STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

TEACHERS' RETIREMENT SYSTEM
OF THE
CITY OF NEW YORK

CONDITION: **JUNE 30, 2003**

DATE OF REPORT: **JUNE 25, 2009**

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EXAMINER:	**JOSHUA WEISS**

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

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

June 25, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
New York, New York 10004

Sir:

Pursuant to instructions contained in Appointment No. 22197, dated April 5, 2004 and annexed hereto, an examination has been made into the condition and affairs of the Teachers' Retirement System of the City of New York, hereinafter referred to as "the System" or "Teachers'", located at 55 Water Street, New York, New York 10041.

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

The attached report is respectfully submitted.

1. EXECUTIVE SUMMARY

This examination covers the period from July 1, 1999 through June 30, 2003. The examination comprised a verification of assets and liabilities as of June 30, 2003 to determine whether the System's 2003 filed annual statement fairly presents its financial condition. 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.

The examination revealed the following key findings and recommendations:

1) Based on the examiner's review, it was revealed that during the period of examination the System did not have a comprehensive Investment Policy Statement that governed, controlled, and monitored its investment activities. However, subsequent to the examination period the System did develop a comprehensive Investment Policy Statement which the Department believes satisfies its concerns about proper governance of the System's investment activities. It is noted that the System and the Comptroller maintain that the System did have various policies and guidelines in place governing investment activities, and that in an effort to consolidate those guidelines an Investment Policy Statement was adopted starting in 2004. (See item 18 of this report)

2) With regard to loaned securities, it was noted that the board of trustees and the Comptroller's office did not give clear guidance to Citibank on how to deal with downgraded securities in the portfolio. This issue was also a concern raised in the Independent Fiduciary Services, Inc. Management Study and Operations Review report of the New York City Comptroller's Asset Management Function. Subsequent to the examination period, however, the Fund adopted an Investment Policy Statement which the Department believes has controls that should provide adequate oversight of the System's Securities Lending Program. (See item 6 of this report)

3) The examiner recommends that the System eliminate "inactive status" member loans from the loan receivable asset. This is a repeat recommendation from the two prior reports on examination. The System overstated its loan receivable asset by $6.9M in the 2003 annual statement. (See item 7 of this report)

4) The System violated Section 136.4(a) of Department Regulation No. 85 and Section 243.2 of Department Regulation No. 152 when it did not maintain the proper documentation in its claim files. (See item 9 of this report)

5) The System violated Section 136.6(i) of Department Regulation No. 85 when it failed to record and maintain proper minutes and furnish the examiner the minutes for six investment committee meetings. (See item 3B of this report)

6) Three of the System's trustees did not attend a majority of the Board meetings. The examiner recommends that all board members attend scheduled board meetings. (See item 3B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of June 30, 1999. This examination covers the period from July 1, 1999 through June 30, 2003. As necessary, the examiner reviewed transactions occurring subsequent to June 30, 2003, but prior to the date of this report.

The examination comprised a verification of assets and liabilities as of June 30, 2003 to determine whether the System's 2003 filed annual statement fairly presents its financial condition. The examiner reviewed the System's income and disbursements necessary to accomplish such verification and utilized such examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

History of the System
Management and control
Corporate governance
Growth of the System
Accounts and records
Financial statements
Member benefits

The examiner reviewed the corrective actions taken by the System with respect to the violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in Item 19 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

Teachers' was established as of August 1, 1917 under Chapter 303 of the Laws of 1917. The System operates pursuant to the provisions of Title 13, Chapter 4 of the Administrative Code of the City of New York ("Administrative Code") and the New York State Retirement and Social Security Law. Teachers' operates a Qualified Pension Plan ("QPP") and a Tax Deferred Annuity Program ("TDA") for its members. Teachers' QPP provides pension benefits for teachers and administrative personnel employed by the New York City Board of Education and certain employees of the City University of New York. Teachers' is a cost-sharing, multiple-employer Public Employees Retirement System. The QPP combines features of a defined benefit plan with those of a defined contribution pension plan.

Members belong to one of four tiers, depending on the date they joined the System. Tier I members joined before July 1, 1973. Tier II members joined after June 30, 1973 and before July 27, 1976. Tier III members joined on or after July 27, 1976 and before September 1, 1983. Tier IV members joined after August 31, 1983. The tier to which the member belongs determines benefits.

Beginning January 1, 1970, members were given the option to participate in the Tax Deferred Annuity program ("TDA"), which provides a means of deferring income tax payments on their voluntary contributions until after retirement or upon withdrawal. This program was created pursuant to IRS Code Section 403(b). Members' voluntary contributions to the TDA are co-invested with the assets of the QPP within the fixed and variable annuity investment programs. The City of New York makes no contributions, but guarantees the benefit payments to retired members. In addition to pension benefits, the TDA includes provisions for death and disability benefits. The TDA is maintained as a separate plan within the System.

The System files two annual statements with the Department: one includes the fixed and variable operations of the QPP and the other includes the fixed and variable operations of the TDA program.

Under the Administrative Code, the System is subject to the supervision of the Department which may examine its affairs with the same powers and jurisdiction as are applicable to a life insurance company under Article 3 of the New York Insurance Law. The

System is also subject to assessment for expenses pursuant to Section 313 of the New York Insurance Law.

B. Management

Pursuant to Section 13-507, Chapter 4, of the Administrative Code, management of the System is vested in the Teachers' retirement board, which consist of the following: the president of the board of education, the comptroller, two members appointed by the mayor, one of whom must be a member of the board of education, and three members (teacher-members) of the retirement association elected from the contributors.

The following is a list of the Teachers' board members as of June 30, 2003:

Name and Residence	Principal Affiliation	Year First Elected
Melvyn Aaronson Long Island, NY	Teacher member	1980
Martha E. Stark New York, NY	Representative of the Mayor	2002
Philip A. Berry New York, NY	Member of the Board of Education	2002
Kathleen Grimm New York, NY	Representative of the President Board of Education	2002
Sandra March Queens, NY	Teacher member	1984
Mona Romain New York, NY	Teacher member	1998
Horatio Sparkes Queens, NY	Representative of the Comptroller Deputy Director for Pensions	2002

Section 136.6(i) of Department Regulation No. 85 states:

> "The administrative head shall record and maintain proper minutes of its meetings, and shall furnish such minutes promptly to the superintendent."

The examiner noted that the minutes for six investment committee meetings were not properly recorded and maintained, and were not furnished to the examiner.

The System violated Section 136.6(i) of Department Regulation No. 85 when it failed to record and maintain proper minutes and furnish the examiner the minutes for six investment committee meetings.

The examiner's review of the minutes of the meetings of the board of trustees revealed that during this examination period several trustees did not attend a majority of the meetings. Ms. Segarra did not attend twenty of the twenty-two board meetings held between September 23, 1999 and November 15, 2001. Mr. Berry did not attend twelve consecutive meetings from March 20, 2003 to May 20, 2004. Ms. Grimm was absent at eleven of the fifteen meetings held between March 20, 2003 and September 23, 2004.

Members of the board have a fiduciary responsibility and must demonstrate an ongoing interest in the affairs of the System. It is essential that the trustees attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend regular meetings do not fulfill such criteria. The examiner recommends that all board members attend scheduled board meetings.

The following is a listing of the principal officers of the System as of June 30, 2003:

Name	Title
Martha E. Stark	Chairperson
Stanley J. Kessock	Executive Director
William C. Thompson, Jr.	Comptroller
Robert C. North, Jr.	Chief Actuary
Paul J. Raucci	Chief Accountant

In March of 2004, Mr. Kessock resigned and was replaced by Nelson Serrano as Acting Executive Director. Mr. Nelson Serrano was appointed Executive Director in January 2005.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the System during the period under examination as extracted from its filed annual statements.

