

A Briefing Booklet on The New York State Teachers' Retirement System



January 17, 2012

NYSTRS Briefing Booklet

Key Points

- NYSTRS is a well-funded, healthy retirement system, and its members, employers and ultimately the state's taxpayers have benefited from the practice of contributing the actuarially required contribution amount each year.
 - Since 1992 NYSTRS has paid out in benefits over four times as much money as it has collected in employer and member contributions.
 - The market value of the System's assets has nearly tripled since the beginning of that period.
 - By contrast, public pension funds in several other states are experiencing dire financial situations because, unlike New York, those states failed to follow a disciplined approach to funding.
- NYSTRS's membership exceeds 427,000 as of June 30, 2011.
 - Active teachers and administrators: 280,435
 - Retirees and beneficiaries: 146,843
 - 826 employers participate in the System
- NYSTRS's annual retiree payroll pumps over \$4.5 billion directly into the economy of New York State. Estimates show that the impact of money from public sector pensions in New York State includes¹:
 - Support for over 177,000 jobs that paid \$10.1 billion in wages and salaries
 - Economic output exceeding \$28 billion
 - \$4.4 billion in federal, state, and local tax revenues
- NYSTRS's required employer contribution rate (ECR) is still approximately equal to the estimated long-term cost of the benefit structure, even after the financial market meltdown of '08-'09.
 - It is currently 11.11% of the 2011-'12 school year payroll, payable in the fall of 2012.
 - The next ECR will be between 11.5% and 12.5% of the 2012-'13 school year payroll, payable in the fall of 2013.
 - Due to the severe market downturn and recession in '08-'09, the ECR will very likely continue to rise in the near-term.
 - The long-term actuarial expected cost to fulfill the guaranteed benefits to most members is approximately 11% of the aggregated payroll of the participating employers.
- The Pew Center on the States in a 2010 report noted that *"the states in the best shape are those that have kept up with their annual funding requirements in both good times and bad."*² In a Pew Center report in 2011 the point was made that *"Many experts agree that making full annual contributions is key to effectively managing the long-term costs of state retirement systems."*³ This has been New York's model since its inception, and its disciplined adherence to appropriate actuarial funding has made it a success story, in comparison to several states which must now deal with severely underfunded systems.

¹From the upcoming *Pensionomics* report. The National Institute on Retirement Security, January 2012

² *The trillion dollar gap: Underfunded state retirement systems and the roads to reform.* The Pew Center on the States, February 2010 http://www.pewcenteronthestates.org/uploadedFiles/Trillion_Dollar_Gap_web_FINAL.pdf

³ *The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs.* The Pew Center on the States, April 2011 http://www.pewcenteronthestates.org/uploadedFiles/Pew_pensions_retiree_benefits.pdf

Background

The New York State Teachers' Retirement System (NYSTRS) administers the fund from which New York State public school teachers and administrators (outside of New York City) receive retirement benefits, as well as death and disability benefits. The System was created in 1921, and is governed by a 10-member Board of Trustees, which sets policy and oversees operations. More detailed information is available in the System's Annual Report available in our online Library at www.nystrs.org.

As of June 30, 2011, NYSTRS membership totaled 427,278, consisting of 280,435 active members and 146,843 retired members and beneficiaries. The average age of System active members is 43 and the average age of System retirees is 71.

System benefits are determined in accordance with statute. The System accrues assets in order to pay retired member benefits as well as to advance fund the future benefits of currently active members.

Board Composition

NYSTRS's 10-member Board is composed as follows:

- Three teacher members elected from the active membership.
- One retired member elected by a mail vote of all retired members.
- Two school administrators appointed by the Commissioner of Education.
- Two present or former school board members, experienced in the fields of finance and investment, elected by the Board of Regents. At least one of these individuals must have experience as an executive of an insurance company.
- One present or former bank executive elected by the Board of Regents.
- The State Comptroller or his/her designee.

Board trustees are elected/appointed to three-year terms (except the Comptroller or his/her designee) and serve without compensation.

NYSTRS Staff

NYSTRS essentially runs two distinct businesses – a retirement administrative services business, and an asset management business. The System's long-term success is the result of the knowledge and commitment exhibited by members of the Board as well as by the System's staff, whose mission it is to protect the long-term security of the fund and provide exceptional customer service to our over 427,000 members and 826 employers. System staff is dedicated and experienced – the System's average employee tenure is over 14 years.

