NYSTRS Board Meeting Highlights

MAY & JULY 2012

May 3, 2012

- **Authorized** the reallocation of assets from NYSTRS' passively managed domestic equity portfolios to international Asset ACWI ex-US portfolios, in accordance with a previously approved asset allocation plan.
- **Authorized** an equity investment of up to $161.3 million for the development of an office building in New York City, subject to the satisfactory completion of due diligence.
- **Renewed** the agreement with Adelante Capital Management LLC to manage a portion of the System's portfolio by actively investing in real estate investment trusts (REITs) and real estate operating companies (REOCs) securities, for one year, effective July 1, 2012.
- **Renewed** the agreement with Cohen & Steers Capital Management Inc. to manage a portion of the System's portfolio by actively investing in REIT and REOC securities, for one year, effective July 1, 2012.
- **Renewed** the agreement with Cohen & Steers Capital Management Inc. to manage in an income-oriented account a portion of the System's portfolio by actively investing in REIT and REOC securities, for one year, effective July 1, 2012.
- **Renewed** the agreement with RREEF America LLC to manage a portion of the System's portfolio by actively investing in REIT and REOC securities, for one year, effective July 1, 2012.
- **Renewed** the agreement with LSV Asset Management to manage a portion of the System's assets as an active ACWI ex-US international equity manager, for one year, effective July 25, 2012.
- **Approved** the Retirement System's operating budget and internal audit plan for the 2012-13 fiscal year.
- **Amended** the Retirement System's Rules and Regulations to include the new tier of membership created by Chapter 18 of the Laws of 2012.
- **Approved** a resolution honoring Managing Director of Operations Arthur C. Hewig on his retirement after 30 years of service to NYSTRS. Kevin Schaefer was appointed as Mr. Hewig's replacement, effective May 10, 2012.

July 25, 2012

- **Authorized** a commitment of up to $200 million in Silver Lake Partners IV, L.P., subject to the satisfactory completion of due diligence.
- **Authorized** a commitment of up to $250 million for Wellington Management Co., LLP, to manage a portion of the System's fixed income portfolio in global bonds, for one year, subject to the satisfactory completion of due diligence.
- **Renewed** the agreement with Cohen & Steers Capital Management Inc. to actively manage a portion of the System's portfolio in the preferred securities of real estate investment trusts (REITs) and real estate operating companies (REOCs), for one year, effective Sept. 13, 2012.
- **Renewed** the agreement with Prima Capital Advisors, LLC to actively manage a portion of the System's portfolio in commercial mortgage backed securities (CMBS) and investment-grade REIT bonds, for one year, effective Oct. 1, 2012.
- **Renewed** the agreement with Baillie Gifford Overseas Limited to manage a portion of the System's equity portfolio as an active ACWI ex-U.S. international equity manager, for one year, effective Sept. 15, 2012.
- **Renewed** the agreement with William Blair & Company, LLC to manage a portion of the System's equity portfolio as an active ACWI ex-U.S. international equity manager, for one year, effective Sept. 22, 2012.
- **Renewed** the agreement with T. Rowe Price Associates to manage a portion of the System's equity portfolio as a domestic equity enhanced passive manager, for one year, effective Oct. 30, 2012.
- **Renewed** the agreement with Progress Investment Management Company to manage a portion of the System's equity portfolio as a manager of managers in a domestic equity all cap strategy, for one year, effective Nov. 15, 2012.
- **Renewed** the agreement with Leading Edge Investment Advisors to manage a portion of the System's equity portfolio as a manager of managers in a domestic equity all cap strategy, for one year, effective Nov. 22, 2012.
- **Adopted** an employer contribution rate applicable to 2012-13 payrolls of 11.84%.■

New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395

NYSTRS RESOURCE

Fall 2012

INFORMATION FOR RETIRED MEMBERS OF THE NEW YORK STATE TEACHERS' RETIREMENT SYSTEM

Eligible Retirees to Receive Monthly Benefit Increase

For the second consecutive year, eligible retired members with an annual benefit of $18,000 or more will enjoy a monthly benefit increase of up to $21 beginning with the Sept. 28, 2012, payment. The increase is tied to a cost-of-living adjustment (COLA) of 1.4%, as calculated by a formula set in statute.