The following tables indicate the System's financial growth (decline) during the period under review for each program:

Qualified Pension Plan

	June 30, 1999	June 30, 2003	Increase (Decrease)
Admitted assets	$37,195,185,876	$28,257,262,248	$ (8,937,923,628)
Liabilities	32,624,507,181	35,829,848,917	3,205,341,736
Excess of assets over liabilities	$ 4,570,678,695	$ (7,572,586,668)	$(12,143,265,363)

Tax Deferred Annuity Program

	June 30,1999	June 30, 2003	Increase
Admitted assets	$10,014,762,492	$10,215,370,068	$200,607,576
Liabilities	10,014,762,492	10,215,370,068	200,607,576
Excess of assets over liabilities	$ 0	$ 0	$ 0

The following table indicates the number of members and pensioners in the System as reported in the filed annual statements, as of June 30th for each of the years under review:

	1999	2000	2001	2002	2003
Active members	86,682	91,494	95,377	95,678	97,986
Service pensioners	45,215	45,586	46,637	49,074	52,585
All other pensioners	5,310	5,383	5,343	5,488	5,548
Total	137,207	142,463	147,357	150,240	156,119

The active members are only those members receiving salaries, and the pensioners are only those receiving benefits.

5. FINANCIAL STATEMENTS

The following statements show the assets and liabilities of the System as of June 30, 2003, as contained in the System's 2003 filed annual statement; and the comparative statements of income and disbursements for each of the fiscal years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the System's financial condition as presented in its financial statements contained in the June 30, 2003 filed annual statement.

A. QUALIFIED PENSION PLAN
STATEMENT OF ASSETS AND LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2003

Assets

Ledger assets	
Book value of bonds in the Fixed Program	$ 7,279,753,146
Equity in the Fixed Fund at market value	13,310,551,557
Variable A fund at market value	5,863,513,184
Variable B fund at book value	328,936,960
Cash on deposit not on interest - Variable A	22,760
Cash on deposit not on interest - Variable B	12,852
Loans receivable to Tier I/II members	55,885,781
Loans receivable to Tier III/IV members	111,537,977
Accounts receivable for securities sold – Fixed	893,400,431
Accounts receivable for securities sold – Variable A	8,944,679
Short term investment of the reserve for expenses - Variable A	77,354,528
Short term investment of the reserve for expenses - Variable B	204,130
Total ledger assets	$27,930,117,987

Non-ledger assets	
Interest due and accrued on bonds – Fixed	$ 77,297,220
Interest due and accrued on bonds - Variable A	25,545
Interest due and accrued on bonds - Variable B	6,008,307
Dividend receivable – Fixed	17,230,532
Dividend receivable - Variable A	1,221,939
Interest due, short term investment of reserve for expenses - Variable A	75,438
Interest due, short term investment of reserve for expenses - Variable B	154
Due TDA share of sec. trans. (previous years)	204,576,625
Due from the City of New York – Budget Appropriation	16,903,026
Due from BOE (Supplemental Contribution)	1,792,809
Forgeries	12,575
Withholding tax	1,491,727
Life insurance fund	2,525
Members receivable	505,839
Total non-ledger assets	$ 327,144,262
Gross assets	$28,257,262,249
Total admitted assets	$28,257,262,249

Liabilities	
Net reserves	$33,007,124,743
Benefits due and unpaid	30,336,471
Reserve and escrow for mortgages	74,962,911
Expenses due and accrued	2,431,181,179
Due to BERS	42,659,852
Due to City of New York	555,898
Amount in transit	1,942,538,434
Reserve to offset amount in transit	(1,942,538,434)
CH126 Refunds, corpus mod	13,841,219
Money due to TDA program	67,101,387
Due to TDA program	162,085,257
Total net reserves and all other liabilities	$35,829,848,917
Excess of admitted assets over total net reserves and all other liabilities	$ (7,572,586,668)
Total	$28,257,262,249

B. QUALIFIED PENSION PLAN
STATEMENT OF INCOME AND DISBURSEMENTS
FISCAL YEARS ENDED JUNE 30,

	2000	2001	2002	2003
Income				
Regular contributions from members	$ 22,528,136	$ 22,812,522	$ 19,882,100	$ 24,138,079
Co-Esc plan	95,984,952	100,524,729	64,135,692	74,585,633
Purchase of outside service	8,037	27,984	57,847	59,352
Budget appropriations	358,476,453	261,871,938	486,151,238	662,273,569
Supplementary employer contributions	20,987,789	21,324,033	20,895,497	20,720,499
Transfer to/from CRF - actuarial assumptions	0	0	(33)	0
VASF-TDA Service Purchase CH#470	0	0	0	7,378,032
A/P TDA/SP CH#401	0	0	0	243,198
A/P O/P A/C P/R DED.	0	0	0	1,294,521
A/P Chapter 126 Refunds	0	0	0	13,841,218
Transfer to/from TDA Fixed	83,020,504	13,993,632	43,579,107	0
Transfer to/from TDA Variable A	0	13,207,851	0	0
Transfer to/from TDA Variable B	0	0	0	380,506
Transfer to/from NYSTRS	(31,525,837)	(18,990,708)	(8,552,218)	0
Transfer to/from New York State & Local ERS	(591,927)	(413,540)	683,907	1,701,902

	2000	2001	2002	2003
Transfer to/from NYCERS	$ 2,705,567	$ 2,730,165	$ 319,343	$ 1,546,329
Transfer to/from NYS Police and Fire Dept Pension	0	3,926	145	230,721
Transfer to/from BOE Retirement System	9,077,642	7,250,612	8,425,161	2,742,044
Reserve for service charge, Tiers 3 and 4 member loans	222,578	237,087	238,183	219,314
Reserve for insurance, Tiers 3 and 4 member loans	95,490	0	0	5,010
Interest on mortgage loans	44,452	41,754	33,159	24,733
Interest on collateral loans	15,674,092	14,770,164	13,547,086	11,510,495
Interest on short term	81,958,197	100,009,154	53,141,820	18,314,904
Interest on bonds	513,047,524	594,386,990	534,515,209	437,549,568
Dividends on stocks	276,447,240	282,843,377	253,600,700	274,686,893
Income on reserve for expense	3,425,841	4,288,350	2,218,296	1,332,144
Income on corpus expense	1,610,273	747,661	2,199,848	450,268
Interest income on corpus	0	266,428	25,119	18,758
Corpus budget modification	0	0	1,295,253	0
Uncollected checks	1,238,824	12,097,435	0	0
Escrow Fund – FHA Mortgage	5,256	(70,327)	(112,124)	(47,457)
United Federation of Teacher dues	0	0	2,301	0
Health insurance	(16,485)		55,604	3,069
Life insurance fund	0	0	3,887	0
Miscellaneous income	0	0	4,989	(4,830)
Due depositories	0	0	148,999,858	0
Accounts payable for securities purchased	(6,104,865)	0	547,252,668	157,090,712
Profit on sale of bonds	154,859,745	0	0	0
Profit on sale of stocks	3,465,450,679	1,159,934,691	338,947,817	275,401,296
Unrealized appreciation/depreciation Var “A”	(1,171,110,912)	(1,439,356,524)	(997,951,436)	285,755,761
Unrealized appreciation/depreciation “Fixed”	889,490,530	(3,797,633,630)	(2,547,746,441)	(159,428,001)
Net increase B.O.E.	1,346,018	(12,951,508)	(12,343,570)	(5,051,291)
Increases in funds and accounts by transfers	944,506,677	1,484,536,174	2,203,846,042	1,693,039,697
Total income and increases	$ 5,732,862,468	$ (1,171,509,580)	$ 1,177,352,033	$ 3,802,020,083

Disbursements	2000	2001	2002	2003
Periodic retirement payments	$1,580,840,878	$1,624,663,152	$1,720,919,585	$1,860,428,253
Lump sum payments on death after retirement	81,759,564	14,057,079	13,413,171	7,440,997
Supplement/closed loan at retirement	0	182,954,442	162,755,258	157,779,623
Payments on account of death before retirement	41,915,031	52,359,535	44,834,927	41,999,110
Payments on account of resignation and dismissal	1,962,855	1,750,691	1,910,063	2,374,972
Payments on account of excess contributions	45,044,445	78,587,604	97,157,528	30,691,930
Payments on account of contributions made in error	0	27,984	(67,527,965)	0
Member payable/receivable	0	0	0	505,839
Closed loan at retirement	0	0	68,254,079	134,065,216
Other payments (ch-126 refund)	0	0	34,643,717	67,568,612
Transfer made in error	0	0	806,234	0
Transfer to/from NYS Teachers' Retirement System	0	0	0	13,298,567
Transfer to/from T.D.A. programs	131,872,695	0	85,911,781	0
Transfer of loans receivable	29,841,836	9,771,661	19,367,264	0
Transfer (uncollected checks)	0	0	5,089	0
Transfer ASF out T/F Variable A	0	0	0	609,410
Reserve for service charge ¾ loan	0	2,440,661	2,889,647	0
Reserve for insurance for ¾ loan	1,684,330	0	0	0
Due to/from TDA Variable A	6,274,039	4,721,803	(10,063,976)	24,696,487
Due to/from TDA Variable B	(1,644,801)	(630,534)	162,587	0
Due to/from TDA Fixed	0	55,370	(55,370)	(63,983,381)
Due to/from BOE (supplemental cont.)	0	0	1,792,809	0
United Federation of Teacher dues	2,351	1,740	0	623
Unclaimed checks	0	0	640,621	148,057
Due depositories	(20,741,629)	23,291,881	0	73,474,126
Payments on account of money left on deposit	0	26,905,012	0	0
Health insurance	0	35,508	0	0
Life insurance fund	4,047	1,276	0	309
Administrative expenses per Schedule H	30,480,293	32,315,871	33,767,881	36,277,857
Investment expenses per Schedule H	28,188,336	31,782,980	31,207,419	28,392,445
Corpus budget modification	0	0	1,412,263	1,295,253
Net change in accrued expense	(5,239,448)	(2,599,091)	0	5,648,567

