STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM

AND

NEW YORK CITY PUBLIC EMPLOYEES'

GROUP LIFE INSURANCE PLAN

AS OF

JUNE 30, 1999

DATE OF REPORT:	MARCH 1, 2001
EXAMINER:	EDWARD J. TASKER

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 1, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21621, dated October 4, 2000 and annexed hereto, an examination has been made into the condition and affairs of the New York City Employees' Retirement System, hereinafter referred to as "NYCERS" or the "System," and the New York City Public Employees' Group Life Insurance Plan at its home office located at 340 Jay Street, Brooklyn, New York, New York 11201.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of the treatment of members and beneficiaries did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the System. (See item 6 of this report)

The examiner recommends that the System facilitate the Department in obtaining proper confirmations from its custodian. (See item 7 of this report)

The examiner recommends that the System facilitate the Department in obtaining proper cash confirmations from its bank. (See item 8 of this report)

The System violated Section 307(a)(1) of the New York Insurance Law by filing its 1999 annual statement five months after the due date of March 1, 2000. This is a repeat violation from the prior report on examination. (See item 9A of this report)

The System violated Section 136.4(c) of Department Regulation No. 85 for not maintaining a description of the content of each account. This is a repeat violation from the three previous reports on examination. (See item 9B of this report)

The System violated Section 136.4(a) of Department Regulation No. 85 by not providing the loan files requested by the examiner. (See item 9C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of June 30, 1994. This examination covers the period from July 1, 1994 through June 30, 1999. As necessary, the examiner reviewed transactions occurring subsequent to June 30, 1999 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of June 30, 1999 to determine whether the System's 1999 filed annual statement fairly presents its financial condition. The examiner reviewed the System's income and disbursements necessary to accomplish such verification and utilized examination procedures, as deemed appropriate, in the review or audit of the following matters:

System history
Management and control
Growth of the System
Accounts and records
Financial statements
Member benefits

The examiner reviewed the corrective actions taken by the System with respect to violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 10 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF SYSTEM

A. History

The New York City Employees' Retirement System was established by enactment of Chapter 427 of the laws of 1920 and began operations on October 1, 1920. The legal provisions of the retirement law governing this retirement system were part of the New York City Charter until it was recodified in 1937 when such provisions were transferred to Chapter 3, Title B of the Administrative Code of the City of New York ("Administrative Code"). The laws were subsequently recodified, changing Title B to Title 13.

Certain sections of the Retirement and Social Security Law ("RSSL"), especially with regard to federal old age and survivors insurance benefits to employees of the State and its political subdivisions, apply to the System.

B. Management

Prior to July 1, 1969, the management of the System was vested in the Board of Estimate of the City of New York. Legislation was enacted in 1969 establishing a board of trustees to administer the System. The board consists of representatives of the Mayor, the Comptroller of the City of New York ("Comptroller"), the Public Advocate, the five borough presidents and the chief executive officers of each of the three employee organizations representing the largest membership in the System (Local 100 – TWU, District Council 37 – AFSCME and Local 237 – International Brotherhood of Teamsters).

Each member of the board has one vote except for the borough presidents, who have one-fifth vote each. The maximum number of votes cast by the board is therefore seven. Each vote of the board requires at least three and three-fifths votes for passage of any resolution. The same number constitutes a quorum of the board.

The 11 board members and their titles as of June 30, 1999, were as follows:

Name	Title
Adam L. Barsky	Chairperson Representative of the Mayor's office
Fernando Ferrer	Borough President – Bronx Represented by Terri Blank, Counsel
Virginia C. Fields	Borough President – Manhattan Represented by Marla G. Simpson, Counsel
Howard Golden	Borough President – Brooklyn Represented by Frank Pannizo, Counsel
Mark Green	Public Advocate Represented by Toni Gifford
Carroll Haynes	President, Local 237 – International Brotherhood of Teamsters Represented by Nicholas Mancuso
Alan G. Hevesi	Comptroller of the City of New York Represented by Jon Lukomnik
Willie James	President, Local 100 – TWU Represented by Peter Lynch
Guy V. Molinari	Borough President – Staten Island Represented by Daniel Master, Counsel
Lee Saunders	Administrator, District Council 37 - AFSCME Represented by Arthur Van Houten
Claire Shulman	Borough President – Queens Represented by Nicholas Garaufis, Counsel

The examiner's review of the minutes of the meetings of the board of trustees indicated that the meetings were well attended.

The following is a listing of the principal officers of the System as of June 30, 1999:

Name	Title
Adam L. Barsky	Chairman of the Board
John J. Murphy	Executive Director
Alan G. Hevesi	Comptroller
Robert C. North	Actuary

C. Membership and Employers

Membership in NYCERS is open to all New York City ("NYC") employees who are not eligible to participate in the NYC Teachers' Retirement System, the NYC Police Pension Fund, the NYC Fire Department Pension Fund, or the NYC Board of Education Retirement System. All NYC employees holding permanent civil service positions in the competitive or labor class are required to become members of the System six months after their date of appointment, but may voluntarily join the System prior to their mandated membership date. All other eligible employees have the option of joining the System upon their appointment or at any time thereafter.

In addition to the various departments of the City of New York, members of NYCERS are also employed by the New York City Transit Authority, the Triborough Bridge and Tunnel Authority, the NYC Housing Authority, the NYC Health and Hospitals Corp., the NYC Off-Track Betting Corp., the NYC Residential Mortgage Insurance Corp., the NYC Housing Development Corp., the City University of New York and the New York City School Construction Authority. There were 217,016 active members as of June 30, 1999.

In 1995, legislation was enacted allowing the Transit Authority Police Officers and the Housing Authority Police Officers to transfer out of NYCERS and be merged into the NYC Police Pension Fund. By the end of October 1995, the accumulated deductions and the reserves associated with the accounts of approximately 7,000 police officers (Transit and Housing) had been transferred out of NYCERS to the NYC Police Pension Fund.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the System during the period under examination and extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the System's financial growth during the period under review:

	June 30, 1994	June 30, 1999	Increase (Decrease)
Admitted assets	$22,348,913,052	$40,784,812,867	$18,435,899,815
Reserves	$22,348,197,466	$33,093,949,843	$10,745,752,377
Benefits due and unpaid	171,024,227	97,798,005	(73,226,222)
Other liabilities	27,197,262	1,766,010	(25,431,252)
Net reserves and all other liabilities	$22,546,418,955	$33,193,513,858	$10,647,094,903
Excess of admitted assets over total net reserves and all other liabilities	(197,505,902)	7,591,299,009	7,788,805,811
Total	$22,348,913,052	$40,784,812,867	$18,435,899,815

The System's invested assets as of June 30, 1999 were mainly comprised of bonds (34.10%), stocks (31.29%), and collateral loans (11.43%).

The following is a condensed analysis of income and disbursements for the five year period under review (in thousands of dollars):

	Fiscal Year Ended June 30,				
	1995	1996	1997	1998	1999
Receipts	$2,669,201	$3,276,443	$3,683,689	$4,446,634	$5,358,997
Disbursements	2,403,809	2,934,561	2,448,776	2,474,112	2,843,768
Income	$ 265,392	$ 341,882	$1,234,913	$1,972,522	$2,515,229

The following table indicates the membership of the System at the beginning and closing dates of the examination:

	July 1,1994	June 30, 1999	Increase (Decrease)
Active members	173,683	169,458	(4,225)
Service pensioners	93,185	95,777	2,592
All other pensioners	24,110	26,103	1,993
Total	290,978	291,338	360

5. FINANCIAL STATEMENTS

The following is a comparative statement of assets, reserves, and other liabilities and a comparative statement of income and disbursements for the period July 1, 1994 through June 30, 1999.

A. STATEMENT OF ASSETS AND LIABILITIES
FISCAL YEAR ENDED JUNE 30,

	1995	1996	1997	1998	1999
Assets					
Ledger assets					
Mortgage loans on real estate	$ 30,152,828	$ 21,917,358	$ 19,334,092	$ 17,076,979	$ 13,829,618
Collateral loans	0	0	4,225,500,918	4,873,312,767	4,663,285,619
Book value of:					
bonds	9,106,257,562	9,761,510,921	10,591,579,904	12,010,531,772	13,907,350,429
stocks	10,840,142,721	10,803,683,546	11,205,279,154	12,123,878,020	12,763,614,326
Cash on deposit:					
not on interest	(190,978,128)	(253,346,799)	(195,834,256)	(84,754,355)	(71,624,468)
on interest	91,506,088	83,510,003	103,341,764	21,448,912	23,381,154
Undeposited cash	457,010	0	0	0	0
Receivable for investment sold	441,833,416	50,253,881	1,350,071,868	1,104,684,485	1,499,370,161
Payable for investments purchased	(1,564,963,360)	(1,379,922,644)	(2,740,709,165)	(2,886,439,380)	(3,319,296,404)
Payable for securities lending	0	0	(4,225,500,916)	(4,873,312,767)	(4,663,285,619)
Miscellaneous receivables	0	8,195,178	415,783	590,695	2,329,635
Miscellaneous payable	(829,185)	(340,909)	(3,105,886)	(4,122,498)	(830,708)
Total ledger assets	$18,753,578,952	$19,095,460,535	$20,330,373,260	$22,302,894,630	$24,818,123,743