New York's COLA, which is both permanent and automatic, is designed to help offset the effects of inflation on the fixed retirement benefits of the state's public retirees. By law, the COLA is calculated by taking 50% of the March-to-March Consumer Price Index increase (rounded up to the next higher one-tenth of 1%) and multiplying it by the first $18,000 of the retirement benefit. The annual allowable increase is a minimum of 1% to a maximum of 3%.

The CPI increase from March 2011 to March 2012 was 2.65%. With this latest COLA, the cumulative maximum monthly increase since COLA legislation was enacted in 2001 is now $252.

The increase will begin with the September payment. *(See page 2 for a list of payment dates.)*

To be eligible for a COLA, you must either be:

- At least 62 and retired at least five years; or,
- At least 55 and retired at least 10 years; or,
- A retiree receiving a NYSTRS disability benefit for at least five years (regardless of age); or,
- A surviving spouse of an eligible retiree receiving a lifetime benefit. *(By law, the spouse receives an increase equal to one-half the COLA the retiree would have received.)*

Retirees who become eligible for the COLA after September will receive their adjustment when first eligible.■

In Memoriam: Josephine Davenport

Josephine Davenport

Josephine Davenport, the retired teacher representative on the NYSTRS Retirement Board for eight years, passed away in May.

Davenport, a Hamburg resident, was first elected to the Board in 1996. During her tenure she served on virtually every Board committee, including as chair of the Retired Members Committee. She retired from the Board in 2005 and was succeeded by current Board member David P. Keefe.

Davenport's teaching career spanned 38 years, nearly all of which was with the City of Tonawanda School District where she taught elementary grades. She held a variety of offices in the Tonawanda Education Association and served as a New York State United Teachers (NYSUT) workshop facilitator and as a member of its Committee of 100.

She was also very active in her community, having served as vice president of the Coalition of Labor Union Women, and an elected Councilwoman for the Town of Boston. Her commitment earned her several awards, including Tonawanda Education Association's Distinguished Service Award; AFL-CIO's Service Award; and, NYSUT's Community Service Award.■

NYSTRS RESOURCE

NYS Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395
www.nystrs.org

Office Hours

Monday - Friday: 8:30 a.m. - 4:15 p.m.
Summer Hours:
Mon. - Thurs.: 8 a.m. - 4:15 p.m.
Friday: 8 a.m. - 12:30 p.m.

Telephone

(800) 356-3128
(Albany-Area Calls: (518) 447-2900)

Disability	Ext. 6010
Lost Checks	Ext. 6160
Direct Deposit Information	Ext. 6230
Legislation	Ext. 6200
Tax & Withholding Information	Ext. 6120
Report a Retiree's Death	Ext. 6140
Earnings After Retirement	Ext. 6150
General Retiree Information	Ext. 6150

Hotline

(800) 782-0289
Form and Publication Requests
Latest News 24/7

2012 & 2013 Benefit Payment Dates

Sept. 28, 2012	May 31, 2013
Oct. 31, 2012	June 28, 2013
Nov. 30, 2012	July 31, 2013
Dec. 31, 2012	Aug. 30, 2013
Jan. 31, 2013	Sept. 30, 2013
Feb. 28, 2013	Oct. 31, 2013
March 29, 2013	Nov. 29, 2013
April 30, 2013	Dec. 31, 2013

Note to Members: We are legally obligated to ensure members and beneficiaries are informed about their NYSTRS benefits. *Resource* is used for this purpose. Therefore, we are unable to honor requests to be removed from our distribution list. You may subscribe to receive *Resource* electronically through MyNYSTRS.

Welcome New Retirees!

For many of you, this autumn marks the start of a new and different chapter of your life – your first season as a retiree!