	2000	2001	2002	2003
Accounts payable for securities purchased	$ (413,350,632)	$ 825,799,972	$ 0	$ 12,364,328
Interest credit to the funds	125,630,528	140,941,607	163,648,121	218,581,792
Accrued securities lending income	3,170	(12,688)	0	0
Other interest on benefits paid	8,925,856	10,440,268	9,320,298	14,429,568
Securities lending expense	0	0	0	25,000,000
Loss on sale of bonds	299,461,694	0	0	0
Loss on sale of stocks	212,153,413	515,571,053	652,945,245	771,911,014
Forgeries	(8,084)	6,205	(7,377)	2,473
Withholding tax	(7,873)	219,717	97,284	182,282
Total disbursements	$ 2,185,052,894	$ 3,575,480,764	$ 3,070,208,182	$ 3,465,184,332
Decreases in funds and accounts by transfers	944,506,677	1,484,536,174	2,203,846,042	1,693,039,697
Sum of disbursements and decreases by transfers	$ 3,129,559,570	$ 5,059,996,937	$ 5,274,054,224	$ 5,158,224,029
Excess of income and increases over disbursements and decreases	$ 2,603,302,898	$ (6,231,506,517)	$ (4,096,702,191)	$ (1,356,203,946)
Ledger assets, prior year	$37,011,227,744	$39,614,530,641	$33,383,024,123	$29,286,321,932
Ledger assets, current year	$39,614,530,641	$33,383,024,123	$29,286,321,932	$27,930,117,987

C. TAX DEFERRED ANNUITY PROGRAM
STATEMENT OF ASSETS AND LIABILITIES
FISCAL YEAR ENDED JUNE 30, 2003

Assets	
Ledger assets	
Book value of bonds in the Fixed Program	$ 1,202,094,016
Equity in the Fixed fund at market value	2,055,012,894
Variable A at market value	6,384,791,858
Variable B at book value	251,820,281
Cash on deposit not on interest - Variable A	20,242
Cash on deposit not on interest - Variable B	10,610
Member loans	164,681,722
Accounts receivable for securities sold - Variable A	9,739,880
Short term investment of the reserve for expenses - Variable A	70,045,039
Short term investment of the reserve for expenses - Variable B	340,516
Short term investment of the reserve for service charge - Variable B	1,385,895
Short term investment of the reserve for insurance - Variable B	400,594
Total ledger assets	$10,140,343,547
Non-ledger assets	
Interest due and accrued on bonds - Variable A	$ 27,816
Interest due and accrued on bonds - Variable B	4,817,358
Dividend receivable – Variable A	1,330,572
Interest due, short term investment of reserve for expenses – Variable A	68,201
Interest due, short term investment of reserve for expenses – Variable B	213,662
Net amount due from the Qualified Pension Plan – Fixed	68,568,912
Total non-ledger assets	$ 75,026,522
Gross assets	$10,215,370,068
Total admitted assets	$10,215,370,068
Liabilities	
Net reserves	$ 9,857,795,582
Benefits due and unpaid	21,114,582
Expenses due and accrued	2,046,654
Reserve for expenses	71,412,614
Money due to QPP Fixed	1,467,697
Due to BERS TDA variable annuity program	209,169,498
Payable on account of securities purchased	214,448,699
Amount due to QPP	(162,085,257)
Total net reserves and all other liabilities	$10,215,370,068
Excess of admitted assets over total net reserves and all other liabilities	$ 0
Total	$10,215,370,068

D. TAX DEFERRED ANNUITY PROGRAM
STATEMENT OF INCOME AND DISBURSEMENTS
FISCAL YEARS ENDED JUNE 30,

	2000	2001	2002	2003
Income				
Regular contributions from members	$ 409,924,099	$ 421,599,551	$ 431,768,190	$ 512,327,081
VASF-TDA service purchase CH#471	0	0	0	(91,578)
Transfer from BOERS	4,537,644	3,754,170	2,303,795	2,721,291
Reserve for insurance	322,083	(133,630)	(132,279)	(76,598)
Reserve for service charge	173,190	184,290	195,180	193,219
Repayment of TDA loans	38,793,288	46,060,860	53,711,567	0
Member Loans	0	0	0	164,643,149
Interest on bonds	139,817,559	171,822,529	182,881,997	230,412,702
Gross dividends on stocks	63,066,526	54,669,795	60,196,000	47,135,709
Income on the reserve for expenses	2,226,595	3,026,329	1,620,912	1,002,663
Income on Corpus Expenses	0	40,461	694,108	(54,636)
Interest income on Corpus	35,675	53,567	13,657	9,067
Due depositories	(117,809)	0	5,209	(5,037)
Net change in accrued expenses	0	0	17,769	0
Gross profit on sale of stocks	1,710,539,030	232,447,822	110,406,705	58,250,088
Increase by adjustment of unrealized app/dep Var A	(877,737,713)	(1,247,848,039)	(983,984,044)	283,406,610
Increase by adjustment of net increase BOE	24,234,531	(26,060,050)	(23,040,989	5,360,902
Total income	$1,515,814,700	$ (340,382,343)	$(163,342,223)	$1,305,234,634
Increases in funds and accounts by transfers	$ 88,799,543	$ 103,211,880	$ 81,604,321	$ 72,037,862
Total income and increases	$1,604,614,243	$ (237,170,463)	$ (81,737,902)	$1,377,272,496

	2000	2001	2002	2003
Disbursements				
Periodic retirement payments	$ 51,340,172	$ 47,989,779	$ 39,427,480	$ 31,698,760
Lump sum pymts on acct of death after retirement	6,268,144	11,637,886	8,563,120	4,869,746
Payments on account of death from ordinary causes before retirement	21,423,048	22,966,444	27,409,668	24,509,911
Payments on account of resignation and dismissal with cause	71,858,194	93,366,347	98,687,477	87,068,377
Adjustment made in error	0	0	64,272	0
Payments on account of dismissal without cause	30,664,774	32,649,782	29,760,352	39,047,168
Payments on account of partial withdrawal of contrib.	72,795,651	68,736,640	48,527,089	45,819,039
Service Purchase CH126	0	0	0	5,899,053
Due to/from Fixed to Var A	(6,274,039)	(4,721,803)	10,063,976	(24,696,487)
Due to/from Fixed to TDA B	1,644,801	630,534	(162,587)	380,507
Administrative expenses per Schedule H	6,126,963	6,501,986	6,796,833	7,293,913
Investment expenses per Schedule H	6,537,467	5,532,781	6,497,846	5,496,494
Income on corpus expense	(354,889)	354,889	0	0
Net change in accrued expense	(101,007)	101,007	0	(15,173)
Accrued amount rec service charge	0	0	0	56,599
Accrued amount rec insurance	0	0	0	154,962
Budget modification	0	0	0	91,337
Accts pay for securities purchased	3,575,541	23,522,281	(18,114,204)	12,501,780
TDA new loans to members	52,287,270	56,843,281	57,757,650	0
TDA service charge on loans	173,460	184,620	195,180	0
TDA insurance on loans	0	0	6,791	14,186
Other interest on benefits paid	0	0	2,220,959	2,331,750
Gross loss on sale of stocks	69,349,656	144,557,005	294,186,258	389,898,109
Total disbursement	$ 387,315,206	$ 510,853,459	$ 611,988,160	$ 632,420,052
Decreases in funds and accounts by transfers	$ 88,799,543	$ 103,211,880	$ 81,604,321	$ 72,037,862
Total disbursements and decreases	$ 476,114,749	$ 614,065,339	$ 693,592,481	$ 704,457,915
Excess of income and increases over disbursements and decreases				
Ledger assets, prior year	$ 9,965,595,657	$11,094,095,150	$10,242,859,348	$ 9,467,528,965
Ledger assets, current year	$11,094,095,150	$10,242,859,348	$ 9,467,528,965	$10,140,343,547