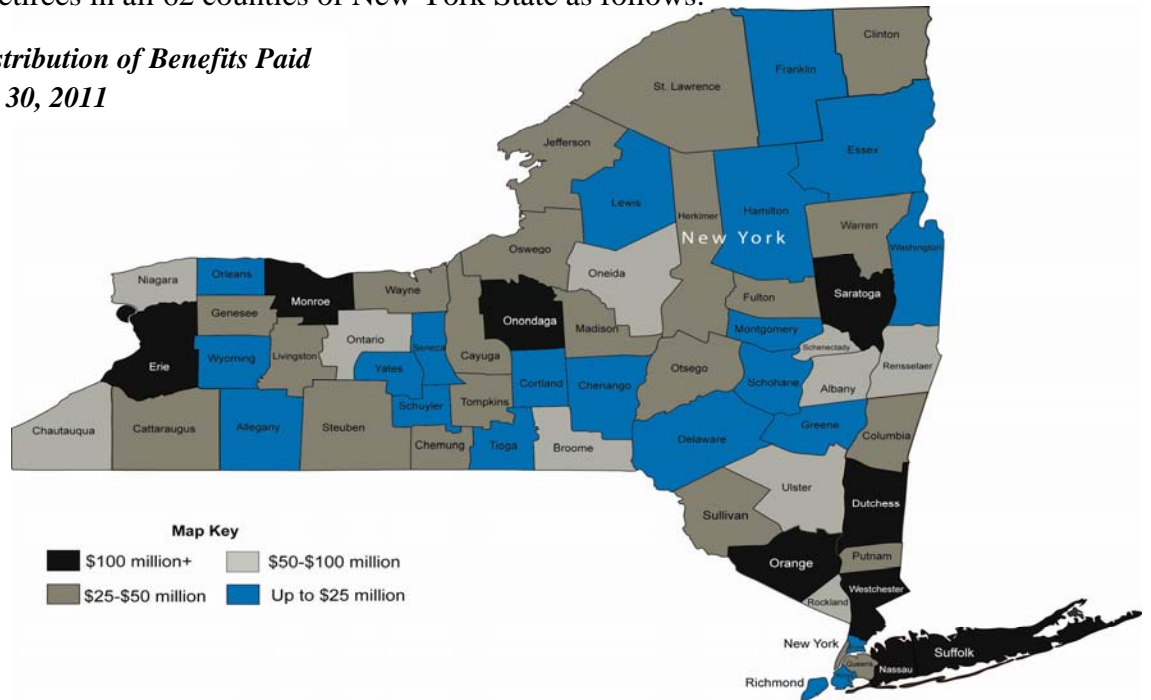
During the past year System staff:

- Processed over 8,400 retirement applications, including approximately 2,700 retirements from two early retirement incentives.
- Answered approximately 100,000 member calls.
- Mailed over 266,800 member benefit profiles.
- Held approximately 7,000 consultations with members.
- Made key improvements to the System's website.

Distribution of NYSTRS Retirement Benefits Across New York State

The System's annual benefit payroll for the fiscal year ending June 30, 2011 for its 146,843 retirees and beneficiaries was approximately \$5.6 billion. Eighty percent of this total, or \$4.5 billion, was paid to retirees and beneficiaries living in New York State, and contributes to economic activity throughout the state. NYSTRS has retirees in all 62 counties of New York State as follows:

Figure 1: Annual Distribution of Benefits Paid by County as of June 30, 2011



County	Retired Members & Beneficiaries	Annual Benefit Paid	County	Retired Members & Beneficiaries	Annual Benefit Paid	County	Retired Members & Beneficiaries	Annual Benefit Paid
Albany	2,715	\$98,184,005	Madison	866	\$29,887,110	Sullivan	683	\$27,371,220
Allegany	592	\$18,383,607	Monroe	7,475	\$283,243,414	Tioga	505	\$17,195,948
Bronx	216	\$9,908,045	Montgomery	524	\$17,667,765	Tompkins	858	\$26,135,659
Broome	2,072	\$70,562,240	Nassau	8,472	\$414,024,248	Ulster	2,175	\$88,133,976
Cattaraugus	865	\$30,059,066	New York	1,156	\$47,493,954	Warren	1,188	\$42,829,782
Cayuga	871	\$29,940,533	Niagara	2,121	\$84,886,305	Washington	680	\$23,027,788
Chautauqua	1,803	\$63,999,478	Oneida	2,805	\$96,041,629	Wayne	1,124	\$39,364,652
Chemung	981	\$32,470,873	Onondaga	5,421	\$187,888,159	Westchester	5,784	\$279,282,544
Chenango	604	\$18,194,117	Ontario	1,549	\$56,476,501	Wyoming	456	\$16,003,206
Clinton	1,068	\$36,561,495	Orange	2,687	\$114,343,983	Yates	429	\$13,939,111
Columbia	705	\$25,053,482	Orleans	414	\$15,782,271	Out of State	35,851	\$1,103,640,098
Cortland	630	\$20,342,141	Oswego	1,431	\$48,609,741	Grand Total	146,843	\$5,627,320,227
Delaware	532	\$16,845,715	Otsego	1,004	\$30,984,420			
Dutchess	2,688	\$111,784,524	Putnam	789	\$38,534,092			
Erie	9,671	\$391,856,236	Queens	825	\$38,003,007			
Essex	561	\$17,726,384	Rensselaer	1,369	\$50,444,565			
Franklin	595	\$19,854,759	Richmond	41	\$1,735,465			
Fulton	741	\$26,086,555	Rockland	2,116	\$98,496,006			
Genesee	696	\$25,367,732	Saint Lawrence	1,489	\$48,608,428			
Greene	421	\$14,565,399	Saratoga	2,848	\$107,989,365			
Hamilton	139	\$4,557,874	Schenectady	1,598	\$57,326,704			
Herkimer	919	\$28,772,461	Schoharie	373	\$12,825,197			
Jefferson	1,177	\$38,913,625	Schuyler	236	\$6,646,404			
Kings	189	\$7,595,820	Seneca	380	\$12,339,643			
Lewis	291	\$9,352,352	Steuben	1,260	\$41,734,251			
Livingston	812	\$28,771,227	Suffolk	15,307	\$812,673,871			

Retiree Snapshot

The majority of NYSTRS retirees have spent their entire career in the classroom:

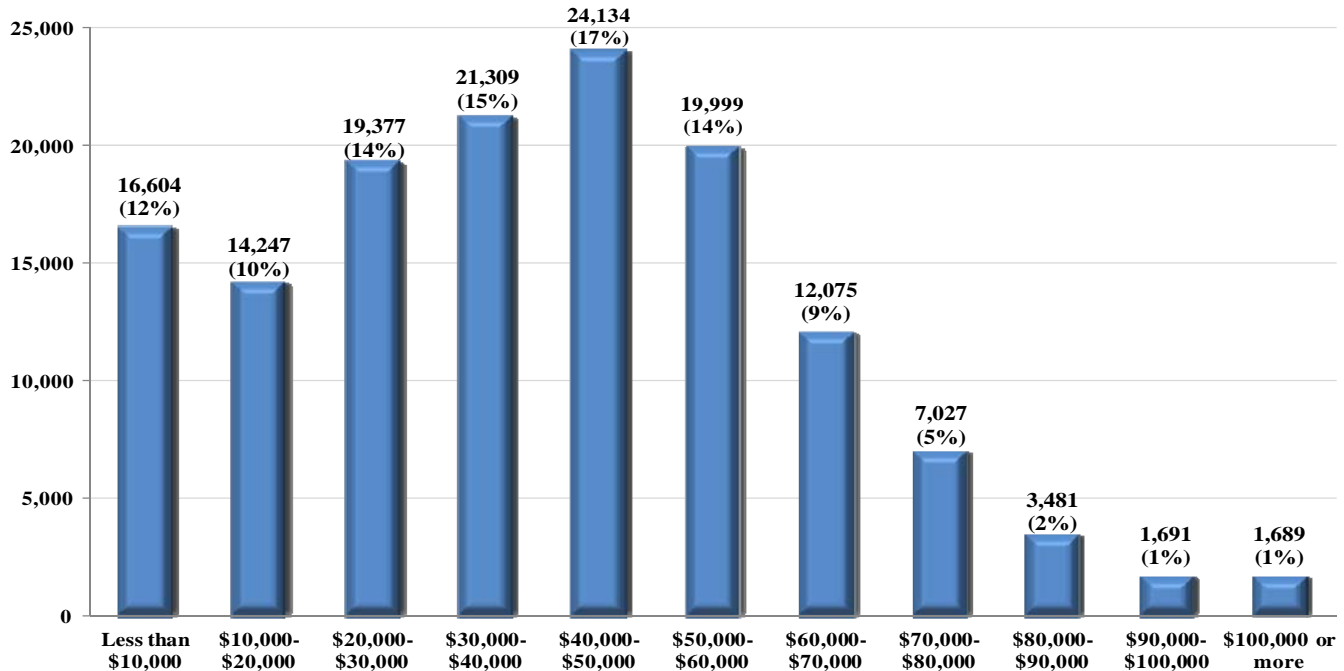
- Average service at retirement for System retirees is 29 years.
- Many have in excess of 30 years of teaching service at retirement.
- It is not unusual for a retiree to have 35 or 40 years of service.