If you are one of the many who bid a final farewell to the classroom in June, we hope you are enjoying this new experience. We offer a number of items to help you with your adjustment, including this *Resource* newsletter. Like the *Your Source* you received as an active member, this newsletter is published three times yearly and is available either in print or electronic form.

Resource is an excellent tool for staying up to date on NYSTRS-related news that affect you. However, when it comes to information about life in retirement and your guaranteed monthly benefit, *Resource* is hardly your only resource.

Our website, nystrs.org, is the best source of information for the latest news, including cost-of-living adjustments, earnings after retirement limits, and tax issues. Visit the Retirees page to see our Retirement FAQs, browse the *Retired Members' Handbook*, and read the brochure *Working in Retirement* to learn about how earnings limits can affect your NYSTRS pension.

A great overview for new retirees is our publication *Discovering Retirement*, which provides a closer look at your NYSTRS benefits and suggests new challenges and opportunities to explore in retirement. It also addresses a number of important issues of particular importance to retirees, such as protecting your wealth and health, and the pros and cons of relocating. If you would like to receive a printed copy of this publication, please request one by emailing news@nystrs.org.

Also be sure to sign up for an online MyNYSTRS account. (If you already had a MyNYSTRS account as an active member, no further action is required.) Our secure web portal allows you to track the processing of your retirement application, access your personal benefit information, print out important tax documents and much more.

From MyNYSTRS you can elect to receive your annual *Retired Member Profile* electronically, as well as sign up for the e-version of this newsletter. In both

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We've Changed Our Email

NYSTRS' email address format has changed. Please be aware of this change when contacting us and consider changing your spam filter settings.

The new "at" extension is **@nystrs.org**, replacing @nystrs.state.ny.us. If you are writing to a group mailbox (i.e., Communications Unit or Webmaster), the text before the "@" sign remains the same, only the extension changes (example: CommUnit@nystrs.org). No hyphens, apostrophes, spaces or any other special characters should be used with names.

Please add communit@nystrs.org, webadmin@nystrs.org and any other NYSTRS email you regularly use to your email address book, being sure to use the new @nystrs.org extension. This will help ensure our email is delivered to your inbox, not your spam folder.■

Retired Member
EMAIL@NYSTRS.ORG
Email Address Change

You Want to Know...

How Healthy and Sustainable Is NYSTRS?

Q: How stable is our retirement system?

A: Very stable. Organizations like the Pew Center for the States and the National Association of State Retirement Administrators consistently point to NYSTRS as among the best funded plans in the nation.

* * *

Q: Given the troubling economic conditions worldwide over the past several years, how is it that NYSTRS is in good shape when other pension plans are struggling?

A: There are many reasons, but the most important is that NYSTRS employers have made their necessary contributions each and every year, without fail. Not many pension plans in other states can make that claim. In too many cases, either contributions were not made — in some cases for several years — or the contributions made were less than what was required. In either case it led to funding shortfalls that New York does not have.

The other primary reason for our success has been our disciplined approach to investing. Our assets are broadly diversified among many asset classes, including equities, real estate and fixed income. With this approach, when one or more asset classes underperform, gains in other asset classes tend to pick up the slack. This investment approach has worked well over the long term — and NYSTRS is a long-term investor, with individual liabilities not due for 30 years or more.

* * *

Q: Media reports say the cost of paying teacher pensions is skyrocketing. Is that true?

A: It is true that employer contributions have needed to increase in the past few years, and they are likely to continue to increase for several more years. However, the following should be part of the discussion when considering the recent rise in rates:

- Our employer contribution rate has averaged in single digits for more than 20 years. It averaged 5.66% in the 1990s, 4.37% in the 2000s and 9.44% so far in the 2010s.
- The 11.11% rate applicable to 2011-12 salaries and the 11.84% rate applicable to 2012-13 salaries are a far cry from the 19.32% averaged in the 1970s and 21.05% averaged in the 1980s.
- The recent employer rate increases are reflective of the worst economic downturn since the Great Depression, experienced in 2008 and 2009. The markets have since recovered somewhat and, if history is an indication, will continue to stabilize in the years to come.
- Overall, employer costs should decline sharply in the long run under the two new tiers of membership (Tiers 5 and 6) that have been established in New York since 2010. Under Tier 4 employers are responsible for almost 90% of expected long-term retirement contributions; that figure drops to about 70% for Tier 5 members. Under the newly enacted Tier 6, employers and employees essentially split the expected long-term contribution responsibilities 50-50.

