordinary Disability Retirement

Permanent and total disability for causes other than as a direct result of a traumatic event occurring during the performance of regular or assigned duties. Benefit is an immediate life annuity equal to 1/2 of AFC.

### Accidental Disability Retirement

Permanent and total disabled as a direct result of a traumatic event occurring while performing regular or assigned duties. Benefit is an immediate life annuity equal to 2/3 of AFC.

### Death Benefits

Death of member of system. Spouse must be married to member prior to retirement, or at least five years before member's death. Benefit is an annuity equal to 25% of member's AFC plus an additional 15% (25%) for one (two or more) surviving dependent child (children). If there is no spouse or if the spouse dies or remarries, 20% (35%, 50%) of AFC to one (two, three or more) surviving child (children). If there is no surviving spouse or children, 25% (40%) of AFC to one (two) dependent parent(s). The provision for a survivor annuity payable to dependent parents does not apply in the death of a retired member of the system.

Minimum benefits: Minimum spousal annuity is \$1,600 per annum. If no other benefit is payable prior to retirement, the member's beneficiary shall receive the accumulated deductibles.

### 3. Employee Contributions

Each member contributes 6% of compensation.



# Appendix B

## Outline of Actuarial Assumptions and Methods

### Valuation Interest Rate

5.0% per annum, compounded annually.

### Deaths After Retirement

RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2014 using Projection Scale BB as the base tables and the tables will be further projected beyond the valuation date using the Conduent Modified 2014 projection scale. RP-2000 disabled retiree mortality table is used for the period after disability retirement for disability retirements. Representative values of the assumed annual rates of mortality are as follows:

Age	Service Pensioners and Beneficiaries*		Disability Pensioners	
	Men	Women	Men	Women
60	0.612%	0.439%	4.204%	2.184%
65	1.076	0.820	5.017	2.803
70	1.797	1.414	6.258	3.764
75	3.062	2.374	8.207	5.223
80	5.209	3.875	10.937	7.231
85	8.964	6.540	14.160	10.020
90	15.710	11.279	18.341	14.005

\*Unadjusted for the Conduent Modified 2014 projection scale.

### Marriage

Husbands are assumed to be 3 years older than wives.

### Valuation Method

Projected Unit Credit Method. This method essentially funds the System's benefits accrued to the valuation date. Experience gains and losses are recognized in future accrued liability contributions.

The unfunded accrued liability (the difference between the present value of benefits and the valuation assets) was determined as of July 1, 1988 and was amortized over the 14-year period beginning July 1, 1989, and ending on July 1, 2002. Each year the amortization payments were adjusted to reflect any experience gains or losses that occurred during the previous plan year. All gains and losses were amortized over the remaining original amortization period. (Without any guidance, we have assumed that any unfunded accrued liability that develops after the July 1, 2001 valuation will be amortized over 1 year.)

### Asset Valuation Method

Assets are valued at book value which is equivalent to market value.

## Appendix C

### Tabulations Used as a Basis for the 2017 Valuation

The following tables give the number and retirement allowances of retired members and beneficiaries classified by age as of July 1, 2017.

**Table 1**

**The Number And Annual Retirement Allowances of Retired Members Distributed By Age As Of July 1, 2017**

**Service Retirements**

Age	Men		Women	
	Number	Amount	Number	Amount
83	1	\$ 25,660		
85	2	26,865		
86	1	19,319		
87	1	16,519		
88	3	33,699		
89	1	7,879		
95	2	19,955		
98	1	9,205		
<b>Total</b>	12	\$ 159,101		

## Table 2

### The Number And Annual Retirement Allowances of Beneficiaries Distributed By Age As Of July 1, 2017

#### Ordinary Disability Retirements

Age	Men		Women	
	Number	Amount	Number	Amount
82	1	\$ 7,701		
85	1	7,655		
<b>Total</b>	2	\$ 15,356		

**Table 3**

**The Number And Annual Retirement Allowances of Beneficiaries Distributed By Age As Of July 1, 2017**

**Accidental Disability Retirements**

Age	Men		Women	
	Number	Amount	Number	Amount
89	1	\$ 7,258		
91	1	12,391		
<b>Total</b>	2	\$ 19,649		

**Table 4**

**The Number And Annual Retirement Allowances of Beneficiaries Distributed By Age As Of July 1, 2017**

**Active Members' Death Benefits**

Age	Men		Women	
	Number	Amount	Number	Amount
64			1	\$ 5,174
83	1	\$ 2,976		
84			1	7,622
87			1	2,798
88			1	5,431
89			1	2,428
92			2	3,200
<b>Total</b>	1	\$ 2,976	7	\$ 26,653

**Table 5**

**The Number And Annual Retirement Allowances of Beneficiaries Distributed By Age As Of July 1, 2017**

**Retired Members' Death Benefits**

Age	Men		Women	
	Number	Amount	Number	Amount
76			1	\$ 6,210
77			1	7,533
78			1	10,079
79			1	3,894
81			1	9,745
82			3	16,475
83			1	5,466
84			3	15,590
85			2	8,630
86			3	12,637
87			3	13,674
88			4	18,334
89			3	18,387
90			3	12,926
91			2	10,984
92			4	14,980
93			4	36,096
94			4	11,838
95			3	12,234
96			1	5,019
97			3	10,511
100			1	1,945
116			1	1,600
<b>Total</b>			<b>53</b>	<b>\$ 264,787</b>