On behalf of our Board and staff, I am pleased to present this Popular Annual Financial Report (PAFR) of the New York State Teachers’ Retirement System (NYSTRS) for the fiscal year ended June 30, 2015. Our intent with this inaugural issue is to summarize the System’s financial position and highlight significant accomplishments. For additional details, see our Comprehensive Annual Financial Report (CAFR) at NYSTRS.org.

NYSTRS is one of the 10-largest public funds in the U.S. based on portfolio size and is also consistently among the top-performing and best-funded public pension funds, particularly among teacher retirement systems. Consistent receipt of required employee and employer contributions; a disciplined, risk-controlled investment policy; and, relationships with top-performing fund managers are major contributing factors to our stability.

A 10-member Board representing various constituents — including public school teachers, administrators and school boards — governs the System. Trustees serve without compensation and are responsible as fiduciaries to protect the long-term value of the System’s investment portfolio and provide benefit security for members. The Board receives counsel from staff, advisory committees and investment consultants to help formulate its investment policy.

The System’s market value of assets totaled $109.7 billion at fiscal year-end 2015, the highest in System history. NYSTRS is well funded with a funded ratio at June 30, 2014 of 111.6% based on market value of assets and 92.9% based on actuarial value of assets.

NYSTRS’ total fund return for the fiscal year was 5.2% net of fees, marking the sixth consecutive year of positive returns for the System. Our five-year rate of return is 12.4%.

Board and staff successfully navigated the System through a challenging fiscal year, never losing sight of our fiduciary responsibility to members. We remain keenly focused on meeting established fund and risk objectives in our continuing effort to meet our primary mission: To provide our members with a secure pension.

Respectfully,

Thomas K. Lee
Executive Director & Chief Investment Officer
Who We Are

The New York State Teachers’ Retirement System (NYSTRS) was established in 1921 by an act of the state legislature. NYSTRS administers the fund from which public school teachers and administrators employed outside New York City receive retirement and ancillary benefits.

NYSTRS directs a defined benefit plan. Eligible members receive a service retirement or disability pension, including death benefits; the ability to borrow from member contributions; and, in some cases, coverage for beneficiaries. Eligibility for benefits generally is based on factors such as age, years of service, final average salary and tier of membership.

Payments to eligible members and beneficiaries are guaranteed by law and cannot be diminished or impaired under New York’s current constitution. Benefit improvements, such as early retirement incentives, must be enacted into law by the state legislature and governor.

Membership Snapshot

NYSTRS serves approximately 426,000 active and retired members, including beneficiaries. The System also serves 822 employers — including public school districts, BOCES, institutions of higher education and charter schools that elect to participate.

The System’s active membership dropped by 2,324, the fifth consecutive year of decline. The number of retired members and beneficiaries receiving NYSTRS benefits increased by a net of 2,527 people.

Membership in NYSTRS is mandatory for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York State public schools (excluding those in New York City), BOCES or charter schools that opted to participate as an employer in NYSTRS. Membership for teachers employed less than full time is optional.

Educators employed by a New York State community college or SUNY may elect membership in NYSTRS, the New York State and Local Employees’ Retirement System or the Optional Retirement Program. Some teachers and administrators who are not members of a NYSUT bargaining unit and whose estimated annual wages are $75,000 or more also may join the Optional Retirement Program instead of NYSTRS.

In New York, there are six tiers of membership, with different benefit structures and eligibility requirements for each tier. A member is placed in the tier in effect when the member joins NYSTRS.

Mission:
To provide our members with a secure pension.

Vision:
To be the model for pension fund excellence and exceptional customer service.
NYSTRS is one of the best-funded public pension plans in the nation. As of June 30, 2014, the System boasted a funded ratio of 111.6% based on market value of assets and 92.9% based on actuarial value of assets.

Our total net position at fiscal year-end 2015 was valued at $109.7 billion, an increase of $1.6 billion from the previous year and a record high in the 94-year history of the System.

**Financial Highlights**

Of the top 1,000 pension funds, NYSTRS ranks ninth overall, according to trade publication *Pensions & Investments* (P&I). Both public and private retirement funds and plan sponsors were included in the rankings, which were based on total assets.

NYSTRS’ defined benefit (DB) plan was positioned as the seventh-largest DB fund as well as No. 7 among public funds in the *P&I* rankings.

The plan is also managed cost effectively, with investment fees and expenses averaging 24 cents per $100 managed, as compared to 60 cents or more in fees associated with a private retirement plan, such as a 401(k).

Other financial highlights for the fiscal year ended June 30, 2015:

- The System paid out $6.5 billion in benefits to members.
- Contributions collected from employers totaled $2.6 billion.
- Contributions collected from members totaled $119.4 million.
- Over the past 20 years, NYSTRS has paid out $83.2 billion in benefits while collecting $21.3 billion in member and employer contributions. During the same period, the System’s net assets have grown from $47 billion to $109.7 billion.
System assets are broadly diversified among eight primary asset classes: domestic equity; international equity; domestic fixed income; real estate; mortgages; private equity; cash equivalents; and, global bonds.