6. SECURITIES LENDING

Pursuant to the Administrative Code, Teachers' delegates to the New York City Comptroller certain responsibilities for the investment and management of the System's assets. The Comptroller retained Citibank, a unit of Citigroup, as custodial bank for Teachers' and the other New York City pension funds, by agreement ("Custodian Agreement") dated January 1, 1998, between the Comptroller and Citibank. Pursuant to the Custodian Agreement, Citibank also established and provided a securities lending program for the New York City pension funds, ("Securities Lending Program"). The terms of the Securities Lending Program required that Citibank, acting as the securities lending agent, loan securities to qualified borrowers in exchange for cash collateral from the borrowers of such lent securities. Citibank was authorized to invest the cash collateral in certain securities, pursuant to certain written investment guidelines developed by the Comptroller.

Citibank, on behalf of Teachers', New York City Employees Retirement System, New York City Police Pension Fund, and the New York Fire Department Pension Fund purchased an $80 million principal amount of NPF XII, Inc., Series 2000-2 Class A Health Care Receivables Securitization Program Notes, in a private placement offering in October 2000 using $80 million of cash collateral from the Securities Lending Program. NPF XII, Inc. is a special purpose entity and wholly-owned subsidiary of National Century Financial Enterprises, Inc. ("NCFE"). Teachers' portion of the total purchase was $25 million. As a result of fraudulent conduct by NCFE and its officers, and a series of downgrades, NCFE declared bankruptcy in November 2002. The New York City pension funds sustained a loss of $80 million, with Teachers' incurring $25 million of the total loss.

The New York City Corporation Counsel informed Citibank that they were prepared to assert and pursue against Citibank causes of action arising from the $80 million loss. At issue was the question of whether Citibank, as custodian, should have sold NCFE securities once the securities were downgraded. Although Citibank denied any responsibility for the loss, in order to avoid litigation concerning the dispute, the parties agreed to settle the dispute. The agreement involved an immediate payment by Citigroup of $15 million and possible additional payments dependent upon amounts recovered from other parties involved in the transaction. The $15 million was divided among all the NYC pension funds that participated in the NCFE transaction.

The System has subsequently advised that recovery efforts continued after the examination period, and that total recoveries are expected to be at least $50 million. Based on the examiner's review, it appears that Citibank was given authority by the New York City Comptroller to invest the cash collateral received from the Securities Lending Program.

It was also noted that the board of trustees and the Comptroller's office did not give clear guidance to Citibank on how to deal with downgraded securities in the portfolio. This issue was also a concern raised in the Independent Fiduciary Services, Inc. Management Study and Operations Review report of the New York City Comptroller's Asset Management Function. However, on June 15, 2006 the System adopted an Investment Policy Statement which states the following:

> "Cash collateral received will be invested in a high-quality investment program that emphasizes the return of principal, maintains required daily liquidity, and ensures diversification across approved investment types."

> "Each agent bank is required to act as a fiduciary with respect to the Fund and to have systemic and procedural controls in place to ensure adherence to guidelines for operating the securities lending program on behalf of the Fund. The results of the securities lending program are reported to the Board on a regular basis."

The Department believes that the above additional controls should provide adequate oversight of the System's Securities Lending Program.

7. MEMBER LOANS

In the annual statement as of June 30, 2003, the System reported assets for Loans Receivable to Tier I/II Members in the amount of $55,885,781, Loans Receivable to Tier III/IV Members in the amount of $111,537,977, and TDA member loans in the amount of $164,681,722. The amounts reported represent the sum of the inventory of individual member loan balances as of fiscal year ending 2003.

The review indicated that approximately 600 loan balances reported on the inventory were for members who had retired, resigned or otherwise been terminated from active service (inactive status). These "inactive status" loan balances should have been eliminated from the inventory. The asset is thereby overstated by $6,960,932.

In two prior examination reports, the System was cited for overstating the member loan receivable asset. This was due to improperly reporting balances for members who were retired and inactive. Therefore, it was recommended that the System eliminate member loan balances for "inactive status" from the loan receivable asset. The System agreed to correct the problem, yet it still persists.

The examiner recommends that the System eliminate "inactive status" member loan balances in a timely manner from the inventory in order to correctly report the asset. This is a repeat recommendation from the prior two reports on examination.

8. TREATMENT OF MEMBERS

The examiner reviewed a sample of various types of retirement benefits, death claims and withdrawals of excess member contributions. 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.

9. RECORD RETENTION

> Section 136.4(a) of Department Regulation No. 85 states:
>
> "All records, including working papers for the preparation of the annual statement filed with the Insurance Department, shall be available to the department's examiners and shall not be destroyed unless authorized by the superintendent in writing."
>
> Section 243.2 of Department Regulation No. 152 states, in part:

> "(b) Except as otherwise required by law or regulation, an insurer shall maintain:…(4) A claim file for six calendar years after all elements of the claim are resolved and the file is closed or until after the filing of the report on examination in which the claim file was subject to review, whichever is longer. A claim file shall show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received."

In seventeen of the 25 claim files sampled for disability retirements it was found that the System did not maintain "Appointment Letters" in the claim files. Appointment Letters communicate the disposition of the claim to the System's member. The System, therefore, violated Section 136.4(a) of Department Regulation No. 85 and Section 243.2 of Department Regulation No. 152 when it failed to maintain the proper documentation in all of its claim files.

10. TAX DEFERRED ANNUITY PROGRAM

The System maintains both a Qualified Pension Plan (QPP) and a Tax Deferred Annuity program (TDA) pursuant to Section 403(b) of the United States Internal Revenue Code. The QPP and the TDA file separate annual statements with the New York Insurance Department.

The TDA program is funded entirely from voluntary member contributions together with investment earnings thereon. Upon retirement, a member may withdraw the balance in his TDA account in whole or in part, or may apply it to provide an annuity at the System's purchase rates. Accordingly, there are no liabilities in the TDA annual statement for benefits provided by the employer for members now in active service. The only liability in the TDA annual statement related to active members is the amount reported for "Accumulated Contributions of Members."

Members may choose to invest their contributions in a variable fund (the TDA Variable Annuity Savings Fund) or in a non-variable fund (the TDA Annuity Savings Fund). The TDA Variable Annuity Savings Fund is pooled and invested in common with Variable Fund 'A' of the System. Variable fund earnings are credited to the members through unit values, similar to a unit investment trust.

Contributions in the non-variable TDA Annuity Savings Fund are invested in common with the Annuity Savings Fund of the QPP. Interest is credited to both at rates declared by the

System's Board of Trustees from time to time. The rate declared in each year of the four-year examination period has been 8¼%.

Liabilities for retired lives in the TDA statement represent the present value of annuities purchased by retired members with their accumulated TDA contributions. Fixed-benefit annuities under the TDA program are fully guaranteed by the System. Variable annuities are guaranteed to the extent that there will be no reduction in benefits on account of adverse mortality experience; however, the monthly benefit may increase or decrease in accordance with the performance of the underlying investments. The assumptions used in actuarial valuations of the TDA have been the same as those used for the QPP. Fixed-benefit annuities are valued using an interest rate of 8%; variable annuities are valued using an interest rate of 4%.

Actuarial gains and losses may be experienced by the TDA as a result of differences between actual investment earnings and interest credited to TDA non-variable funds, as well as differences between actual and expected retired life mortality. Each year's actuarial gains are credited to the TDA Accumulated Earnings Fund, and actuarial losses are charged against that fund. For purposes of computing employer contributions, TDA accumulated earnings are treated as an asset of the QPP (a negative asset in case of a deficit), thereby effectively amortizing each year's TDA gain or loss over the aggregate future working lifetime of the System's members.