	1995	1996	1997	1998	1999
Non-ledger assets					
Interest due and accrued:					
Tier 4 loans	$ 3,957,906	$ 5,983,520	$ 8,894,128	$ 12,058,730	$ 19,444,763
mortgages	89,801	180,916	53,989	47,694	41,420
bonds	111,417,865	121,917,037	128,746,558	136,268,521	151,005,999
Common stock dividends declared but unpaid	30,012,657	25,194,475	24,503,002	23,392,058	23,384,367
Due from City of New York and authorities; military deficit	0	0	4,873	0	0
Due from employers:					
annuity deductions	3,877,204	3,662,342	4,199,980	4,873	6,016,909
employee contributions	0	0	0	3,718,740	1,069,275
employer contributions	0	0	0	141,003	0
Budget App	30,462,793	0	0	0	0
Market value of stocks over book value	5,918,133,531	7,912,474,070	11,222,760,243	14,366,517,701	15,765,726,390
Employer contributions receivable:					
long term Contingent Reserve Fund	1,048,910,750	1,032,466,044	1,011,335,694	985,012,304	952,941,160
long term Group Term Life Insurance ("GTLI")	45,373,423	44,662,063	43,748,013	42,609,325	41,222,001
Total non-ledger assets	$ 7,192,235,930	$ 9,146,540,467	$12,444,246,480	$15,569,770,949	$16,960,852,284
Gross assets	$25,945,814,882	$28,242,001,002	$32,774,619,740	$37,872,665,578	$41,778,976,027
Deduct: assets not admitted					
Employer Contribution Receivable					
long term Contingent Reserve Fund	$ 1,048,910,750	$ 1,032,466,044	$ 1,011,335,694	$ 985,012,304	$ 952,941,160
Long term GTLI	45,373,423	44,662,063	43,748,013	42,609,325	41,222,001
Total assets not admitted	$ 1,094,284,173	$ 1,077,128,107	$ 1,055,083,707	$ 1,027,621,629	$ 994,163,161
Total admitted assets	$24,851,530,709	$27,164,872,895	$31,719,536,033	$36,845,043,949	$40,784,812,866

	1995	1996	1997	1998	1999
Liabilities					
A. Accumulated contributions of members	$ 650,656,312	$ 0	$ 0	$ 0	$ 0
Present value of benefits payable on account of beneficiaries now drawing allowances:					
Service retirement	$10,266,225,678	$11,331,418,549	$12,103,649,457	$12,341,115,526	$12,596,353,057
Ordinary disability retirement	511,287,977	562,453,100	590,020,322	638,832,268	710,070,078
Accidental disability retirement	548,626,929	576,231,889	566,376,636	558,358,727	563,948,756
Accidental death benefits	12,640,228	7,243,335	7,069,939	6,787,157	8,198,930
Beneficiaries of deceased pensioners under J&S options	514,034,439	568,232,867	592,198,410	622,921,518	668,713,590
Supplemental benefits	326,117,434	592,179,677	587,124,325	915,155,787	834,413,365
Designated annuitants	19,540,607	23,515,846	25,701,086	24,953,301	24,094,295
Pending revisions	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
B. Subtotal	$12,213,473,292	$13,676,275,263	$14,487,140,175	$15,123,124,284	$15,420,792,071
Present value of benefits provided by employer for members now in active service:					
Service retirement	$11,163,010,969	$13,247,094,585	$13,475,086,181	$14,260,409,868	$15,518,689,633
Ordinary disability retirement	963,619,855	1,008,809,551	1,075,162,542	1,105,529,411	1,170,143,127
Accidental disability retirement	402,769,297	269,152,133	372,239,980	374,521,577	386,780,459
Ordinary death benefits	907,555,073	931,927,561	987,151,209	1,007,932,563	1,059,437,876
Withdrawal of Articles 14 and 15 funds	84,420,324	0	0	0	0
Accidental death benefits	5,856,886	6,474,766	7,196,892	7,016,842	7,017,747
I.T.H.P. benefits	643,586,006	0	0	0	0
Vesting benefits	1,181,932,965	1,442,059,895	1,452,641,137	1,644,795,055	1,752,200,407
Return of contributions	0	115,912,515	108,871,070	20,329,699	19,941,013
C. Subtotal	$15,352,751,375	$17,021,431,006	$17,478,349,011	$18,420,535,015	$19,914,210,262

	1995	1996	1997	1998	1999
Less present value of prospective regular contributions and appropriations payable a/c above benefits:					
Total UAAL	$ 1,907,775,136	$ (1,010,685,025)	$ (926,645,848)	$ (529,413,461)	$ (531,808,790)
Present value of future EE contributions	1,984,758,843	2,407,809,069	2,450,007,816	2,510,597,172	2,406,106,268
All other ER contributions	1,063,514,355	3,117,245,501	2,771,702,359	1,702,257,790	366,755,012
D. Subtotal	$ 4,956,048,334	$ 4,514,369,545	$ 4,295,064,327	$ 3,683,441,501	$ 2,241,052,490
E. Net reserves for benefits provided the employer for members now in active service (C-D)	$10,396,703,041	$12,507,061,460	$13,183,284,684	$14,737,093,514	$17,673,157,772
F. Total net reserves (A+B+E)	$23,260,832,646	$26,183,336,723	$27,670,424,859	$29,860,217,798	$33,093,949,843
Accrued benefits payable	775,145,581	153,370,596	94,798,891	117,490,083	97,798,005
Reserve in escrow for mortgages	1,474,078	793,476	781,732	781,732	226,084
Deferred revenue employer contribution:	0	26,716,840	1,717,397	0	0
Amount in transit	8,135,889,671	10,980,985,273	13,953,312,452	17,860,526,889	19,490,849,956
Reserve to offset amount in transit	(8,135,889,671)	(10,980,985,273)	(13,953,312,452)	(17,860,526,889)	(19,490,849,956)
Due to variable supplement funds	551,298	160,932	148,544	145,544	217,628
Administrative expenses due to vendors	0	0	0	0	1,322,298
Net reserves and all other liabilities	$24,038,003,603	$26,364,378,567	$27,767,871,424	$29,978,635,158	$33,193,513,858
Excess of admitted assets over total net reserves and all other liabilities	813,527,113	800,494,332	3,951,667,611	6,866,408,794	7,591,299,009
Total	$24,851,530,716	$27,164,872,898	$31,719,539,035	$36,845,043,952	$40,784,812,867

B. STATEMENT OF INCOME AND DISBURSEMENTS

FISCAL YEAR ENDED JUNE 30,

	1995	1996	1997	1998	1999
Amount of ledger assets at end of previous year	$18,488,187,164	$18,753,578,956	$19,095,460,537	$20,330,373,260	$22,302,894,629
Income					
From Members					
Regular contributions (Tiers 1 & 2)	$ 51,381,072	$ 33,440,827	$ 27,894,798	$ 25,469,869	$ 25,802,714
Regular contributions (Tiers 3 & 4)	172,591,082	180,746,403	186,422,287	197,910,923	219,919,799
Loan repayments	141,479,807	149,612,894	160,512,130	171,566,827	195,276,727
Improved benefit retirement program	51,190,215	56,660,212	84,646,700	98,671,505	103,694,226
Contributions from pensioners optional insurance	7,707	6,462	7,441	7,168	5,246
From Employers					
City of New York	220,502,117	136,305,974	146,723,551	159,819,203	116,447,724
Other employers	182,599,428	138,654,173	57,152,179	76,880,009	61,740,823
Interest on budget appropriations	3,169,508	1,459,221	16,459	0	0
Reserves transferred from other systems	3,589,031	9,973,737	5,439,293	7,367,715	6,616,496
Tier 4 administrative charges	887,375	886,970	841,347	870,485	858,561

	1995	1996	1997	1998	1999
From Investments					
Mortgage interest	$ 2,221,148	$ 1,626,681	$ 1,374,048	$ 1,210,413	$ 1,054,119
Bonds	513,526,670	562,446,721	631,462,880	690,652,023	716,529,235
Stocks	359,626,049	360,736,911	345,398,623	333,699,951	324,180,230
Income from securities lending	0	0	0	11,955,322	0
Interest on money market	96,203	137,699	66,773	64,726	52,292
Interest on Tier 4 loans	23,411,174	26,720,106	30,730,122	36,399,040	41,496,349
Reimbursement for TA death gamble	440,918	0	0	245,529	0
Interest on collateral loans	0	0	8,429,021	0	13,950,776
From Other Sources					
Re-deposited benefits	604,301	672,105	1,074,487	1,290,858	1,211,862
Insurance on Tier 4 loans	577,650	658,484	775,703	924,594	1,056,872
Miscellaneous investment income	17,285,655	10,724,783	4,079,429	4,622,465	56,946,837
Misc. – non-investment income	0	0	403,635	0	0
Mortgage escrow and replacement	1,691,462	1,372,485	1,307,225	1,274,565	1,165,766
Gain on sale of bonds	173,623,174	219,099,625	206,210,418	278,757,447	230,250,128
Gain on sale of stocks	690,583,022	1,331,183,525	1,737,054,944	2,125,779,372	3,187,641,677
Gain on sale of L/T int'l fund	0	0	0	157,141,906	0
Increase in book value of bonds	31,289,520	30,564,312	41,572,886	59,009,382	48,520,618
Reimbursement for administrative and investment expenses	26,827,253	22,752,753	4,093,009	5,042,984	4,578,386
Total income	$2,669,201,541	$3,276,443,063	$3,683,689,388	$4,446,634,281	$ 5,358,997,463
Increase by transfer of funds	2,802,931,658	4,072,031,066	4,610,605,596	4,586,448,624	5,391,538,110
Total	$5,472,133,199	$7,348,474,129	$8,294,294,984	$9,033,082,905	$10,750,535,573