NYSTRS’ total fund return for the fiscal year was 5.2% net of fees. It marked the sixth consecutive year of positive returns for NYSTRS. In four of those six years returns were in double digits, with the five-year rate of return standing at 12.4%.

Other highlights include:

- The System’s investments experienced appreciation of $3.3 billion. Over the past three years, investments have appreciated by a combined $27.5 billion.
- NYSTRS’ 20-year annualized net rate of return is 8.4% and our 25-year rate of return is 8.9%.
- Over the past 20 years, 85% of NYSTRS’ income was generated by investment returns.
- NYSTRS administers its defined benefit plan cost effectively. Its investments fees average 24¢ per $100 managed, compared to 60¢ or more in fees associated with 401(k) plans.
- Approximately 62% of assets are managed internally. Managing assets internally keeps administrative costs down, which in turn leaves more money for paying benefits and future investments.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Cost</th>
<th>Market Value</th>
<th>Percent of Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apple</td>
<td>$94,599,707</td>
<td>$1,440,969,320</td>
<td>2.7%</td>
</tr>
<tr>
<td>2</td>
<td>Microsoft</td>
<td>318,262,233</td>
<td>717,532,511</td>
<td>1.3%</td>
</tr>
<tr>
<td>3</td>
<td>Exxon Mobil Corp.</td>
<td>133,161,003</td>
<td>685,669,254</td>
<td>1.3%</td>
</tr>
<tr>
<td>4</td>
<td>Google</td>
<td>264,391,873</td>
<td>603,760,358</td>
<td>1.1%</td>
</tr>
<tr>
<td>5</td>
<td>Johnson &amp; Johnson</td>
<td>116,316,712</td>
<td>533,906,152</td>
<td>1.0%</td>
</tr>
<tr>
<td>6</td>
<td>General Electric</td>
<td>179,543,541</td>
<td>527,439,609</td>
<td>1.0%</td>
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<tr>
<td>7</td>
<td>Wells Fargo</td>
<td>189,023,644</td>
<td>519,204,699</td>
<td>1.0%</td>
</tr>
<tr>
<td>8</td>
<td>JPMorgan Chase</td>
<td>149,632,050</td>
<td>509,710,370</td>
<td>0.9%</td>
</tr>
<tr>
<td>9</td>
<td>Berkshire Hathaway</td>
<td>272,393,422</td>
<td>481,167,497</td>
<td>0.9%</td>
</tr>
<tr>
<td>10</td>
<td>Pfizer</td>
<td>126,638,646</td>
<td>411,509,032</td>
<td>0.8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$1,843,962,831</td>
<td>$6,430,868,802</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

A complete list of the System’s holdings is available at NYSTRS.org (see “Investments” under the heading “About Us”) or through the Public Information Office.
The culture at NYSTRS is one of continuous improvement. Following are a few examples of service upgrades instituted during the fiscal year.

**Technology Upgrades** — Upgrades were made to the System's portfolio accounting system to further enhance controls and provide processing efficiencies. In terms of member data, security was enhanced through improvements to our Intrusion Prevention Systems (IPS).

**Website Redesign** — The all-new NYSTRS.org made its debut in July 2015, featuring more intuitive navigation; a clean, clutter-free layout; and, responsive design for better viewing and navigation on mobile devices. We continue to add self-service functionality to the site, benefitting members and employers.

**Mobile App** — NYSTRS further enhanced service to members by creating a mobile app for smartphones and tablets — a pioneering effort in the public pension community. The app enables members to read the latest System news; get directions to NYSTRS consultation and seminar sites; find answers to benefit questions; learn about pension eligibility; and, use a retirement countdown clock.

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### Asset Allocation

The most significant contributor to a fund’s long-term investment performance is asset allocation. The allocation process helps control risk and ensures the overall portfolio is broadly diversified. NYSTRS’ Board, with the assistance of an external consultant, reviews the asset allocation policy on an annual basis.

### Service Improvements

The culture at NYSTRS is one of continuous improvement. Following are a few examples of service upgrades instituted during the fiscal year.

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### Net Assets

*Dollars in Billions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$89.9</td>
</tr>
<tr>
<td>2012</td>
<td>$88.1</td>
</tr>
<tr>
<td>2013</td>
<td>$95.4</td>
</tr>
<tr>
<td>2014</td>
<td>$108.2</td>
</tr>
<tr>
<td>2015</td>
<td>$109.7</td>
</tr>
</tbody>
</table>

Fiscal Year Ended June 30

### Asset Allocation

As of June 30, 2015

- **Domestic Equity** 38.7%
- **Fixed Income** 15.5%
- **Global Bonds** 1.5%
- **Mortgages** 5.2%
- **Cash** 2.4%
- **Real Estate** 10.6%
- **Private Equity** 7.7%
- **Intl. Equity** 18.4%

### Growth of Invested Assets

1970-2015

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<chart>
Employers help fund pensions by contributing a percentage of compensation they pay to NYSTRS members. This percentage, known as the employer contribution rate (ECR), is established annually in accordance with an actuarial valuation of System assets and liabilities. The ECR, which was in single digits for 22 years prior to 2011-12, accounted for about 13% of NYSTRS income between 1995 and 2015.