This Report on Examination covers the four fiscal years ending June 30, 2000 through June 30, 2003. The following table, and many of the subsequent tables in this report, includes values as of the end of those four fiscal years, as well as values as of the end of the immediately preceding fiscal year, ending June 30, 1999.

The TDA program reported the following liabilities for both the fixed and the variable fund in its annual statements to the New York Insurance Department (dollar amounts are shown to nearest thousand):

Valuation Date	(1) Accumulated Contributions of Members	(2) Present Value of Benefits Payable to Beneficiaries Now Drawing Allowances	(3) Benefits Due and Unpaid	(4) Net Credit Balance in Expense Reserves
6/30/99	9,367,474	409,505	18,294	35,575
6/30/00	10,373,995	408,983	40,932	47,883
6/30/01	9,609,863	337,203	29,304	59,659
6/30/02	8,856,489	273,170	23,599	68,843
6/30/03	9,532,264	262,596	21,115	73,459

Valuation Date	(5) Accumulated Earnings	(6) PV Benefits due to annuitization of variable fund account balances	(7) Net Reserves and All Other Liabilities (1)+(2)+(3)+(4)+(5)+(6)
6/30/99	183,914	0	10,014,762
6/30/00	230,526	88,014	11,190,333
6/30/01	179,783	78,728	10,294,540
6/30/02	282,103	67,054	9,571,258
6/30/03	263,001	62,935	10,215,370

Beginning with the June 30, 2000 valuation an additional liability item was added (column 6 above). That additional liability was added because of anticipated losses attributable to conversion factors for variable account balances that would provide a larger benefit than what would be generated by a true actuarial equivalence.

11. LIABILITIES OF THE QUALIFIED PENSION PLAN

The liabilities of the Qualified Pension Plan as reported in its annual statements to the New York Insurance Department for the period under examination (and the immediately preceding fiscal year) are summarized in the following table (dollar amounts are shown to the 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
6/30/99	2,067,622	15,107,676	17,086,598	1,631,862
6/30/00	2,170,372	17,446,520	22,330,262	5,136
6/30/01	1,759,339	17,254,058	22,572,590	4,260
6/30/02	1,316,072	18,189,124	22,838,337	3,315
6/30/03	1,040,139	20,489,777	22,519,768	13,442

Valuation Date	(5) Present Value of Future Tier 3 & 4 Employee Contributions	(6) Present Value of All Other Prospective Contributions	(7) Benefits and Expenses Due and Unpaid	(8) Funds Due Tax Deferred Annuity Program
6/30/99	1,025,643	1,305,206	2,222,972	102,350
6/30/00	260,549	5,499,411	2,602,230	203,641
6/30/01	278,493	5,847,750	1,708,381	187,502
6/30/02	327,556	7,983,574	2,383,952	176,074
6/30/03	389,057	10,640,060	2,593,538	229,186

Valuation Date	(9) Net Reserves and All Other Liabilities (1)+(2)+(3)-(4) -(5)-(6)+(7)+(8)	(10) Admitted Assets	(11) Excess of Assets over Reserves and Liabilities (10) - (9)
6/30/99	32,624,507	37,195,186	4,570,679
6/30/00	38,987,929	39,807,268	819,339
6/30/01	37,351,367	33,546,449	(3,804,918)
6/30/02	36,589,114	29,439,266	(7,149,848)
6/30/03	35,829,849	28,257,262	(7,572,587)

12. ACTUARIAL COST METHOD AND CALCULATION OF EMPLOYER CONTRIBUTIONS

The actuarial cost method by which employer contributions to the New York City Teachers' Retirement System are computed is the Frozen Initial Liability Actuarial Cost Method. Under this method, the present value of future normal contributions is developed as 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. This can be written symbolically as:

PVFNC = PVB − (AVA + UAAL + PVFeeC)

Where

PVFNC = Present Value of Future Normal (Employer) Contributions

PVB = Present Value of Prospective Benefits

AVA = Actuarial Value of Assets

UAAL = Unfunded Actuarial Accrued Liability

PVFeeC = Present Value of Future Required Employee Contributions

For the June 30, 2003 valuation, the above values are (to the nearest million dollars):

PVB =	43,001	Present value of future benefits
AVA =	33,169	Assets on hand (actuarial value)
UAAL =	13	Portion of future employer contributions
PVFeeC =	227	Present value of employee contributions less TDA amt due

The present value of future normal employer contributions is then

PVFNC = 43,001 – (33,169 + 13 + 227)

= 43,001 – 33,409

= 9,592

This calculation is displayed in more detail in the next table.

As a consequence of this method, actuarial gains and losses (deviations of actual experience from what was assumed) are reflected in the normal contribution rate.

The fiscal year runs from July 1 through June 30. The valuation date (date as of which Retirement System liabilities and assets are determined for the purpose of calculating the employer contribution) is the last day of each fiscal year, June 30. The values determined as of that date are used to calculate the amount of employer contribution due for the next succeeding fiscal year, beginning one day after the valuation date.

The New York City Office of the Actuary, which performs the actuarial valuation, sends an Estimated Appropriation letter to the Retirement System in May or June. This letter informs the System of the estimated amount to be contributed for the fiscal year beginning July 1. This estimated amount is determined by the Office of the Actuary based on current actuarial assumptions, projections of the census data from the prior actuarial valuation, and any known significant legislation. The System then begins making monthly contributions for the fiscal year beginning July 1 on the basis of the Estimated Appropriation letter.

Usually by the spring of the year, the Office of the Actuary has completed the valuation as of the preceding June 30. The Office of the Actuary then sends an Appropriations "True-Up" letter to the System informing it of the actual contribution due for the fiscal year ending on the next June 30. The System adjusts the monthly contributions it is making so that, by June 30, the total amount it has contributed during the fiscal year, including the estimated amounts commencing at the beginning of the fiscal year and the adjusted amounts contributed in the last few months of the fiscal year, is the amount specified by the Appropriations True-Up letter.

For example, for the fiscal year ending June 30, 2002, the events described above were as follows:

June 11, 2001: Office of the Actuary (OA) sends Estimated Appropriation Letter to System stating that the estimated employer contribution for the 2002 fiscal year is $521,161,000.

July, 2001: System begins making monthly contributions of $43,430,000 for 2002 fiscal year based on the Estimated Appropriation Letter.

July, 2001: OA begins work on actuarial valuation for 2002 fiscal year. This valuation is based on census and asset data as of June 30, 2001.

May 31, 2002: OA sends "True-Up" Appropriation Letter to System stating that the employer contribution for the 2002 fiscal year is $509,921,000. At that point, the System has made 11 of the 12 estimated monthly contributions, totaling $477,731,000, for the 2002 fiscal year. The final contribution then becomes $32,190,000, so that the total of the contributions made for the year is $509,921,000.

The formula above shows the development of the Present Value of Future Normal Contributions as a balancing item. The normal contribution rate is calculated by dividing the present value of future normal contributions by the present value of projected future salaries of members on the payroll as of the valuation date. This contribution rate is calculated to be a level percentage of payroll in future years. 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, as mentioned above, the contribution is paid throughout the year. To adjust for the timing, the present value of projected future salaries reflects an interest adjustment, so that the resulting normal cost is appropriate for a mid-year contribution.

The total employer contribution is made up of several components. The normal contribution, described above, is generally the largest component. Other components are described below.

Amortization of unfunded actuarial accrued liability (UAAL contribution): This component is itself made up of one or more components, each one of which is a contribution to amortize a liability amount that is not being funded through the normal cost. The UAAL is described further in this report.

Administrative Expenses: The actual operating expenses for the System for a given fiscal year, after some minor loan expense and revenue adjustments, are used as the basis for the projected operating expenses included in the total employer contribution for the next succeeding fiscal year. The administrative expense included in the total employer contribution for a fiscal year is the adjusted actual operating expenses for the preceding fiscal year increased by the assumed interest rate; i.e., multiplied by 1.08.

Investment Expenses: Beginning with the June 30, 1999 actuarial valuation, investment expenses were explicitly addressed in the calculation of the employer contribution; previously, the amount of investment expenses had been implicitly recognized in the calculation of the normal cost. The investment expense included in the total employer contribution for a fiscal year is the actual investment expense for the preceding fiscal year increased by the assumed interest rate; i.e., multiplied by 1.08.