	1995	1996	1997	1998	1999
Disbursements					
Payments on account of retirements:					
Annual or other periodic payments	$1,527,715,306	$1,634,786,765	$1,756,904,119	$1,815,976,713	$1,907,696,955
Lump sum payments on account of death after retirement:					
option 1	29,230,861	20,192,004	18,526,368	16,581,306	15,852,007
option 4	3,762,335	7,362,030	6,105,910	7,965,633	8,904,243
Articles 11, 14 and 15	12,631,619	6,542,957	3,575,909	5,114,130	6,646,167
Death in service	66,851,274	72,023,361	64,768,497	61,752,137	66,722,435
Refunds	17,078,623	15,435,633	13,054,964	14,529,915	13,976,501
Pay Tier 4 loans via refund & retirement	7,246,158	10,168,776	10,476,440	10,139,055	12,771,486
Excess	8,557,190	8,566,335	7,465,406	5,918,535	6,257,308
TRF to members accounts-des.stm	15,998	2,417	1,357	3,786	12,815
Transfers to other systems	53,148,314	634,411,245	11,325,895	10,087,966	10,294,963
Designated annuitants	2,420,659	2,552,850	3,089,937	3,344,952	3,279,626
Designated annuities-option B	0	21,360	24,030	37,662	0
Administrative expenses	26,827,253	22,752,753	14,090,109	18,131,795	18,852,624
Member loans	252,679,310	238,287,404	275,904,022	273,181,028	277,931,292
Tier 4 loan expenses	177,522	921,572	546,616	616,526	528,312
Interest on claims	0	10,877	0	441	0
Mortgage escrow & claims	1,270,909	2,073,087	1,318,967	1,287,982	1,707,998
Tier 4 loan insurance payments	0	0	0	4,653,934	1,277,491
Paid to variable supplemental funds	0	551,298	163,932	0	0
Investment expenses	3,935,852	4,583,646	17,339,251	26,105,814	27,444,309
Gross loss on sale of:					
bonds	222,129,043	139,652,240	96,286,897	50,874,904	214,224,099
stocks	144,215,835	91,356,013	124,107,005	111,233,098	214,123,321
Decrease by adjustment in book value of bonds	23,915,688	22,306,859	23,701,034	36,575,596	35,264,399

	1995	1996	1997	1998	1999
Total disbursements	$ 2,403,809,749	$ 2,934,561,482	$ 2,448,776,665	$ 2,474,112,908	$ 2,843,768,351
Decrease by transfer of funds	2,802,931,658	4,072,031,066	4,610,605,595	4,586,448,624	5,391,538,120
Total	$ 5,206,741,407	$ 7,006,592,548	$ 7,059,382,260	$ 7,060,561,532	$ 8,235,306,471
Total income over disbursements	$ 265,391,792	$ 341,881,581	$ 1,234,912,723	$ 972,521,373	$ 2,515,229,102
Amount of ledger assets at end of current year	$18,753,578,956	$19,095,460,537	$20,330,373,260	$22,302,894,633	$24,818,123,735

6. TREATMENT OF MEMBERS

The examiner reviewed a sample of various types of benefits to members and beneficiaries to determine whether they were treated fairly and in accordance with the rules of the System. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. CUSTODIAL AFFIDAVIT

Citibank is the custodian of securities for the System. At the beginning of the examination, a request to confirm the System's securities was sent to the bank. The examiners did not receive a proper confirmation from Citibank. The Comptroller provided the examiners with an electronic inventory of securities held by Citibank on CD-ROM and Citibank separately confirmed that the CD-ROM received from the Comptroller did in fact contain the inventory of securities held for the System. A proper confirmation should require the custodian to provide an inventory of all securities held by them as well as a notarized affidavit.

The examiner recommends that the System facilitate the Department in obtaining proper confirmations from its custodian.

8. CASH

The Comptroller acts as the custodian for the cash of the System. The Comptroller's duties include reconciliation of the various bank accounts, printing and mailing of checks, and the maintenance of cash receipts and disbursements journals in addition to those maintained by NYCERS.

There was a difference of $12,661,165 between the cash balances reported by NYCERS and the amount reported by the Comptroller's office. NYCERS was only able to provide a reconciliation for $3,197,486 of the difference. The remaining difference of $9,463,679 dates back to the previous year and is still under investigation. The System does not perform periodic reconciliations of its cash accounts with the balances provided by the Comptroller's office. This was noted in the previous report on examination.

The examiner recommends that reconciliations between the Comptroller's cash balances and NYCERS' cash balances be done on a monthly basis. This is a repeat recommendation from the prior report on examination.

The examiner's review revealed that the System has an extraordinary number of outstanding checks, dating back as far as 1986. The examiner recommends that the System establish procedures to monitor stale checks.

The System maintains its cash accounts with Chase Manhattan Bank. At the beginning of the examination, a request to confirm the System's cash accounts was sent to the bank. The examiner never received a confirmation from the bank. The bank would not accept an authorization letter from the System to release the requested information. The bank required an authorization letter from the Comptroller, which was requested by the examiner but never provided. As a result, the examiner was unable to properly verify the cash balances reported by the System as of June 30, 1999.

The examiner recommends that the System facilitate the Department in obtaining proper cash confirmations from its bank.

9. ACCOUNTING RECORDS

A. Annual Statement

Section 307(a)(1) of the New York Insurance Law states, in part:

> " . . . every pension fund, retirement system . . . shall file in the office of the superintendent, annually on or before the first day of March, a statement, to be known as its annual statement . . . showing its condition at last year-end . . . "

The System violated Section 307(a)(1) of the New York Insurance Law by filing its 1999 annual statement in August 2000, five months after its due date. This is a repeat violation from the prior report on examination.

B. Chart of Accounts

Section 136.4(c) of Department Regulation No. 85 states:

> "Each system shall maintain a classification of its accounts, numbered and titled, together with an accurate description of the content of each account by debit and credit. Such classification of accounts shall be consistent with the requirements of the annual statement form prescribed by the superintendent."

NYCERS does not maintain a description of the contents of each account by debit and credit. The System violated Section 136.4(c) of Department Regulation No. 85 by not maintaining a description of the content of each account by debit and credit. This is a repeat violation from the three previous reports on examination.

C. Loan Files

Section 136.4 of Department Regulation No. 85 states, in part:

> "(a) All records . . . shall be available to the department's examiners and shall not be destroyed unless authorized by the superintendent in writing.

The examiner requested 52 loan files, only 13 complete files were received.

The System violated Section 136.4(a) of Department Regulation No. 85 by not providing the loan files requested by the examiner.

D. Member Loans

The System failed to record member loans as an asset. It reports loans as a deduction to the member's annuity savings fund. The liabilities are reduced by the same amount. Therefore there is a net effect on the "balancing item" (i.e. liabilities less assets) that is used to develop the normal contribution to zero. In the interest of presenting the System's assets and liabilities that underlie the contribution calculation, the examiner recommends that member loans be reported as an asset. This is a repeat recommendation from the previous report on examination.

10. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the System in response to each citation:

Item	Description
A	The examiner recommended that the System review the market value of its stock portfolio to ensure that no securities are listed at a $0 value and that all market values are properly recorded. The System has not listed any securities at $0 value.
B	The examiner recommended that the System maintain an inventory of all outstanding member loans and report the total member loans outstanding as an asset. The System does not report any member loans as an asset, but as a deduction from member's annuity accounts. This recommendation is repeated in the current report on examination.
C	The examiner recommended that the System report interest due and accrued on all member loans as an asset. The System reports interest on Tier 4 loans as an asset.
D	The examiner commented that the System revised its retirement application, at the request of the examiner, to make the member aware that he can choose from options other than ten-year certain in order to cover his beneficiary during the interim period. An explicit warning has also been added to the application that if a member selects no option and then dies during the interim period, nothing further would be payable by the System. The revisions are still in place.
E	The examiner commented that the System agreed to amend the election form and pay the ten-year certain benefit in monthly installments, as required by RSSL. The System has made such amendments.