An ECR of 17.53% applied to member payroll for the July 1, 2014 to June 30, 2015 school year. These funds were collected by NYSTRS in fall 2015. The ECR applied to member payroll for the July 1, 2015 to June 30, 2016 school year is 13.26%, payable in fall 2016.

NYSTRS’ primary objective is to properly fund retirement and ancillary benefits so sufficient assets are accumulated in order to pay benefits as they come due. To ensure this happens, an actuarial valuation of the System’s assets and liabilities is performed annually utilizing the Aggregate Cost Method, as specified by law. In this method, actuarial gains and losses are spread over the average future working lifetime of active members.

Benefits provided by the Retirement System are funded from three sources: investment income, member contributions and employer contributions.

Investment income varies from year to year, but for the 20-year period ended June 30, 2015, 85% of NYSTRS’ income came from investment returns.

Over that same time period, 2% of System income came from member contributions. The contribution rate varies by tier and is fixed in statute as follows.

- Tier 1 and 2 members (those first entering the System before July 27, 1976) are not required to contribute.
- Tier 3 and 4 members (those first entering the System on or after July 27, 1976 and before January 1, 2010) contribute 3.0% of salary for the first 10 years of service or membership, whichever occurs first.
- Tier 5 members (those first entering the System on or after January 1, 2010 and before April 1, 2012) contribute 3.5% of salary each year for their entire careers.
- Tier 6 members (those first entering the System on or after April 1, 2012) contribute between 3.0% and 6.0% of salary each year depending on the amount of salary.

![Employer Contribution Rates](chart.png)

* Hypothetical cost to start a new retirement system, based on Tier 4 benefit structure. As of 6/30/15, 80% of NYSTRS members were Tier 4.
**Statistics provide historical perspective, context and detail. When considered alongside financial statements, an accurate assessment of NYSTRS’ economic condition is revealed.**

For more robust statistical analysis, refer to NYSTRS’ full Comprehensive Annual Financial Report (CAFR) at NYSTRS.org.

Statistics show that NYSTRS members work long and hard to earn their pensions. About 54% of those receiving a retirement benefit work an average of 31½ years or more to earn it. More than 70,000 of our retirees, or about 46%, earn less than $40,000 a year. Another 30% earn pensions ranging between $40,000 and $60,000 annually.

As the chart below illustrates, less than 2.0% of the approximately 158,000 people receiving a NYSTRS pension earn more than $100,000 a year. Most importantly, those individuals worked an average of almost 40 years to earn their pensions.

Some additional statistical highlights:

- The average benefit for all service retirees is $40,689, representing about 55% of a member’s final average salary at retirement.
- 50% of active members have 10 years or less of service.

**Distribution of the Annual Benefit* of All Retired Members — as of June 30, 2015**

*Maximum annual retirement benefit including supplementation and COLA.
Benefits Paid

NYSTRS distributes about $6.5 billion in benefits annually, with 80% of that total paid to New York State residents.

The more than $5 billion in System benefits paid to New Yorkers has a significant impact on state and local economies. As benefit recipients spend their money in local communities, one person’s spending becomes another person’s income, creating a multiplier effect.

According to the National Institute on Retirement Security (NIRS), expenditures stemming from New York’s state and local pensions support:

- More than 270,000 jobs that pay some $17 billion in wages and salaries;
- $7.4 billion in federal, state and local tax revenues; and,
- $44.3 billion in total economic output.

NIRS estimates that in New York each dollar paid in pension benefits generates about $1.70 in total economic activity.

For additional facts and figures about pensions, visit the Pension Education Toolkit at NYSTRS.org.

Benefits Paid by County

Benefits Paid to NYS Residents
7/1/2014 - 6/30/2015

Benefits Paid (In Billions)

- In State: $5.2
- Out of State: $1.3
- Total: $6.5

To see total payments and number of benefit recipients by county, visit About Us > Press Room at NYSTRS.org.

Supplementary Information

NYSTRS management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles. KPMG LLP performed an independent audit of such financial statements and expressed an unmodified opinion thereon. To view the financial statements and KPMG’s report, see the Financial Section of our Comprehensive Annual Financial Report (CAFR) at NYSTRS.org.

In addition, recognition from various industry organizations demonstrates NYSTRS’ commitment to excellence in financial reporting. Honors received within the fiscal year ended June 30, 2015 include:

- Certificate of Achievement for Excellence in Financial Reporting, awarded by the Government Finance Officers Association (GFOA) of the United States and Canada.
- Distinguished Budget Presentation Award, also awarded by GFOA.
- Public Pension Principles Achievement Award, presented by the Public Pension Coordinating Council.

The information contained in this document came primarily from NYSTRS’ Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. A copy of that report is available at NYSTRS.org.