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, 2017. This document summarizes the System’s financial position for the 2016 and 2017 fiscal years. For additional details, see our Comprehensive Annual Financial Report (CAFR) at NYSTRS.org.

A 10-member Board representing various stakeholders governs the System. Trustees 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.

NYSTRS is one of the 10 largest public funds in the U.S. based on portfolio size. The System is also consistently among the top-performing and best-funded public pension plans. Consistent receipt of required employee and employer contributions; a disciplined, risk-controlled investment policy; and, partnerships with top-performing fund managers are major contributing factors to this stability. As a long-term investor with liabilities often not payable for three decades or more, staff take a prudent approach to asset management.

The System’s year-end net assets totaled $115.5 billion. During the same period, benefits paid to retirees and beneficiaries were approximately $6.9 billion.

The plan’s funded ratio as of June 30, 2016, the date of the most-recent annual actuarial valuation and calculated using the Actuarial Value of Assets, was 97.9%. The System’s total portfolio returned 12.5% net of fees for the fiscal year ended June 30, 2017. Our 30-year rate of return is 8.8% net of fees.

As data in this report shows, the vast majority of educators earn their NYSTRS benefit by spending not merely years but decades in the classroom, teaching generations of New Yorkers from Montauk to Massena, Chautauqua to Champlain. They make a difference in every corner of the state by investing their lives in these communities, and NYSTRS in turn provides members with a secure pension they cannot outlive. With 80% of benefit payments going to New York residents, NYSTRS pensions provide an important stimulus for local economies.

Our commitment to our active members, retirees, beneficiaries and stakeholders remains as steadfast as it was when the System was founded 96 years ago.

Respectfully,

Thomas K. Lee
Executive Director & Chief Investment Officer
NYSTRS
Active
Members

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, with eligibility for benefits based on factors such as age, years of service and tier of membership. 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.

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

Defined benefit plans provide the recipient a retirement income for as long as they live. This differs from defined contribution plans (such as 401(k)s) where a recipient can outlive accumulated savings.

Membership Snapshot

<table>
<thead>
<tr>
<th>NYSTRS</th>
<th>Active Members</th>
<th>Retired Members</th>
<th>Beneficiaries</th>
<th>Total Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Members</td>
<td>264,761</td>
<td>157,703</td>
<td>6,115</td>
<td>428,579</td>
</tr>
</tbody>
</table>

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.

Those employed by a New York State community college or SUNY generally 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 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.

NYSTRS serves more than 428,000 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.

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, 2017 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 years ended June 30, 2017 and 2016. A copy of that report is available at NYSTRS.org.
NYSTRS is one of the best-funded public pension plans in the nation. As of June 30, 2016, the most-recent calculation available, the System’s funded ratio was 98.4% based on the market value of assets and 97.9% based on the actuarial value of assets. NYSTRS has made benefit payments on time and without fail throughout its nearly 100 year history.

Our total net position at fiscal year-end 2017 was valued at $115.5 billion.

**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.

Other financial highlights for the fiscal year ended June 30, 2017:

- The System paid out $6.9 billion in benefits to members.
- Contributions collected from employers totaled $1.9 billion.
- Over the past 20 years, NYSTRS has paid out $94.2 billion in benefits while collecting $24.1 billion in member and employer contributions. During the same period, the System’s net assets have grown from $65.2 billion to $115.5 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 12.5% net of fees. It marked the eighth consecutive year the System posted a positive return, with returns in five of those years exceeding the System's assumed rate.

Other highlights include:
- Over the past 20 years, investments have appreciated by $50 billion.
- NYSTRS' 20-year annualized net rate of return is 7.2% and our 30-year rate of return is 8.8%.
- Over the past 20 years, 83% of NYSTRS' income was generated by investment returns.
- NYSTRS administers its defined benefit plan cost effectively. Its investment fees average 25¢ per $100 managed, compared to 60¢ or more in fees associated with 401(k) plans.
- More than half (63%) of the System's assets are managed internally. Managing assets internally keeps administrative costs down, which in turn leaves more money for paying benefits and future investments.