Item	Description
F	The examiner recommended that reasonable estimates of retirement benefits be provided to all prospective retirees prior to their retirement dates and that accurate figures and payments be provided to all pensioners shortly after their retirement dates.
	The System states that Tier 1 and 4 basic members who are eligible for immediate payments are sent a statement of Estimated Benefit annually. However, other members must make a request to receive an estimate.
G	The examiner recommended that the System allocate additional resources to further reduce the number of outstanding in-service death claims.
	The System's goal to mail a death benefit letter within 75 days of notification has been met.
H	The examiner recommended that the System allocate sufficient resources to close out dormant files and reduce the backlog in outstanding pensioner death cases.
	The System has taken a number of steps to reduce the backlog, including the hiring of additional staff, creation of an online computer system and production of a self-produced option letter.
I	The System violated Section 154.1(c) of Article 3-A of the RSSL for failing to send the required statement annually to those members who are known as "five year outs." ("Five year outs" are NYCERS members that retired more than five years ago and never collected on their pension.)
	The System has removed the liability for all "five year outs."
J	The examiner commented that there was an unreconciled difference between the cash balances as reported by NYCERS and the cash balances as reported by the Comptroller's office.
	This comment is repeated in the current report on examination.
K	The examiner recommended that reconciliations between the Comptroller's cash balances and NYCERS' cash balances be done on a monthly basis.
	This recommendation is repeated in the current report on examination.

Item	Description
L	The examiner recommended that NYCERS reconcile each individual bank account. The examiner was unable to confirm the bank accounts. The examiner recommends that reconciliations between the Comptroller's cash balances and NYCERS' cash balances be done on a monthly basis.
M	The System violated Section 307(a)(1) of the New York Insurance Law by filing its 1994 annual statement eleven months after its due date. The System filed its 1999 annual statement five months after its due date. A repeat violation appears in the current report on examination.
N	The System violated Section 136.4(c) of Department Regulation No. 85 for not maintaining a description of the content of each account by debit and credit. The System still does not maintain a description of the contents of each account, and therefore again violated Section 136.4(c) of Department Regulation No. 85.

11. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the System facilitate the Department in obtaining proper confirmations from its custodians.	17
B	Comment that there was an unreconciled difference between the cash balances as reported by NYCERS and the cash balances as reported by the Comptroller's office.	18
C	The examiner recommends that reconciliations between the Comptroller's cash balances and NYCERS' cash balances be done on a monthly basis.	18
D	The examiner recommends that the System establish procedures to monitor stale checks.	18
E	The examiner recommends that the System facilitate the Department in obtaining proper cash confirmations from its bank.	18
F	The System violated Section 307(a)(1) of the New York Insurance Law for filing its annual statement five months after the due date.	19
G	The System violated Section 136.4(c) of Department Regulation No. 85 by not maintaining a description of the content of each account.	19
H	The System violated Section 136.4(a) of Department Regulation No. 85 by not providing the loan files requested by the examiner.	19
I	The examiner recommends that the System report all member loans as an asset.	20

Respectfully submitted,

/s/
Edward J. Tasker
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Edward J. Tasker, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Edward J. Tasker

Subscribed and sworn to before me
this_________ day of __________________2001.

APPOINTMENT NO. 21621

STATE OF NEW YORK

INSURANCE DEPARTMENT

*I, **NEIL D. LEVIN**, Superintendent of Insurance of the State of New York,*

pursuant to the provisions of the Insurance Law, do hereby appoint:

EDWARD TASKER

as a proper person to examine into the affairs of the

NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM

and to make a report to me in writing of the condition of the said

SYSTEM

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 4th day of October, 2000

NEIL D. LEVIN
Superintendent of Insurance

*by **GREGORY V. SERIO***
First Deputy Superintendent

NEW YORK CITY

EMPLOYEES RETIREMENT SYSTEM

Report of the Examining Actuary

Michael J. Lambert, ASA, MAAA, EA

Condition as of: June 30, 1999

Report of the Examining Actuary

1. Actuarial Cost Method and Employer Contribution

The actuarial cost method by which employer contributions to the New York City Employees Retirement System are computed is the Frozen Entry Age Actuarial Cost Method. A significant aspect of that method is that the present value of future normal contributions is a balancing item, calculated by subtracting the sum of the actuarial value of assets, the unfunded actuarial accrued liability and the actuarial present value of prospective required employee contributions from the actuarial present value of prospective benefits as of the valuation date. Consequently, actuarial gains and losses are reflected in the normal contribution rate.

Contributions are required of employees in all four benefit tiers, reducing the amount the employer otherwise would have to contribute. The usual method of achieving the reduction in employer costs is to exclude the actuarial present value of future employee contributions from the value of benefits to be financed. Although the System currently follows this method, it did not always do so for Tier 1 and Tier 2 employees.

Unlike Tiers 3 and 4, the contributions required of Tier 1 and Tier 2 employees are not set at a uniform percentage of salary, and the present value of future Tier 1 and Tier 2 employee contributions is difficult to ascertain. Instead, the System, based on past experience, had derived a set of "P-factors," representing the employer's share of total retirement benefit costs for several broad classes of Tier 1 and Tier 2 employees. In calculating the present value of future benefits for such employees, the System used the P-factors to adjust the total formula benefit so that only the employer's share is reflected in the normal contribution rate. The values of the P-factors ranged between 77% and 90%. This P-factor method was last used with the June 30, 1994 valuation; beginning with the June 30, 1995 valuation, the "usual method" described in the preceding paragraph was used.

The normal contribution rate is computed so as to amount to a level percentage of payroll, as follows: the present value of future normal contributions (the aforementioned balancing item) is divided by the present value of projected future salaries of members on the payroll as of the valuation date. The employer normal contribution for the ensuing fiscal year is derived by multiplying the normal contribution rate by aggregate annual salaries. The resulting normal contribution is appropriate for a value that is to be paid immediately on the valuation date; in fact, the contribution is paid throughout the year. To adjust for the timing, the present value of future normal contributions reflects an interest adjustment of half a year's interest at the valuation rate. Prior to the June 30, 1995 valuation this adjustment was made as a separate multiplication in developing the normal contribution.

In addition to the normal contribution, the total employer contribution includes a contribution to amortize the unfunded actuarial accrued liability (UAL contribution). Prior to the June 30, 1995 valuation, the total employer contribution also included a contribution for increased take home pay (ITHP contribution) and a military contribution. The ITHP contribution represented the assumption by the employer of a portion of the contribution that otherwise would be required of Tier 1 and Tier 2 employees, and was computed as a percentage of the salaries of those employees. When the method of determining the employer contribution was modified by eliminating the P-factor approach, the identification of the ITHP component of the employer contribution was no longer necessary, so ITHP was no longer separately determined as a contribution component beginning with the June 30, 1995 valuation. The military contribution represents past service costs associated with retirement service credit allowed for military service during World War II and the Korean conflict. The amount of this contribution and the number of employees involved became minuscule, and the military contribution was discontinued effective with the June 30, 1995 valuation.

Another change in methodology was effective with the June 30, 1999 valuation. Investment expenses had, in previous years, been paid from plan assets, but there was no actuarial assumption that explicitly addressed the anticipated expense. As a result, the determination of the true investment gain/(loss) (net of expenses) for a completed year was under/(over)stated. The investment expenses ended up being spread, as part of the gain/(loss), and funded as a portion of the normal contribution. As a result of the change in methodology, the amount of investment expenses paid during the 1999 fiscal year was determined and reimbursed to the fund as a separate component of cost, in addition to the normal contribution, for the 2000 fiscal year. The investment expense portion of the total fiscal year 2000 contribution is about $27,000,000, which represents less than .1% of the market value of assets as of the beginning of the fiscal year.

This Report on Examination covers the five fiscal years ending June 30, 1995 through June 30, 1999. The following table, and many of the subsequent tables in this Report of the Examining Actuary, includes values as of the end of those five fiscal years, as well as values as of the end of the immediately preceding fiscal year, ending June 30, 1994.

Employer contributions were computed as follows (dollar amounts shown to nearest thousand):

Valuation Date	(1) Actuarial Present Value of Benefits	(2) Actuarial Value of Assets	(3) Unfunded Accrued Liability	(4) Present Value of Future Employee Contributions
6/30/94	26,619,659	20,330,518	1,928,411	1,937,290
6/30/95	28,727,240	24,623,263	(1,391,945)	2,093,610
6/30/96	30,324,099	25,809,729	(1,010,685)	2,407,809
6/30/97	31,517,998	27,222,934	(926,646)	2,450,008
6/30/98	33,018,145	29,334,703	(529,413)	2,510,597
6/30/99	36,346,572	40,936,024	0	2,334,565

Valuation Date	(5) Present Value of Future Normal Contributions (1)-(2)-(3)-(4)	(6) Present Value of Future Salaries	(7) Normal Contribution Rate (5) ÷ (6)	(8) Aggregate Annual Salaries
6/30/94	2,423,440	70,593,936	3.433%	6,547,399
6/30/95	3,402,312	61,399,832	5.541%	6,432,260
6/30/96	3,117,246	61,908,157	5.035%	6,580,364
6/30/97	2,771,702	63,139,979	4.390%	6,752,927
6/30/98	1,702,258	63,742,362	2.671%	6,935,216
6/30/99	(6,924,017)	65,394,085	0.000%	7,593,156

Valuation Date	(9) Normal Contribution (7) x (8)	(10) UAL Contribution	(11) Total Employer Contribution (9) + (10)	(12) Employer Payroll Rate (11) ÷ (8)
6/30/94	234,669 [1]	186,003	447,582 [2]	6.84%
6/30/95	356,412	(137,800)	218,612	3.40%
6/30/96	331,321	(102,429)	228,892	3.48%
6/30/97	296,453	(70,357)	238,558 [3]	3.53%
6/30/98	185,240	(21,800)	179,117 [3]	2.58%
6/30/99	0	0	68,620 [3,4]	0.90%

[1] Reflects contribution timing adjustment of 1.044031.