Group Term Life Insurance (GTLI) Premium: In addition to retirement benefits, the System provides death benefits for members. Internal Revenue Code Section 79 states that the first $50,000 of group life insurance benefits has no tax consequences to the employee or the employer; amounts of insurance in excess of $50,000 are included in employee income. To accommodate that distinction, the first $50,000 of life insurance benefit paid on account of death in active service in the Retirement System is paid from the funds of the Group Term Life Insurance Plan. The amount in excess of $50,000 is paid from the funds of the Retirement System. The GTLI premium is the amount of the employer contribution necessary to fund the benefits to be paid from the Group Term Life Insurance Plan. The GTLI premium is not shown as a separate cost component, but is part of the normal contribution described above.

The report of the examining actuary covers the four fiscal years ending June 30, 2000 through June 30, 2003. The following table, and many of the subsequent tables in this report, includes values for those four fiscal years, as well as values for the immediately preceding fiscal year, ending June 30, 1999. The values determined as of June 30, 1999, are used to determine the employer contribution to be made during the fiscal year ending June 30, 2000.

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

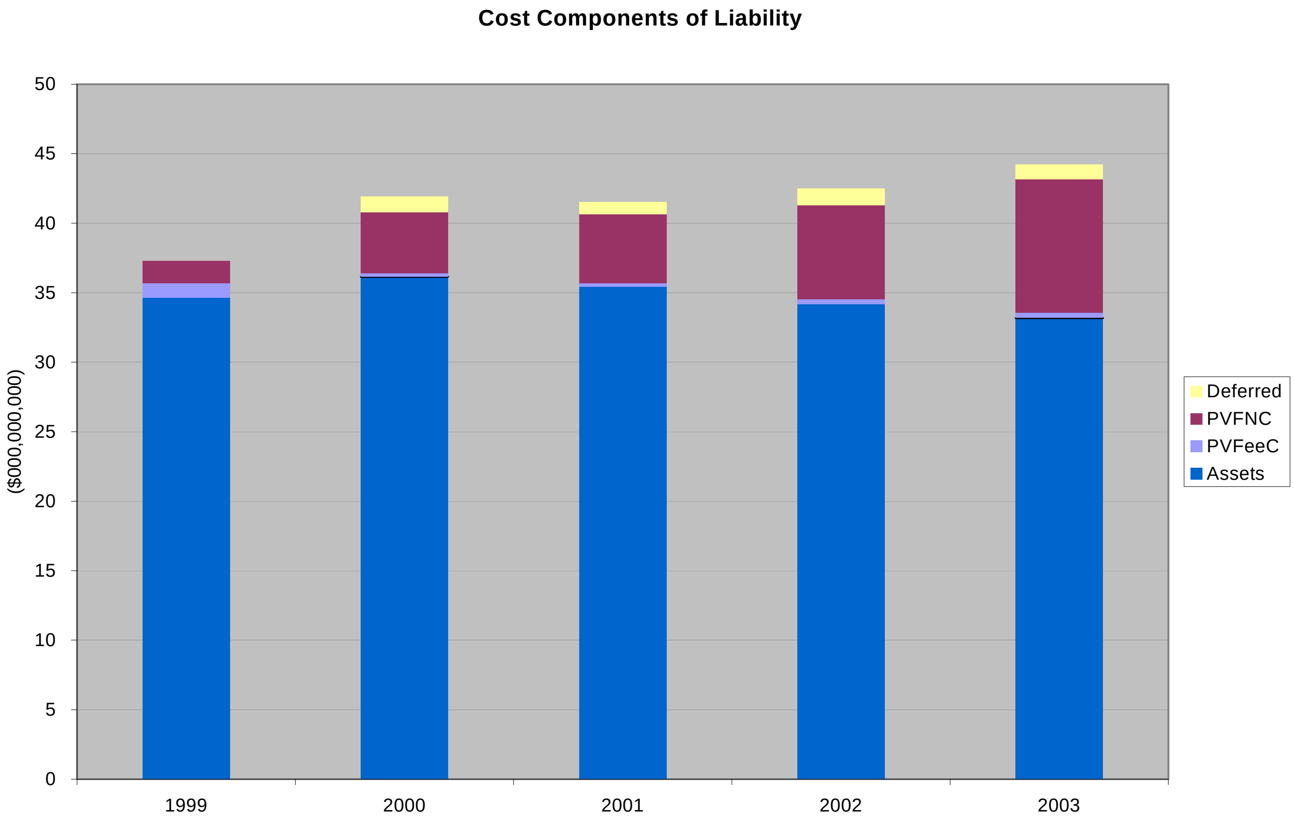
	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03
Liabilities					
PV Benefits for beneficiaries	15,358,122	15,856,744	15,658,179	16,537,309	18,770,327
PV Supplemental Benefits	390,737	1,589,775	1,595,878	1,651,815	1,719,450
PV Benefits for Actives	21,375,804	24,278,973	24,116,930	24,154,410	23,559,907
Total	37,124,663	41,725,492	41,370,987	42,343,534	44,049,684
Deferred per 2000/125 [1]	-	1,649,705	1,697,537	1,206,166	1,048,302
Net Total	37,124,663	41,725,492	41,370,987	41,137,368	43,001,382
Assets					
Actuarial Asset Value	34,626,062	36,142,435	35,410,230	34,177,750	33,169,210
Prospective Assets					
PV Future UAL Contribs	0	5,136	4,260	3,315	13,442
PV Future Employee Contribs	1,058,326	260,549	278,521	327,556	389,057
Due from TDA Program	(163,549)	(182,038)	(169,991)	(152,902)	(162,672)
Total	35,520,839	36,226,082	35,523,020	34,355,719	33,409,037
PV Future Normal Contribs	1,603,824	5,499,410	5,847,967	6,781,649	9,592,345
PV Future Salaries	44,690,897	49,075,418	52,213,501	57,802,845	64,285,572
Normal Rate	3.589%	11.206%	11.200%	11.732%	14.921%
Annual Salaries	4,217,560	4,721,526	5,015,449	5,469,239	5,828,757
Contribution Components					
Normal Contribution	151,368	529,094	561,730	641,651	869,709
Contribution credit per 2000/125 [1]	-	(126,990)	(97,831)	(52,021)	0
UAL Contribution	0	1,238	1,238	1,238	3,924
Administrative expenses	18,373	20,226	20,809	22,135	24,121
Investment expenses	12,029	21,398	23,986	26,615	22,510
Total Pension Expense	181,770	444,966	509,932	639,618	920,264
City Rate	4.310%	9.424%	10.167%	11.695%	15.788%

[1] Sections 13-696.i and .j of the Administrative Code of the City of New York, as added by Chapter 125 of the Laws of 2000 and amended by Chapter 278 of the Laws of 2002, requires that the funding for the additional liability attributable to the automatic cost-of-living adjustments provided by Chapter 125 of the Laws of 2000 be deferred.

The table above shows that the normal contribution, the largest single component of the total employer contribution, increased significantly from 1999 to 2003. The normal contribution had decreased to a relatively low level in the late 1990's due to significant investment gains, as well as changes in actuarial assumptions and methodology. During the period this examination covers, investment results were significantly less than expected. In addition, significant benefit increases were provided. As a result, the normal contribution rate, as developed by the traditional actuarial process, would have begun to increase.