**Investment Highlights**

**Investment Performance (Net of Fees)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.7%</td>
<td>18.2%</td>
<td>5.2%</td>
<td>2.3%</td>
<td>12.5%</td>
<td></td>
</tr>
</tbody>
</table>

**Ten Largest Equity Holdings as of June 30, 2017**

<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 Inc.</td>
<td>$87,173,191</td>
<td>$1,365,469,894</td>
<td>2.44%</td>
</tr>
<tr>
<td>2</td>
<td>Alphabet Inc.</td>
<td>271,981,466</td>
<td>985,588,598</td>
<td>1.76</td>
</tr>
<tr>
<td>3</td>
<td>Microsoft Corp.</td>
<td>279,448,348</td>
<td>962,714,016</td>
<td>1.72</td>
</tr>
<tr>
<td>4</td>
<td>Amazon.com Inc.</td>
<td>68,028,519</td>
<td>693,458,744</td>
<td>1.24</td>
</tr>
<tr>
<td>5</td>
<td>Johnson &amp; Johnson</td>
<td>109,895,792</td>
<td>647,020,336</td>
<td>1.16</td>
</tr>
<tr>
<td>6</td>
<td>Facebook Inc.</td>
<td>276,005,607</td>
<td>645,692,392</td>
<td>1.15</td>
</tr>
<tr>
<td>7</td>
<td>Exxon Mobil Corp.</td>
<td>135,530,396</td>
<td>608,837,647</td>
<td>1.09</td>
</tr>
<tr>
<td>8</td>
<td>JP Morgan Chase &amp; Co.</td>
<td>133,847,247</td>
<td>592,635,406</td>
<td>1.06</td>
</tr>
<tr>
<td>9</td>
<td>Berkshire Hathaway Inc.</td>
<td>263,431,149</td>
<td>563,157,452</td>
<td>1.01</td>
</tr>
<tr>
<td>10</td>
<td>Wells Fargo + Co.</td>
<td>167,924,273</td>
<td>444,654,057</td>
<td>0.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,793,265,988</strong></td>
<td><strong>$7,509,228,542</strong></td>
<td></td>
<td><strong>13.42%</strong></td>
</tr>
</tbody>
</table>

*A complete list of the System’s equity holdings is available on our website (see About Us > Investments) or through the Public Information Office.*
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.

As of June 30, 2017

- Domestic Equity: 37.2%
- Domestic Fixed Income: 15.4%
- Private Equity: 7.4%
- Real Estate Equity: 10.1%
- Global Bonds: 2.2%
- Real Estate Debt: 4.5%
- Cash Equivalents: 4.0%
- International Equity: 19.2%
- High Yield Bonds: 0.0%

Growth of Invested Assets 1970-2017

Contributions Collected vs. Benefits Paid
20 years ending 6/30/17

- Investment Income: $120.4 billion
- Benefits and Expenses Paid: $94.2 billion
- Net Position (in billions)
  - 1997: $65.2
  - 2017: $115.5

Employer Contributions: $21.1 billion
Member Contributions: $3.0 billion
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, 2017, 83% 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.

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 15% of NYSTRS income between 1997 and 2017.

An ECR of 11.72% was applied to member payroll for the July 1, 2016 to June 30, 2017 school year. These funds were collected by NYSTRS in fall 2017. The ECR applied to member payroll for the July 1, 2017 to June 30, 2018 school year is 9.80%, payable in fall 2018. This represents a decrease of approximately 16% from the previous year’s ECR. The ECR has declined in each of the past three years.

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Statistical Highlights

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.

More than half (56%) of those receiving a NYSTRS retirement benefit worked 30 years or more to earn it. About one-third of our retired members receive $30,000 or less per year.

Six-figure pensions make headlines, but less than 2.0% of those receiving a NYSTRS pension earn $100,000 or more — and those that do worked an average of almost 40 years to qualify.

Some additional statistical highlights:

- The average annual benefit for all service retirees is $41,703 representing about 54% of a member’s final average salary at retirement.
- 48% of active members have 10 years or less of service.
- About 38% of active members are 39 years of age or younger, meaning it will be 17 years or more before they will be eligible to collect a retirement benefit — providing time to accumulate the additional assets needed to fund the benefit.
- 18% of NYSTRS members are Tier 6 — a figure that will grow as more members join. Because these members pay higher employee contributions than their predecessors, employer costs should decline over time.

Distribution of the Annual Benefit* of All Retired Members — as of June 30, 2017

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

**Benefits Paid to NYS Residents**
7/1/2016 - 6/30/2017

(Computed on the optional annual benefit including supplementation and COLA.)

**Benefits Paid**
(In Billions)

- In State: $5.5
- Out of State: $1.3
- Total: $6.8

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

**An Economic Driver**

During the fiscal year ended June 30, 2017, NYSTRS distributed about $6.9 billion in benefits, 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 shown in the chart below.

According to the National Institute on Retirement Security (NIRS), expenditures in 2014 stemming from New York’s state and local pensions (of which NYSTRS is a part) supported:

- More than 215,000 jobs that paid some $12.5 billion in wages and salaries;
- $8.1 billion in federal, state and local tax revenues; and,
- $35.2 billion in total economic output.

NIRS estimates that in New York each dollar paid in pension benefits generates about $1.30 in total economic output. As benefit recipients spend their pensions in local communities, one person’s spending becomes another’s income.

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