[2] Includes ITHP contribution of $26,888,000 and Military contribution of $21,000.

[3] Includes administrative expense beginning 6/30/97.

[4] Includes investment expense of $27,127,000. Also includes $20,377,000 of Group Term Life Insurance cost; this item is included in the Normal Contribution for prior years, but is not separately shown.

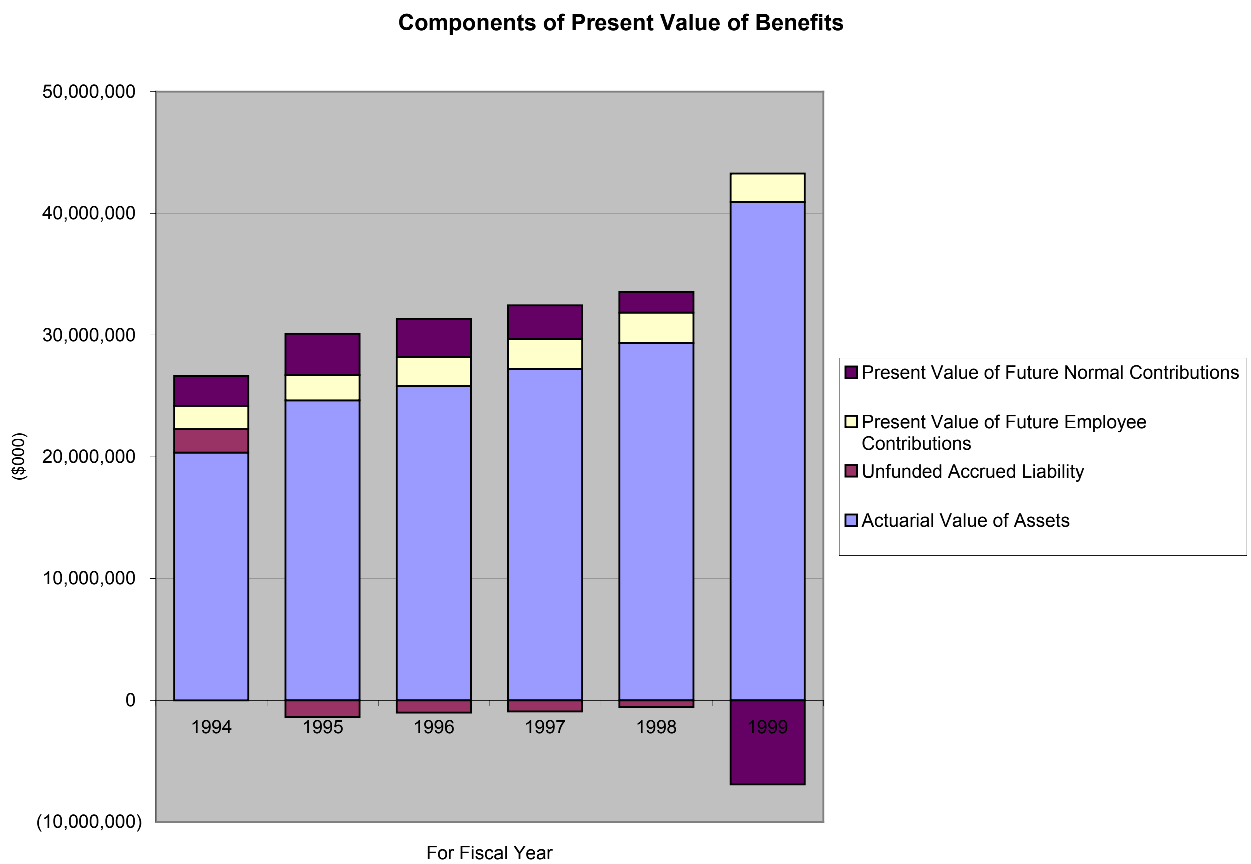
The above figures indicate that the employer normal contribution and the total employer contribution decreased significantly during the examination period, both in dollar amount and as a percentage of payroll. Total employer contributions as a percentage of payroll declined dramatically, from 6.84% for fiscal year 1994-1995 to 0.90% for fiscal year 1999-2000. The principal reasons for the declines were:

1. Asset appreciation: the market value, and hence the actuarial value, of the System's invested assets increased significantly more than predicted by the actuarial interest rate during the entire examination period.

2. Change in asset valuation method: As of June 30, 1995 and again as of June 30, 1999 the actuarial asset valuation method was "reset" to current market value. On both dates, the market value of assets significantly exceeded the actuarial value of assets (prior to change), so the result was a significant increase in actuarial value of assets, and hence a significant reduction in required contribution.

3. Change in assumptions: As of June 30, 1995 and again as of June 30, 1999 the interest and salary scale assumptions were changed such that, in combination, the required contribution decreased.

Shown below is a chart of the primary liability components.

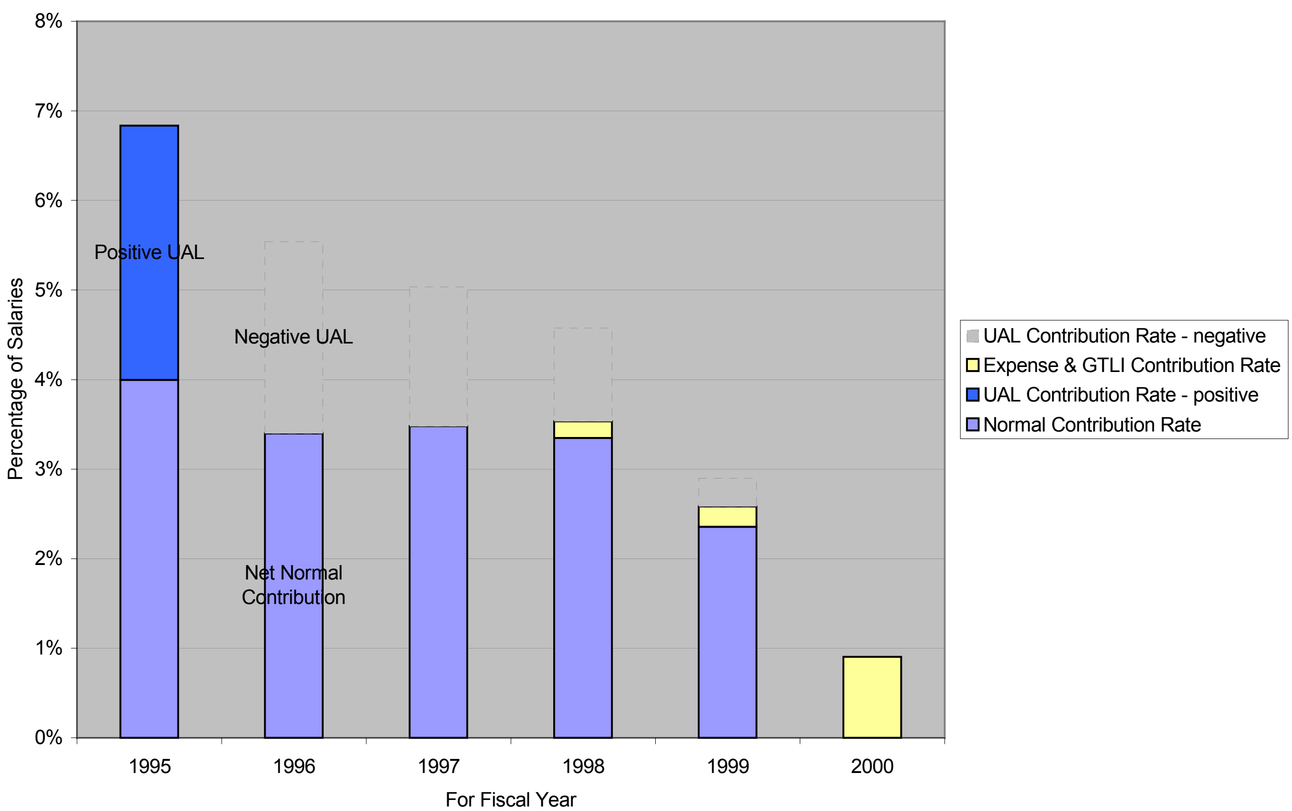


This chart illustrates that for 1995 through 1998 the UAL is negative, although tending toward zero. For fiscal year 1999, due to the assumption and method changes described above, the UAL becomes zero and the present value of future normal contribution becomes negative. As described in Section 1, that present value is a balancing item, and becomes negative through the usual arithmetic used to derive that value. As shown in the chart below, however, the normal contribution for fiscal year 2000 (due to benefits other than Group Term Life Insurance) is set equal to zero, since Chapter 85 of the Laws of 2000 specifies that the normal contribution "… shall not be less than zero."

The following chart illustrates the employer costs resulting from the liabilities shown above. The layout of the following chart is a little different from the preceding chart, in that negative values are not shown below the 'zero' line, but rather are shown above the zero line surrounded by a dashed line border, indicating that that value 'cancels out' a portion of the employer normal contribution; the remaining (or net) employer contribution is shown as a solid bar. This chart also shows one amount for the total of the expense components and the group term life insurance premium. As mentioned above, the administrative expense component was first separately determined with the June 30, 1997 valuation (for the 1998 fiscal year), and the investment expense component was first separately determined with the June 30, 1999 valuation. The group term life insurance premium was included in the employer normal contributions prior to the June 30, 1999 valuation, but was not shown separately on the chart.