* * *

Q: Other funds are dropping their assumed rate of return below 8.0%. Why not us?

A: NYSTRS is a long-term investor, meaning liabilities associated with an individual member are not due for 30 years or more. Over the past 20 years, our average return is 8.8%. The 25 year average is 9.0%. So, just as we saw no reason to raise the assumed rate of return when times were good, we see no logical reason to lower it during this period of market volatility.

That said, we review economic conditions annually and do a thorough review of all actuarial assumptions every five years. The last wholesale review was completed in 2011. If at any point a change to the assumed rate of return needs to be made, it will be.■

New Accounting Rules Have No Effect on NYSTRS' Ability to Meet Pension Obligations

The Governmental Accounting Standards Board (GASB) on June 25, 2012, approved revised financial reporting guidelines for public pension plans like NYSTRS, as well as for employers which contribute to these plans. The new standards (GASB Statements No. 67 and 68) were expected to be issued in August and are to be effective for fiscal years beginning after June 15, 2013, for public pension plans and for fiscal years beginning after June 15, 2014, for participating employers.

The following is intended to provide a broad overview of the new standards and what they mean to NYSTRS. It also aims to address any concerns System members may have regarding the security of their pensions and the long-term sustainability of NYSTRS. More information will be available once the new standards are formally issued and thoroughly reviewed.

What is changing?

The standards will change how pension plan liabilities are accounted for and disclosed in financial statements and annual reports. The new standards do not alter or affect how public pensions are funded, or how the employer contribution rate is calculated. The System's funding policies and procedures will not change as a result of the revised standards.

> "It would be unfortunate if the press and politicians characterized these new numbers as evidence of a worsening of the (pension) crisis when, in fact, states and localities have already taken numerous steps to put their plans on a more secure footing."
>
> — Center for Retirement Research, June 2012

Why the change in standards?

GASB says the changes will provide additional transparency regarding the reporting of pension liabilities and expenses, as well as the impact of these obligations. The new standards also strive to bring uniformity to financial reporting within the public pension industry.

How will reporting of information change?

One change will be how unfunded pension liabilities are reported. Many public pensions, including NYSTRS, currently report this information in their *Notes to Financial Statements*. Under the new guidelines, this information must be included within the body of the financial statements. So, for example, a plan's "net pension liability" — the difference between the total pension liability (present value of projected benefits based on service accrued to date) and the plan's market value of assets — will be reported within the *Statement of Net Position*.

The new standards will also require NYSTRS' participating employers to record a liability and expense that is equal to their proportionate share of NYSTRS total net pension liability and expense. Currently employers only expense the amount of their required contributions.

What's the bottom line?

Pension funding levels may appear lower under the new standards. Currently, funded ratios — the ratios of plan assets to liabilities as of fiscal year end — are based on actuarial (also known as smoothed) value of assets. Under this method, the effects of market volatility are dampened to avoid wild year-to-year swings in funded ratios and the employer contributions needed to fund benefits.

Under the new standards, funded ratios will be based on the plan's market value of assets. This value may fluctuate dramatically based on year-to-year movements within the capital markets. Therefore funded ratios under the new standards will likely be much more volatile than under current practice.

The Center for Retirement Research at Boston College, for example, projects that NYSTRS' funded ratio as of June 30, 2010, would "drop" from nearly 100% using actuarial value of assets under the current GASB guidelines to 87% using market value of assets under the new GASB standards.

A funded status of 87% still leaves NYSTRS among the strongest and most secure public pension plans in the nation. The main reason for our success? NYSTRS continues to receive annual employer contributions calculated in accordance with its actuarially determined funding policy, as well as required employee contributions.