Benefits Summary

The average System retiree receives \$3,350 a month (\$40,200 on an annual basis), a benefit earned through a career of teaching.

- 82% of System retirees receive less than \$60,000 per year in benefits.
- Six-figure pensions are a relative rarity, with only approximately 1% of NYSTRS retirees receiving an annual benefit over \$100,000.

Figure 2: Distribution of Annual Pensions as of June 30, 2011



Pension-spiking and eve-of-retirement-salary-inflation are non-factors at NYSTRS. Various pieces of legislation enacted beginning in 1971 have placed increasingly severe limits on the amount of annual salary increases that can be included in a member's final average salary for benefit computation purposes. Tier 3, 4, and 5 members – now 97% of the System's membership – are subject to a strict cap on the amount of annual salary increases that can be included in the benefit calculation, along with rules against the inclusion of any non-regular compensation.

Contributions to the Retirement System

The benefits provided by the Retirement System are funded by the annual contributions of participating employers and active members, and by the investment earnings on those contributions.

The rate of contribution for active members is fixed in statute.

- It is equal to 3.0% of salary for the first ten years of service (or membership) for Tier 3 and 4 members (those first entering the System on or after July 27, 1976 and before January 1, 2010).
- For Tier 5 members (those first entering the System on or after January 1, 2010), the contribution rate is equal to 3.5% of salary for their entire careers.

The employer contribution rate (ECR) is established annually in accordance with an actuarial valuation of System assets and liabilities. Employers are notified of the anticipated rate approximately two years in advance of payment, so that they can budget accordingly.

- The ECR is expressed as a percentage of member compensation paid during the prior school year.
- The current ECR is 11.11% of member payroll for the July 1, 2011 to June 30, 2012 school year, payable in the fall of 2012. This is the first double-digit employer contribution rate in 23 years.
- Unlike some public pension plans in other states, which are now experiencing severe financial difficulties, NYSTRS employers have faithfully paid their required contributions in full.

The significant decline in System asset values following the global financial crisis of '08-'09 has led to the current upward swing in the ECR.

- The System's benefit structure is equivalent to a long-term expected actuarial cost of approximately:
 - 11% of payroll for Tiers 3 and 4 (93% of current active members)
 - 8% of payroll for Tier 5 (4% of current active members)

The ECR was below 11% of payroll for the prior 22 years primarily due to the returns earned by the System's investments.

Figures 3a and 3b provide the 50-year history of the System's ECR. Notably, ECR rates prior to 1990 were typically in a range of the high-teens to low-20's, significantly higher than the range proposed for the '12-'13 school year.