As mentioned previously in this Report, the contribution to be made for a given fiscal year is based on asset and liability data as of the last day of the preceding fiscal year; e.g., the contribution rate for fiscal year 2000 (ending June 30, 2000) is based on data and measurements made as of June 30, 1999.

NYC ERS Contribution Rates



2. Actuarial Present Value of Benefits and Annual Statement Liabilities

The liabilities of the Fund as reported in its annual statements to the New York State Insurance Department are summarized in the following table (dollar figures are shown to nearest thousand):

Valuation Date	(1) Accumulated Contributions of Members	(2) Present Value of Benefits Payable to Beneficiaries Now Drawing Allowances	(3) Present Value of Benefits Provided for Members Now in Active Service	(4) Unfunded Accrued Liability
6/30/94	$752,297	$11,548,932	$16,363,709	$1,928,411
6/30/95	650,656	12,213,473	15,352,751	1,907,775
6/30/96	[1]	13,676,275	17,021,431	(1,010,685)
6/30/97		14,487,140	17,478,349	(926,646)
6/30/98		15,123,124	18,420,535	(529,413)
6/30/99		15,420,792	19,914,210	(531,809)

Valuation Date	(5) Present Value of Future Employee and Other Contributions	(6) Net Reserves (1)+ (2) + (3) – (4) – (5)	(7) Benefits, Expenses and Other Amounts Due and Unpaid	(8) Amounts Due Variable Supplements Funds
6/30/94	$4,388,330	$22,348,197	$189,738	$8,484
6/30/95	3,048,272	23,260,833	776,620	551
6/30/96	5,525,053	26,183,337	180,881	161
6/30/97	5,221,710	27,670,425	97,297	149
6/30/98	4,212,854	29,860,218	118,271	146
6/30/99	2,772,861	33,093,950	99,346	218

Valuation Date	(9) Net Reserves and All Other Liabilities (6)+(7)+(8)	(10) Admitted Assets	(11) Excess of Assets over Reserves and Liabilities (10) – (9)
6/30/94	$22,546,419	$22,348,913	$(197,506)
6/30/95	24,038,004	24,851,531	813,527
6/30/96	26,364,379	27,164,873	800,494
6/30/97	27,767,871	31,719,539	3,951,668
6/30/98	29,978,635	36,845,044	6,866,409
6/30/99	33,193,514	40,784,813	7,591,299

[1] Beginning with the June 30, 1996 Annual Statement, the liabilities for active members include liabilities for benefits attributable to employee contributions; in prior years, the liabilities for active members excluded liabilities for benefits attributable to employee contributions, and the accumulated contributions of members was shown as a separate liability item.

Because of the way pension plans are funded, the values in Column (11), "Excess of Assets over Reserves and Liabilities", would, in general, be zero. They are not zero here because of differences between Admitted Assets, as shown in the Annual Statement, and the Actuarial Value of Assets, used for developing the employer contribution. Those differences are discussed further in Section 4 of this report.

Funding calculations are generally completed after the Annual Statement is filed. Values in the Annual Statement may not reflect benefit changes and assumption and method changes that are made after the Annual Statement is filed, but are incorporated in the funding calculations. Therefore some of the items in the table above will differ from the corresponding values shown in funding calculations.

3. Unfunded Actuarial Accrued Liability

The unfunded actuarial accrued liability (UAL) of a pension plan refers to the present value of required employer contributions other than normal contributions (and, in the case of the System, other than ITHP and military contributions). UAL should not be viewed as a measure of the overall funding status of the pension plan. One such measure is discussed elsewhere in this report under the caption, "Funding Ratios."

The items to be funded through UAL contributions, and the computation of the initial UAL balance, are affected by the choice of funding method. Under the System's funding method, new unfunded accrued liability balances generally are established in connection with improvements in member benefits attributable to past service and in connection with changes in actuarial assumptions. The amount of such new UAL balances is computed by the method known as Entry Age Normal.

The System's total UAL at any point in time comprises the aggregate present value of the remaining payments in amortization of all previously established UAL balances, together with the "balance sheet liability" (BSL). The BSL is the non-ledger and not-admitted asset described elsewhere in this Report on Examination as "Employer Contribution Receivable - Long Term."

As of June 30, 1994, just prior to the examination period, the UAL consisted of two components: the “consolidated UAL” of around $822,000,000, and the BSL mentioned above, around

$1,106,000,000. The total UAL was $1,928,000,000, and the annual payment for the 1995 fiscal year was $186,000,000.

Chapter 249 of the Laws of 1996 changed many actuarial assumptions and re-established and consolidated the total UAL and the BSL as of June 30, 1995. In addition, the Actuarial Value of Assets was reset to market value. The re-established UAL and BSL is to be amortized over a period of 15 years, where each annual payment after the first is to be 103% of the preceding annual payment. As a consequence of the actuarial cost method, changes in liability or asset values resulting from changes in assumptions or actuarial methods flow through to the UAL. The changes in assumptions mentioned above resulted in a modest increase in liability. However, due to the market value "restart", the Actuarial Value of Assets increased significantly. As a result, the new UAL, which would have been $1.9 billion before any changes, decreased to $(1.4) billion after reflecting the changes described above.

Chapter 119 of the Laws of 1995 provided additional benefits to retirees. It produced an unfunded liability amount on June 30, 1996 of $310,000,000, which is to be amortized over 10 years with level payments.

Chapter 12 of the Laws of 1995 offered an early retirement incentive. It produced an unfunded liability amount on June 30, 1996 of $50,000,000, and is to be amortized over five years with level payments.

Chapter 30 of the Laws of 1996 offered an early retirement incentive. It produced an unfunded liability amount on June 30, 1997 of $66,000,000, and is to be amortized over five years with level payments.

Chapter 41 of the Laws of 1997 offered an early retirement incentive. It produced an unfunded liability amount on June 30, 1997 of $23,000,000, and is to be amortized over five years with level payments.

Chapter 390 of the Laws of 1998 provided additional benefits to reflect cost-of-living increases for certain retirees. That legislation increased benefits for members who retired prior to 1993, and resulted in an initial UAL component of about $382,000,000 as of June 30, 1998, which was to be funded over a period of 10 years with level payments. The City Council, under the legislation, elected a second increase in benefits for members who retired before 1994; that increase resulted in an initial UAL component of about $14,000,000 as of June 30, 1999.

Chapter 85 of the Laws of 2000 changed actuarial assumptions, eliminated the BSL and reestablished the UAL as of June 30, 1999. In addition, the Actuarial Value of Assets was reset to market value, as it was in the 1995 valuation. As described above with the 1995 changes, the result was a significant decrease in the UAL; in fact, it became negative, as it did with the 1995 valuation. However, Chapter 85 specified that the UAL shall not be less than zero. Therefore, the resulting UAL as of June 30, 1999 was $0.

The progression of the total UAL (including the BSL) and the total annual amortization payment is shown below.

Valuation Date June 30	Total UAL	Payment
1994	$1,928,000,000	$186,000,000
1995	(1,392,000,000)	(138,000,000)
1996	(1,011,000,000)	(102,000,000)
1997	(927,000,000)	(70,000,000)
1998	(529,000,000)	(22,000,000)
1999	0	0

4. Actuarial Asset Valuation Method

Assets are reported in the System's annual statements at amortized value for bonds and market value for stocks. More than half of the System’s total assets is invested in stocks, and their market value is considered too volatile to use directly in computing employer contributions. Accordingly, for purposes of computing employer contributions, market values are smoothed by the use of an actuarial asset valuation (AAV) method.

Beginning with the June 30, 1991 valuation the System adopted a new AAV method, under which the current year's market value was adjusted so as to recognize “unexpected return” over a five year period. “Unexpected return” was defined as the excess of actual investment income, including realized and unrealized changes in market value, over expected investment income. Expected investment income, in turn, was defined to be the valuation interest rate multiplied by the mean actuarial value of investable assets.

In conjunction with the actuarial assumption and method changes effective June 30, 1995 mentioned above, a “market value restart” was implemented. Thus, as of June 30, 1995 the actuarial value of investable assets was set equal to market value and the five year averaging of “unexpected return” was phased in with subsequent valuations.

One of the changes effective June 30, 1999 was, again, a “market value restart”. The actuarial asset value for the June 30, 1999 valuation prior to the change was $32.5 billion. The actuarial asset value was reset to the market value of $40.9 billion.

In the annual statements filed by the System with the New York Insurance Department, the balance sheet entry, "Excess of admitted assets over total net reserves and all other liabilities," embodies the difference between admitted assets and the actuarial value of assets. To arrive at the actuarial asset value used in computing pension expense, it is necessary to deduct amounts not available for future benefits, such as benefits due and unpaid and mortgage escrow.