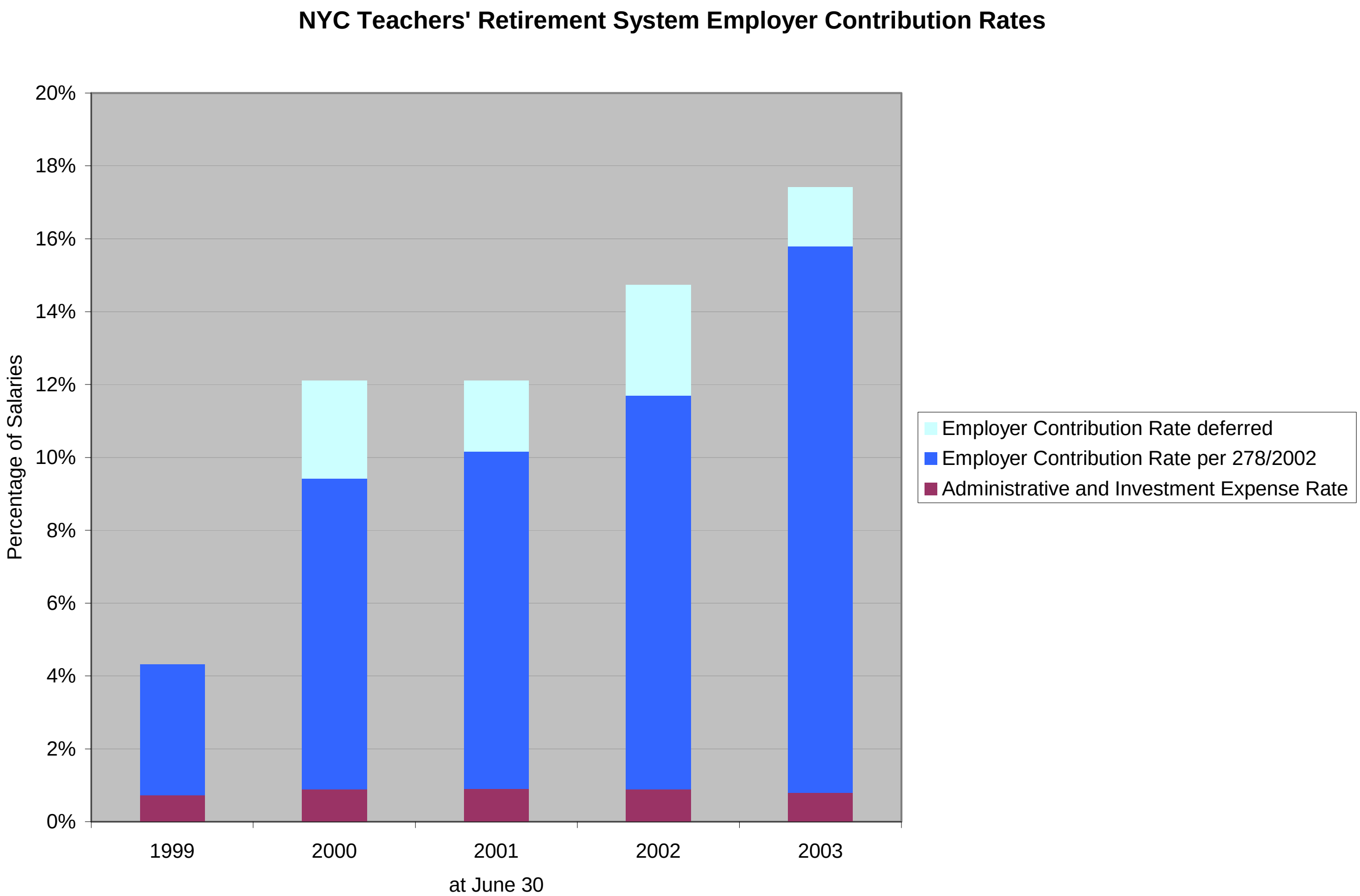
Chapter 125 of the Laws of 2000 provided automatic cost-of-living allowances to retirees, reduced member contributions for certain members, and other benefit increases. That chapter also required that the funding for the additional liability created by the chapter be phased in over five years. Chapter 278 of the Laws of 2002 modified that phase-in period so that the additional liability created by Chapter 125 was phased in over a ten year period.

Shown below is a chart of the primary asset and liability components.



This chart illustrates the major components that were used to develop the employer contribution requirement. The total height of each bar represents the total plan liability – the present value of benefits to be eventually provided to members. The darker blue portion of the bars represents the actuarial value of assets, and the lighter blue portion represents the present value of future employee contributions. The remaining portion of each bar shows the amount of liability that is to be paid by the employer: the maroon color shows the amount to be paid in the current year, and the lighter color shows the amount that is deferred based on Chapter 278 of the Laws of 2002. The chart illustrates that, as the assets have decreased in the last three years, the amounts to be contributed by the employer (both current and deferred) have increased.

The following chart illustrates the components of employer costs as a percentage of salaries. The administrative and investment expenses are the costs to run the System. The employer cost for benefits is shown in two components: the portion being contributed in the current year, and the portion being deferred to future years. The total employer contribution, including expenses, unfunded actuarial liability, and the normal cost, has, since 1981, decreased from over 30% to less than 5% of salaries in 1999. Since 1999 the funded status of the plan has decreased, and as a result, the employer contribution has begun to increase. In the next few years, the employer cost is expected to increase to more historically average levels.



13. UNFUNDED ACTUARIAL ACCRUED LIABILITY

The unfunded actuarial accrued liability (UAAL) of a pension plan refers to the present value of required employer contributions other than normal contributions. Generally, UAAL is liability that is attributable to benefit increases. UAAL is not a measure of the overall funding status of the pension plan. Such measures are discussed elsewhere in this report in the section titled Funding Ratios.

The items to be funded through UAAL contributions, and the computation of the initial UAAL 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 UAAL balances is computed by the Entry Age Normal Cost Method.

The System's total UAAL at any point in time is the aggregate present value of the remaining payments in amortization of all previously established UAAL balances. As of June 30, 1999, just prior to the examination period, the UAAL was zero; the previous UAAL had been eliminated due to a reestablishment of the UAAL as of June 30, 1999 as specified by Chapter 85 of the Laws of 2000. The elimination of the UAAL due to the reestablishment does not reduce the measurement of the total plan liability; it merely shifts the liability from the UAAL component, where it would have been amortized over a fixed number of years, to the Normal Cost component, where it is funded over the remaining working lifetime of the active participants.

Chapter 70 of the Laws of 1999 provided an early retirement incentive for active members. The additional liability attributed to that legislation generated a UAAL component of about $5,138,000 as of June 30, 2000. That component is to be amortized over five years at the valuation interest rate of 8% with level annual payments of about $1,238,000.

Chapter 69 of the Laws of 2002 also provided an early retirement incentive for active members. The additional liability attributed to that legislation generated a UAAL component of about $11,148,000 as of June 30, 2003. That component is to be amortized over five years at the valuation interest rate of 8% with level annual payments of about $2,687,000.

The progression of the total UAAL and the total annual amortization payment is shown below.

Valuation Date June 30	Total UAAL	Payment
1999	$0	$0
2000	5,135,792	1,237,735
2001	4,260,363	1,237,735
2002	3,314,900	1,237,735
2003	13,442,040	3,924,481

If no additional components of UAAL are generated (e.g., by benefit improvements or retirement incentives), the total UAAL would be amortized (reach $0) by June 30, 2008.

14. 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 are 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.

The AAV method (adopted with the June 30, 1991 valuation) adjusts the current year's market value to recognize “unexpected return” over a five year period. “Unexpected return” is 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, is defined to be the valuation interest rate multiplied by the mean actuarial value of investable assets.

Within a short period prior to this examination period, a “market value restart” was implemented two times, on June 30, 1995 and June 30, 1999. In a market value restart, the actuarial value of assets is set equal to the market value of assets. On both of those dates, prior to the restart, the actuarial value of assets was less than the market value of assets. Therefore, as a result of the restarts, the new actuarial value of assets was higher than what it otherwise would have been. It is recognized that the change in actuarial asset valuation method is being made in conjunction with other changes in actuarial assumptions and methods. However, the actuarial standard of practice regarding actuarial asset valuation methods promulgated by the Actuarial Standards Board requires that the general effect of this recent change in the actuarial asset valuation method be disclosed. (This standard was discussed beginning in 2002, and has since become effective.) While the published reports on the 1995 and 1999 actuarial valuations stated that the actuarial asset valuation method was changed, there was no mention of the general effect of that change, as would be required by the actuarial standard of practice. In fact, the consequence of both changes was a reduction in current employer contribution requirements, and therefore an increase in later employer contribution requirements; i.e., a deferral of employer contribution requirements to later years. During this examination period there were no market value restarts.

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, 2002 valuation, it had been the System's practice to deduct member loans from both assets and liabilities in the pension expense computations. That practice was changed with the June 30, 2002 valuation: member loans were viewed as another form of investment for the fund, and were thus included in the determination of plan assets.