Figure 3a: Employer Contribution Rate History – Last 50 Years

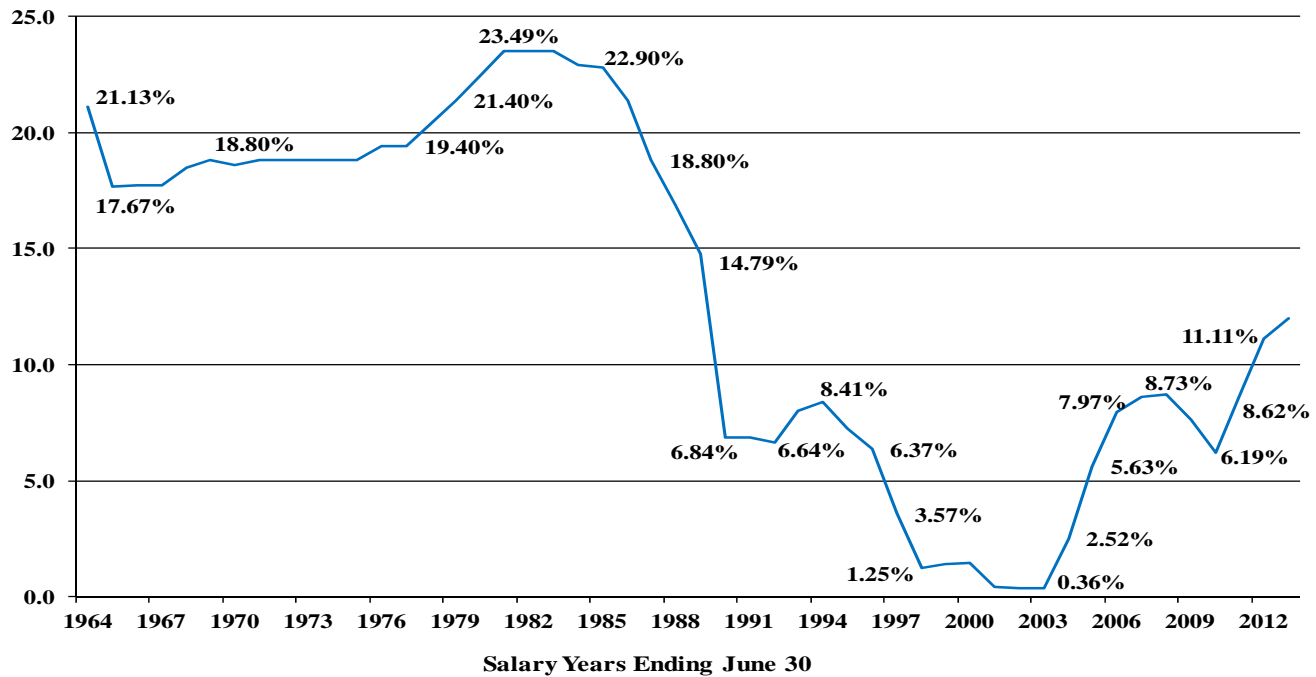


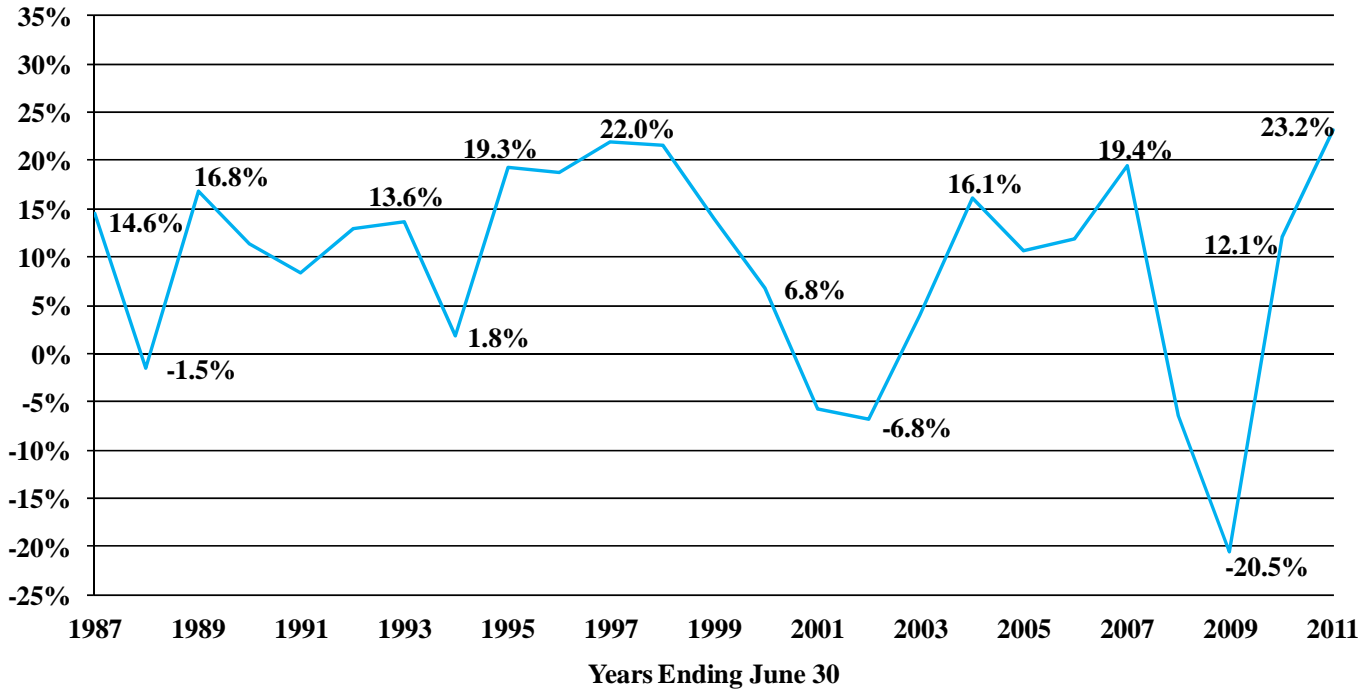
Figure 3b: Employer Contribution Rate History – Last 50 Years