Until the June 30, 1995 valuation, it had been the System's practice, as described earlier, to deduct accumulated employee contributions from both assets and liabilities in the pension expense computations. When that procedure was changed to include the benefits provided by employee contributions in the liability calculations and the accumulated employee contributions in the assets, not all of the employee contributions were included; the portion of the employee contributions that had been loaned to the employees was still excluded from the valuation assets and liabilities. The actuarial value of assets for pension expense purposes thus can be related to assets in the annual statement as follows:

Valuation Date	(1) Admitted Assets	(2) Excess of Admitted Assets over Total Reserves	(3) Accum. Employee Contributions/Loans Deducted from Liabilities Above	(4) Annuity Savings Fund, not Included in Liabilities Above
6/30/94	22,348,913,053	(197,505,902)	1,263,324,477	754,354,985 [a]
6/30/95	24,851,530,716	813,527,113	1,522,219,332	650,656,313
6/30/96	27,164,872,899	800,494,332	373,607,723 [b]	[c]
6/30/97	31,719,539,035	3,951,667,611	447,490,859	
6/30/98	36,845,043,952	6,866,408,794	525,514,798	
6/30/99	40,784,812,867	7,591,299,009	598,580,843	

Valuation Date	(5) Accrued Benefits Payable	(6) Reserve in Escrow for Mortgages	(7) All Other Amounts Due and Unpaid	(8) Actuarial Value of Assets (1)-(2)-(3)-(4) -(5)-(6)-(7)
6/30/94	171,024,227	3,780,179	23,417,087	20,330,518,000
6/30/95	775,145,581	1,474,078	551,299	21,087,957,000 [d]
6/30/96	153,370,596	793,476	26,877,772	25,809,729,000
6/30/97	94,798,891	781,733	1,865,941	27,222,934,000
6/30/98	117,490,083	781,733	145,544	29,334,703,000
6/30/99	97,798,005	226,083	1,539,927	32,495,369,000 [d]

[a] amount in statement $752,296,985 plus $2,058,000 adjustment

[b] Prior to 6/30/96, liabilities and assets attributable to employee contributions were excluded from pension cost calculations; beginning 6/30/96, only the outstanding loan portion of employee contributions was excluded from cost calculations.

[c] In conjunction with the change to include employee contributions in cost calculations, this item is no longer excluded from cost calculations.

[d] As mentioned above, the actuarial value of assets as of June 30, 1995 and June 30, 1999 was reset to market value; the values shown in this table are the initially calculated actuarial values before the "restart".

5. Allocation of Costs among Obligors of the System

Members of the System include employees of various public authorities and other entities in addition to persons employed by the City of New York. The following obligors contribute to the System on account of employees who are members:

New York City Transit Authority
New York City Housing Authority
New York City Health and Hospitals Corporation
Triborough Bridge and Tunnel Authority
New York City Off-Track Betting Corporation
New York City Housing Development Corporation
New York City School Construction Authority
New York City Residential Mortgage Insurance Corporation
The State of New York, on account of certain judiciary employees
New York City Municipal Water Authority

To allocate the normal contribution among obligors, contributions for various groupings of employees are computed according to the entry age normal actuarial cost method, and the total normal contribution is distributed in proportion to the calculated entry age normal contributions. The normal contribution is distributed within groupings, if necessary, in proportion to salaries. At the beginning of the examination period, separate entry age normal contributions were computed for the following groups of employees:

Sanitation Department employees
Transit Authority employees covered under 20-year non-contributory plan
Housing Police, Transit Police
Corrections Officers
Triborough Bridge and Tunnel Authority
All other employees

The UAL contributions were distributed among obligors in the same proportion as the previous, separate UAL balances. Any UAL balances arising subsequently were distributed among obligors directly, based on employees that generated the balances.

As mentioned previously in this Report, the cost *for* a fiscal year are based on values determined as of the last day of the immediately preceding fiscal year. Thus, the cost for the fiscal year ending June 30, 2000 is based on values determined as of June 30, 1999.

Total costs to each obligor

Obligor	fiscal year ending June 30, 1995	1996	1997	1998	1999	2000
New York City Transit Authority	131,680,010	58,447,677	58,799,129	57,651,872	50,974,762	18,473,519
New York City Housing Authority	36,615,216	4,004,907	5,115,329	4,486,344	4,007,162	4,652,454
New York City Health and Hospitals Corporation	42,875,091	18,556,668	16,867,209	15,265,352	6,623,146	9,316,963
Triborough Bridge and Tunnel Authority	3,483,699	1,066,143	95,076	319,817	339,015	652,861
New York City Off-Track Betting Corporation	2,272,449	625,328	637,602	872,470	496,008	359,360
New York City Housing Development Corporation	31,415	9,554	13,165	14,080	3,858	4,737
New York City School Construction Authority	111,913	56,309	47,924	38,495	41,034	35,393
New York City Residential Mortgage Insurance Corporation	10,696	1,900	1,421	882	6,190	3,193
State Judiciary Employees	62,825	19,841	45,971	88,650	162,051	7,389
New York City Municipal Water Authority		639	365	448	1,016	828
All Others	230,438,657	135,821,832	147,268,441	159,819,203	116,462,576	35,113,048
Total from City and Other Obligors	447,581,971	218,610,798	228,891,632	238,557,613	179,116,818	68,619,745

6. Interest Earned and Interest Required

Included in the System's annual statements to the Insurance Department are the amount of interest required to maintain funds and the total investment income actually earned during the year, including realized and unrealized changes in market values. Interest required to maintain funds is computed by applying the assumed valuation interest rate to the mean actuarial value of assets. Thus, the amount reported as interest required to maintain funds represents the expected investment income for the fiscal year. The amounts reported for the period under examination were as follows:

Fiscal Year ending 6/30	(1) Interest Earned	(2) Interest Required	(3) Excess (1) - (2)	(4) Ratio (1) ÷ (2)
1995	3,624,015,920	1,933,218,299	1,690,797,621	187%
1996	4,287,468,988	2,017,527,452	2,269,941,536	213%
1997	6,065,549,936	2,102,918,127	3,962,631,809	288%
1998	6,629,154,700	2,236,384,145	4,392,770,555	296%
1999	5,551,607,541	2,250,898,690	3,300,708,851	247%
TOTAL	26,157,797,084	10,540,946,711	15,616,850,373	248%

As the table indicates, actual investment earnings significantly exceeded the expected investment income for each year of the five year examination period.

7. Funding Ratios

Attachment B of the System's annual statements to the Insurance Department provides, as a measure of funding adequacy, the ratio of assets available for active members to the projected benefit obligation (PBO) for active members.

The PBO is the present value of pension benefits resulting from employee service up to the date of the annual statement, based on salaries projected to the date of retirement. (PBO thus is different from the annual statement's “Present Value of Benefits for Members now in Active Service,” which is based on members’ total anticipated service as of the date of retirement.) The PBO includes vested benefits for terminated members.

The PBO was developed according to Statement No. 5 of the Government Accounting Standards Board (GASB 5), even though GASB 5 has been largely superseded by GASB 27. However, according to both GASB 5 and GASB 27, where the actuarial cost method is the Frozen Entry Age, for purposes of computing the PBO the member's total projected benefit at retirement is prorated uniformly over total anticipated service, even if the plan's benefit formula provides a non-uniform pattern of benefit accrual. For many members the System's benefits accrue more rapidly in the earlier years of a member's service than in the later years. For such members the uniform prorate required by GASB produces a lower PBO, and hence a more favorable funding ratio, than would be produced by prorating benefits strictly according to the benefit formula.

Assets available for active members are the System's admitted assets reduced by the following: present value of benefits to beneficiaries now drawing allowances, accumulated member contributions, benefits due and unpaid and other miscellaneous liabilities. Amounts relating to group life insurance benefits are excluded from assets as well as from the PBO.

A strength of the funding ratio as a measure of funding adequacy is that it is independent of the actuarial cost method used for determining contributions to the pension plan. Its weakness is that it is dependent on the actuarial assumptions used for determining those contributions. Actuarial assumptions that are more optimistic lead to a lower level of future funding requirements and produce a more favorable funding ratio.

Funding ratios are shown in the following table.

Valuation Date	(1) Assets Available for Active Members	(2) Projected Benefit Obligation	(3) Funding Ratio (1) ÷ (2)
6/30/94	8,341,712,777	8,199,229,286	102%
6/30/95	9,410,840,910	7,158,153,367	131%
6/30/96	13,005,444,149	9,971,001,344	130%
6/30/97	16,800,553,502	10,153,800,547	165%
6/30/98	21,239,366,816	10,850,010,967	196%
6/30/99	24,861,593,482	11,794,012,811	211%

The increase in Funding Ratio shown above is due, in part, to the investment gains referred to earlier in this report, and in part to assumption and method changes made during the five year period.

It should be noted that the increase in Funding Ratio shown above does not reflect the change in funded status of the entire Plan. The Funding Ratio above is based on a comparison between the liabilities for active members and assets "available" for active members. The value of assets "available" for active members is the total plan assets reduced by the liability attributable to non-active members. Thus, for the purpose of this measurement, all plan investment gains or losses flow through to this funding ratio, which excludes non-active members. This "leveraging" effect magnifies the apparent change in funded status of the entire plan. For example, as of June 30, 1994, the overall plan funding ratio, including all plan assets and all plan liabilities, was 103%, and as of June 30, 1999, it was 150%. This increase in funding ratio for the entire plan is less dramatic than the increase from 102% to 211% shown in the table above.