Press reports indicate pension funding is a dire problem. I am concerned about my NYSTRS pension.

David Draine, senior researcher at the Pew Center, said it best in a recent interview with Reuters News Service:

> States like New York, which are making their contributions to their plans and are well funded, their liability should not be affected by the new discount rates.

A June 2012 report from the Center for Retirement Research stated: "It would be unfortunate if the press and politicians characterized these new numbers as evidence of a worsening of the (pension) crisis when, in fact, states and localities have already taken numerous steps to put their plans on a more secure footing. … Policymakers should not let the new numbers throw them off course."

The Pew Center, a Washington D.C. nonprofit think tank, reports that since 2009, 43 states enacted changes to public pension plans to reduce costs and lighten the load for taxpayers. The changes include increased retirement ages, reduced benefits and higher employee contributions for new members.■

NYSTRS Facts

- We have received uninterrupted employer and employee contributions since our inception. This is in sharp contrast to plans in other states which have been subjected to "pension holidays" that, when coupled with recent economic conditions, have put them in a long-term funding hole.
- Our annual assumed rate of return is 8.0%. Over the past 20 years — a period of time that included some of the worst economic downturns since the Great Depression — we have averaged an annual return of 8.8%. Over 25 years, the average is 9.0%.
- We have proven our sustainability. Over the past 20 years we collected $16.5 billion in employer and member contributions, and paid out $68.3 billion in benefits. During the same period, our market value of assets ***more than doubled*** from $35 billion to $88 billion.
- Our employer contribution rate has averaged in single digits for more than 20 years. It averaged 5.66% in the 1990s, 4.37% in the 2000s and 9.44% so far in the 2010s.
- Employer costs should decline over the long run under the two new tiers of membership (Tiers 5 and 6) that have been established in New York since 2010. Employers are responsible for almost 90% of expected long-term retirement contributions for Tier 4 members; that figure drops to about 70% for Tier 5 members. Under the newly enacted Tier 6, employers and employees essentially split the expected long-term cost 50-50.

Welcome New Retirees from page 2

cases, you'll have earlier access to both documents while also helping the environment. To get started, just click the MyNYSTRS button found on any page of nystrs.org.

If you cannot find answers to your questions online or in our publications, please call us. General information is available by calling (800) 356-3128, Ext. 6150. See page 2 of this publication for other extensions.■

ATTENTION: If you suspect anyone of attempting to defraud the Retirement System or misuse System assets, please report the complaint of fraud, waste or abuse to us. For more information, see FAQs: Reporting Fraud, Waste or Abuse by selecting the "Report Fraud" hyperlink at the bottom of any page at nystrs.org.

New York Has New Membership Tier

New York's 2012 legislative session included the implementation of a new membership tier for state employees, which includes public school teachers.

Chapter 18 of the Laws of 2012 was signed into law by Governor Andrew Cuomo March 16. The law amends the portions of the Retirement and Social Security Law, Education Law and the Administrative Code of the City of New York that affect contributions and benefits for public employees. The result was Tier 6, applicable to members who join a New York State public retirement system on or after April 1, 2012.

The new tier is arguably the most complex, with several previously unseen variables added to the mix. Among its differences, Tier 6:

- Requires contributions of between 3% and 6%, based on salary.
- Increases the retirement age to 63 to retire with an unreduced benefit.
- Caps salary allowable in a FAS calculation at the New York State governor's salary (currently $179,000).
- Generally limits pensionable salaries to regular compensation from only two employers during a school year.

Although not applicable to most NYSTRS members, the new tier is the first to allow non-unionized employees hired after June 30, 2013 who earn $75,000 or more the option of joining the SUNY ORP (a defined contribution plan) rather than the NYSTRS defined benefit plan. For those who choose ORP, employers will contribute 8% of salary, while employees will contribute at the same sliding-scale rate noted in the first bullet.