Salary Year Ending June 30	Employer Contribution Rate	Salary Year Ending June 30	Employer Contribution Rate
1964	21.13%	1989	14.79%
1965	17.67%	1990	6.87%
1966	17.70%	1991	6.84%
1967	17.72%	1992	6.64%
1968	18.50%	1993	8.00%
1969	18.80%	1994	8.41%
1970	18.60%	1995	7.24%
1971	18.80%	1996	6.37%
1972	18.80%	1997	3.57%
1973	18.80%	1998	1.25%
1974	18.80%	1999	1.42%
1975	18.80%	2000	1.43%
1976	19.40%	2001	0.43%
1977	19.40%	2002	0.36%
1978	20.40%	2003	0.36%
1979	21.40%	2004	2.52%
1980	22.49%	2005	5.63%
1981	23.49%	2006	7.97%
1982	23.49%	2007	8.60%
1983	23.49%	2008	8.73%
1984	22.90%	2009	7.63%
1985	22.80%	2010	6.19%
1986	21.40%	2011	8.62%
1987	18.80%	2012	11.11%
1988	16.83%	2013	11.5% – 12.5%

Investment Performance History

NYSTRS invests its assets in a prudent and disciplined manner in order to maximize investment income while limiting risk. This approach has allowed the System to keep a relatively low rate of contributions needed from employers to fund the promised benefits. Asset allocations are reviewed by both System staff and its outside investment consultant and then submitted to the Retirement Board for annual review and revision as appropriate.

Figure 4: Investment Performance History of Annual Returns



NYSTRS’s annualized market value rates of return, net of fees, as of June 30, 2011 over the prior periods are shown in Figure 5.

Figure 5: Annualized Rates of Return as of June 30, 2011

1-yr	3-yr	5-yr	10-yr	15-yr	20-yr	25-yr
23.2%	3.2%	4.2%	5.5%	7.4%	8.8%	9.0%

An Efficient and Accountable Operation

NYSTRS's administrative budget is funded by an administrative expense rate component of the employer contribution rate. This expense rate is currently equal to 0.27% of member payroll.

NYSTRS administers the plan at a very low cost in comparison to the value of the assets managed.

- The System's annual administrative expenses equate to an annual cost of approximately 6 basis points.
- Investment management expenses and fees equate to an annual cost of approximately 11 basis points.
- Combined, expenses and fees result in a total cost of 17 basis points, which compares extremely favorably with the fee burden of typical defined contribution plan accounts populating the private sector, which typically range from 60 to 170 basis points⁴.

Approximately 69% of the System's investments are managed in-house by the System's own investment professionals. These investments primarily consist of index-matching domestic equity funds and fixed income instruments. In-house management allows the System to control fees and helps reduce the System's cost of operation.