As mentioned, changes in assumptions and methods also affect the Funding Ratio as shown above. The June 30, 1999 funding ratio based on all plan assets and all plan liabilities, and based on assumptions and methods first effective as of June 30, 1999, was 150%, as mentioned above. Based on the prior assumptions and methods, that funding ratio was 125%.

8. Actuarial Assumptions and Methods

During the prior examination period the System engaged a pension consulting organization (William M. Mercer, Inc.) to analyze System experience in relation to the actuarial assumptions used to determine employer contributions. The consulting organization issued a final report dated December 29, 1994 in which a number of changes in actuarial assumptions were recommended. Based in part on the consulting organization's recommendations, the System's own actuary (i.e., the City of New York Office of the Actuary) presented recommendations for changes in actuarial assumptions to the System's Board of Trustees. As a result, Chapter 249 of the Laws of 1996 effected an increase in the actuarial interest rate, a reduction in the assumed rates of increase in salaries and various adjustments in the rates of decrement to better reflect expected future experience.

The changes in actuarial assumptions due to the aforementioned legislation, effective with the June 30, 1995 valuation, were:

- The actuarial interest rate was changed from 9% to 8.75%.
- The salary scale assumption consists of a general wage increase assumption with age-specific and sex-specific merit and promotion assumptions. The general wage increase component was 5½% for the June 30, 1994 valuation, and decreased to 4% for the June 30, 1995 and subsequent valuations.
- The mortality rates for service pensioners are age- and sex-specific, and were changed such that the new rates were lower than the former rates for younger ages (generally 70 or less) and higher for older ages.

- Assumptions for decrements from active service due to mortality, ordinary disability and accidental disability were changed.
- Assumptions for withdrawal from active service both before and after eligibility for service retirement were changed.

Effective with the June 30, 1995 valuation, the Unfunded Actuarial Accrued Liability was consolidated and reestablished, as described further in Section 3.

Also effective with the June 30, 1995 valuation, the actuarial value of assets was determined by a market value restart, where the actuarial value of assets was set equal to the market value of assets. For years prior to 1995, the actuarial value of assets was determined using a five year average of "unexpected investment returns". For years subsequent to 1995, a similar five year average approach was used, but the weights applied to the each of the five years were modified slightly from the prior approach.

Also effective with the 1995 valuation and enacted with Chapter 249 of the Laws of 1996:

- A change that eliminated the "p-factor" method of determining benefits attributable to employer contributions.
- The value of benefits attributable to employee contributions was included in the calculation of total plan liabilities and plan assets to determine the employer contribution.

Several changes in assumptions and methods were proposed by the Office of the Actuary for the June 30, 1999 valuation. These changes were implemented in Chapter 85 of the Laws of 2000, and included the following:

- The actuarial interest rate was changed from 8.75% to 8.00%
- The General Wage Increase component of the salary scale assumption was changed from 4% to 3%.
- The assumed rates of mortality, withdrawal, retirement and disability were changed based on recent experience studies.
- The Unfunded Actuarial Accrued Liability was consolidated and reestablished using the Entry Age Actuarial Cost Method, and the BSL was eliminated. The resulting UAL was $0.
- The actuarial asset value was reset to market value.
- The investment expenses were reimbursed to the Fund as a separately-identified contribution amount.

9. Recommendations

1. As shown in Section 4, the assets used for calculating pension cost did not include amounts that had been loaned to members. The liabilities were reduced by the same amount, so that the net effect on the "balancing item" (i.e., liabilities less assets) that is used to develop the normal contribution is zero; i.e., there is no net effect on the calculated normal contribution. However, in the interests of presenting the entire plan assets and liabilities that underlie the contribution calculation, it is recommended that the assets (and liabilities) used for calculating the pension cost not be reduced by the loan amount.

   The amounts loaned to members are, in essence, one of the investments of the plan, along with equity, real estate, bonds and other forms of investment. Excluding that form of investment from the amount of assets (and liabilities) used in the calculation of pension cost distorts the relative level of assets and liabilities, and can distort the apparent change of assets over time. As an illustration (recognizing that this extreme could not occur in reality), if 100% of plan assets were loaned to members, it would appear that some liability amount is being supported by zero current assets.

   GASB 28, "Accounting and Financial Reporting for Securities Lending Transactions", requires that securities loaned as assets be reported in the Statements Of Plan Net Assets ("Statement"). That Statement does not directly relate to loans to members, but the rationale in the Statement provides support for the concept of including loans to members in plan assets (and liabilities).

2. The actuarial asset valuation method, as described in Section V, adjusts the current year market value to attempt to smooth the volatility normally encountered with equities. As described in Section VIII, the actuarial asset valuation method was changed with the June 30, 1995 valuation and again with the June 30, 1999 valuation. In each case, the change made was a "market value restart", where the actuarial asset value was set equal to the market value of assets. Also, in each case the market value of assets was higher than the actuarial value that would have otherwise been calculated, thus resulting in a lower contribution requirement.

   Even though, as mentioned above, this plan is not subject to the funding requirements promulgated by the Internal Revenue Service, we can look to the Code et al. for guidelines. The IRS permits actuarial asset valuation methods that smooth fluctuations, and even permits, with certain restrictions, changing from one method to another (e.g., from a method which smoothes assets fluctuations to a market value of assets; i.e., a market value restart) without prior IRS approval. The general intent of the IRS rules is to require that an actuarial asset valuation method be applied on a consistent basis. If changes in the actuarial asset valuation method are made, they should not produce results that are consistently above or below the fair market value.

The Department has a concern that, in some years, the actuarial asset valuation method has been changed in order to reduce the contribution requirement. The result is that contributions that would otherwise be made in that year are deferred to future years. The ultimate cost of a pension plan is the plan benefits plus expenses less investment income. This deferral of contribution would therefore result primarily in less investment income, which means that the ultimate cost of the pension plan would be greater than it otherwise would be. In addition, changing the actuarial asset valuation method via the fresh-start method can result in contribution requirements that are not directly comparable to previous years, and may produce a misleading indication of the magnitude of future contribution requirements.

The Department recommends that the current actuarial asset valuation method be applied consistently in the future.

10. Comments

1. This comment considers a longer time frame than the five year period encompassed by this report.

   The actuarial interest rate and the salary scale assumption are related, since they share a component: the assumed wage increase. A single measure that incorporates certain aspects of both the actuarial interest rate and the salary scale assumption is the *spread*, or excess of the interest rate over the salary scale assumption. The spread is often viewed as a measure of the degree of conservatism or liberalism inherent in the interest and salary scale assumptions. As the spread increases, the assumptions are considered to be more liberal (i.e., optimistic, or leading to lower employer contributions). Conversely, as the spread decreases, the assumptions are considered more conservative. The salary scale assumption of the New York City Employees' Retirement System is made up of a wage increase assumption, which is uniform for all ages, and a merit and productivity assumption, which varies by age. The spread, for the purposes of this comment, is considered to be the excess of the interest rate assumption over the wage increase assumption.

   The table below shows the changes in the interest assumption or the salary increase assumption, and the resulting spread, over the last several years.

Effective Date June 30	Interest Assumption	Salary Increase	Spread
1989	8.25	5.50	2.75
1990	9.00	5.50	4.50
1995	8.75	4.00	4.75
1999	8.00	3.00	5.00

Over the last 11 years the spread has increased from 2.75% to 5.00%. Since over 50% of the total plan liability is due to the active population (for which a salary scale assumption is relevant), this increasing spread over the last several years reflects an increasingly liberal funding posture.

Each of the two primary assumptions, the interest rate and the salary scale, appear to be reasonable; therefore the resulting spread between the two would be reasonable. However, the observation of the spread in subsequent years' valuations can provide a useful measure of a general trend in actuarial assumptions used for funding.

2. As noted in Section V, some of the components of the Unfunded Actuarial Liability (including the BSL) are amortized in a manner that does not produce level dollar amortization payments. Rather, the amortization payments after the first are 103% of the preceding payment.

This plan is not subject to the minimum funding standards of Internal Revenue Code section 412; however, we can look to the IRC for guidance on matters of funding. That section states that unfunded liabilities are to be amortized "… in equal annual installments …".

Clearly, the method described above to amortize certain components of unfunded liability does not satisfy that standard.

Another source for guidance is the Governmental Accounting Standards Board. GASB 27 provides for two possible methods of amortizing unfunded actuarial liability: either as level dollar amounts or as a level percentage of projected payroll. The salary scale assumption for the June 30, 1999 valuation consisted of the wage increase assumption of 3% plus merit and productivity percentages that vary by age. The current amortization method does not conform to either of the two alternatives presented by GASB 27, but it produces amortization payments that lie between the two series of payments that would be produced by the two alternatives.

The Department has a concern here that by using increasing payments to amortize components of the unfunded liability, the System is deferring some funding that would otherwise be made sooner. Because the current funding level, as shown in Section 7, appears to be relatively healthy, it might seem that some deferral of funding would be acceptable. However, the current funded status of the System is due largely to a period of unusually high investment gains. Such gains are unlikely to be sustained in the future, and the funded status could deteriorate from the current level. The Department will be considering further recommendations or guidelines in this matter.