Further Tier 6 details are available on our website.■

New Items Added to Pension Education Toolkit

Our online Pension Education Toolkit at nystrs.org helps spread the latest news and research about pensions, pension funding and the impact defined benefit (DB) plans like NYSTRS have on the economy. Among the newest entries:

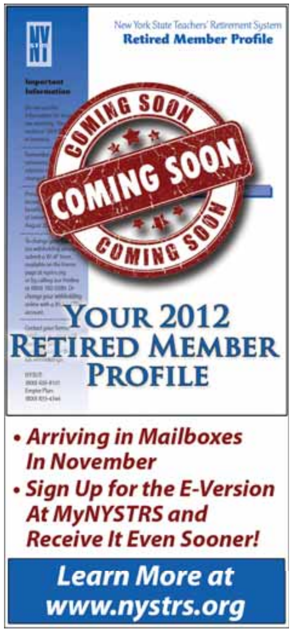
Average Employer Contribution Rates by Decade — A graphic illustrates NYSTRS' Employer Contribution Rates by decade dating to the 1920s.

Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures — An economic impact study by the National Institute on Retirement Security finds that DB pension benefits have a significant economic impact: 6.5 million American jobs and $1 trillion in economic output.

State & Local Government Pension Plans: Economic Downturn Spurs Efforts to Address Costs and Sustainability — A U.S. Government Accountability Office study finds that despite the recent economic downturn, most large state and local government pension plans have assets sufficient to cover benefit payments to retirees.

Issue Brief: State & Local Government Spending — A NASRA brief finds pension costs for state and local governments are roughly 3% of total spending.

Items are added regularly, so be sure to rummage through the Toolkit on a regular basis. You never know what treasure you may find.■



The Why—and Fairness—of Public Pensions

The following was posted June 16, 2012, on the blog Pension Dialog, a collaborative effort of the National Association of State Retirement Administrators and the National Council on Teacher Retirement. It was written by Ady Dewey.

Why?

Why are government employees—from office workers to teachers to engineers to first responders—given a pension? To meet public sector needs:

- **Government employers** – Need a tool to retain qualified workers to perform essential public services, limit turnover and training costs, and provide for orderly workforce attrition.
- **Taxpayers** – Need a tool to provide better delivery of public services at a cost that is reasonable, predictable, and stable; and reduce reliance on taxpayer-supported public assistance.
- **Public employees** – Need a competitive total compensation package.

That's the starting point: objectives achieved through benefits policies.

Pensions are not about making someone rich nor about providing a vehicle for political favors. They are a tool used to make sure the public sector workforce is strong so that we have the best teachers for our children and best protectors for our safety.

Today, however, people are asking if it's fair – is it fair that some workers have a pension since most do not.

Read the online comments after media stories covering the topic of pensions, listen to pundits, or read editorial columns, and the clear opinion is that it's not fair: public employees should not have a guaranteed retirement benefit.

What's Fair?

In *Psychology Today*, Arthur Dobrin identified the three ways we tend to define fairness:

1. Sameness: There is the fairness where everything is equal…Fairness is finding the average and applying it across the board.
2. Deservedness: In this notion of fairness you get what you deserve: If you work hard, you succeed and keep all that you earn.
3. Need: The third idea of fairness is that those who have more to give should give a greater percentage of what they have to help others who are unable to contribute much, if anything at all.

Those who are advocating "sameness" are pitted against those arguing "deservedness" (and most public employees do pay towards their pensions). It is unlikely to change the mind of someone entrenched in either view.

As Dobrin concludes:

> As with many critical ethical values, one approach can't address all relevant concerns. While mix-and-match may drive some to distraction, it is the right mixture, the constant tinkering, that presents the best chance of arriving at better solutions.

The "constant tinkering" in this arena is actually significant policy changes which we are seeing across the nation as states modify benefit calculations, increase employee contribution rates, raise retirement ages, cut back—or eliminate—cost of living increases, and much more.

While there are some states and cities which face a significant challenge to fund their pension obligations, the vast majority do not. The changes they've made to ensure a sustainable, affordable system means pensions are an element of the strategy to best serve the needs of taxpayers receiving services, of government delivering services, and of employees who do the work.

Seems only fair that we all deserve quality services.■