Both internal and external checks and balances exist in order to ensure complete and transparent adherence to all applicable laws, regulations, and accounting requirements. Financial information as well as internal controls are subject to regular audit by the New York State Insurance Department and the System's Internal Audit Department. KPMG LLP, an independent certified public accountant, audits the System's financial statements annually. Buck Consultants, an actuarial consulting firm, completed a detailed audit of the System's actuarial methods and assumptions. The System consistently receives clean audits from all sources. Additionally, NYSTRS regularly receives awards and certificates of achievement from the Government Finance Officers Association and the Public Pension Coordinating Council for the comprehensiveness and transparency of its annual reports and budget documents and for meeting all professional standards for plan funding and administration.

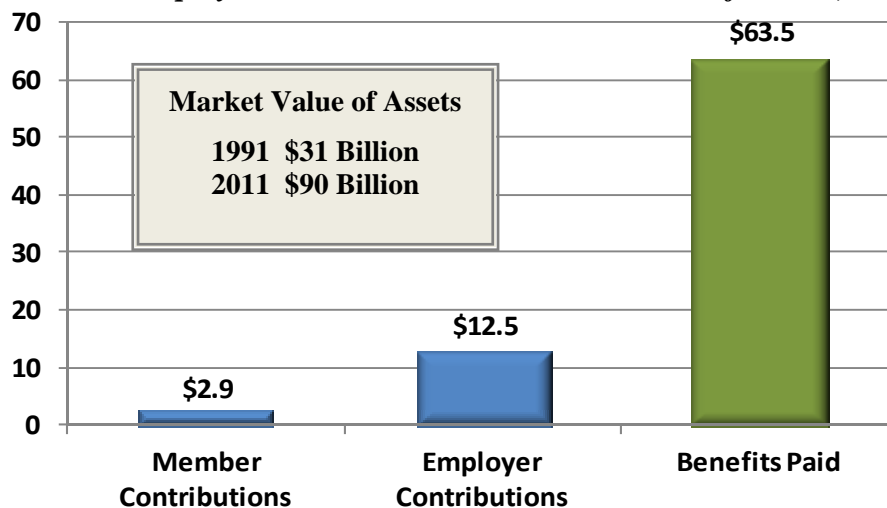
⁴ *State and Local Pension Plans are Different from Private Plans*. Munnell, A.H. and M. Soto, Center for Retirement Research. Boston College. 2007

A Sustainable Model

NYSTRS has three sources of income – member contributions, employer contributions, and investment income. Over the last 20 years:

- The vast bulk of System income has come from returns on investments, not from employer or member contributions. The breakdown of System income over the last 20 years is as follows:
 - Investment Income: 87%
 - Employer Contributions: 10%
 - Member Contributions: 3%
- During this same period the System paid out in benefits over four times the amount collected in total contributions from members and employers/taxpayers (*Fig. 6*).
- At the end of this two-decade period the market value of System assets has nearly tripled.
- During this time, the System passed the benefits of the outstanding market performance on to participating employers in the form of substantially reduced required employer contributions (see *Fig. 3b*).

Figure 6: Member and Employer Contributions to NYSTRS vs. Benefits Paid, 1991 —2011 (in \$B)



The dramatic global financial downturn of 2008-‘09 impacted the System, as it did all investors. To maintain the benefits earned by System retirees, increased contributions will be required from employers for the 2012-’13 academic year, and likely for a few years beyond. This will ensure the actuarial soundness of the System and prevent the System from facing the financial difficulties currently affecting other state systems where actuarially required contributions were deferred rather than paid in full as they came due.

Hopefully the improvements in market performance over the last couple of years will continue and the severe recession abate. This will eventually dampen increases in the employer contribution rate. Independent of market performance, the System must continue to be properly funded so that it remains actuarially sound and can meet statutory obligations to its current and future retirees.

The Pew Center on the States, which completed an analysis of state retirement systems in February 2010, noted “Generally, the states in the best shape are those that have kept up with their annual funding requirements in both good times and bad.”⁵ We respectfully urge that New York continue to follow the path of the recognized model for sound public pension funding in the United States.

⁵ *The trillion dollar gap: Underfunded state retirement systems and the roads to reform.* The Pew Center on the States, February 2010 http://www.pewcenteronthestates.org/uploadedFiles/Trillion_Dollar_Gap_web_FINAL.pdf