The table below shows the relationship between the actuarial value of assets for pension expense purposes and the assets in the annual statement ($000):

	(1)	(2)	(3)	(4)	(5)
Valuation Date	Assets for Pension Expense [a]	Accounts Payable	Deferred Employer Contributions	Payable for Security Purchase	Accrued Benefits Payable
6/30/99	35,464,347	92,484	0	2,071,815	12,970
6/30/00	36,751,196	126,510	176,052	2,202,638	45,399
6/30/01	31,592,991	124,201	0	1,534,839	14,251
6/30/02	27,025,915	346,474	0	1,996,055	12,116
6/30/03	26,077,990	195,027	0	2,345,449	13,433

	(6)	(7)	(8)	(9)	(10)
Valuation Date	Due to BERS	Loan Receivables	Excess of Book Value over Market Value of Bonds	Non-admitted Assets	Assets Annual Statement (1)+(2)+(3)+(4) +(5)+(6)+(7) +(8)+(9)
6/30/99	71,936	221,079	98,840	(838,285)	37,195,186
6/30/00	73,229	221,660	210,584	0	39,807,268
6/30/01	60,086	215,243	4,837	0	33,546,448
6/30/02	47,873	0 [b]	10,834	0	29,439,267
6/30/03	42,726	0 [b]	(481,346)	0	28,193,279

[a] Assets for Pension Expense shown here does not reflect the smoothing used to develop the Actuarial Value of Assets.

[b] Beginning with the June 30, 2002 valuation, member loans were not excluded from plan assets, so this adjustment was not necessary.

15. INTEREST EARNED AND INTEREST REQUIRED

Included in the System's annual statements to the Insurance Department are the total investment income actually earned during the year, including realized and unrealized changes in market values and, for fixed (non-variable) funds, the amount of interest required to maintain those funds. (Investment experience on variable funds passes directly to the members via changes in unit values; consequently, interest required to maintain variable funds would not be a meaningful concept.)

Interest required to maintain funds is computed by multiplying the assumed valuation interest rate by 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.

Fixed funds of the Tax Deferred Annuity Program and the Qualified Pension Plan are invested in a common pool, and the resulting investment income is shared between the two. It is therefore useful to compare interest earned with interest required for the TDA and QPP in combination. The amounts of interest earned and interest required during the period under examination for the QPP and the non-variable funds of the TDA in combination were as follows ($000):

Fiscal Year ending 6/30	(1) Interest Earned	(2) Interest Required	(3) Excess (1) - (2)	(4) Ratio (1) ÷ (2)
1999	3,354,248	1,786,734	1,567,514	188%
2000	2,850,243	1,984,822	865,421	144%
2001	(2,343,808)	2,444,897	(4,788,705)	(96%)
2002	(1,810,755)	2,484,850	(4,295,605)	(73%)
2003	542,654	2,473,698	(1,931,044)	22%
TOTAL	(1,268,101)	11,174,999	(8,582,421)	(11%)

As the table indicates, actual investment earnings were almost twice the expected investment income during the 1999 fiscal year, then dropped significantly, and began a recovery in the last year of the examination.

16. 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 this 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, as reported in Schedule B of the Annual Statement, are shown below ($000,000):

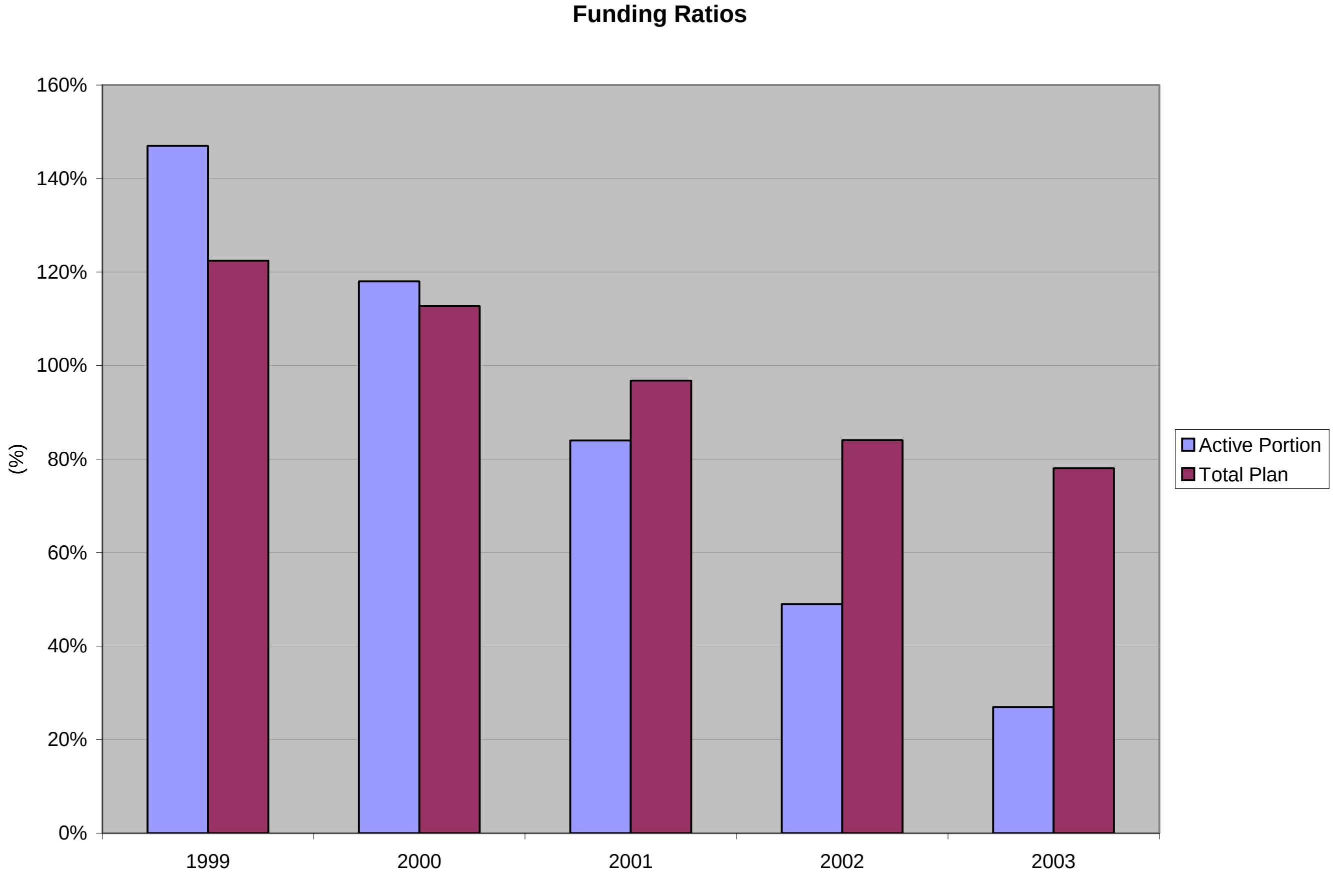
Valuation Date	(1) Assets Available for Active Members	(2) Projected Benefit Obligation	(3) Funding Ratio (1) ÷ (2)
6/30/99	17,513	11,888	147%
6/30/00	17,184	14,617	118%
6/30/01	12,421	14,730	84%
6/30/02	7,138	14,518	49%
6/30/03	3,647	13,668	27%

The decrease in Funding Ratio shown above is due primarily to the decrease in investment yield referred to earlier in this report.

It should be noted that the decrease 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; this measurement excludes liabilities attributable to retirees, etc., and to assets that could be allocated to those retirees. 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. The table below shows the funding ratios for total plan assets and liabilities ($000,000).

Valuation Date	(1) Assets	(2) Projected Benefit Obligation	(3) Funding Ratio (1) ÷ (2)
6/30/99	37,013	30,233	122%
6/30/00	39,607	35,142	113%
6/30/01	33,330	34,446	97%
6/30/02	29,203	34,744	84%
6/30/03	28,000	35,777	78%

The first table, reflecting only a portion of plan assets and liabilities, shows a decrease in funding ratio from 147% to 27%. The second table, reflecting all plan assets and liabilities, shows a somewhat less steep reduction, from 122% to 78%. This relationship can be seen in the chart below.



17. ACTUARIAL ASSUMPTIONS AND METHODS

Several changes in assumptions and methods were proposed by the Office of the Actuary for the June 30, 1999 valuation, just prior to the beginning of the four-year period this examination covers. 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 balance sheet liability ("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.

During the examination period the System engaged a pension consulting organization (Gabriel, Roeder, Smith & Company) to analyze System experience in relation to the actuarial assumptions. The study reviewed experience data from June 30, 1988 to June 30, 2001. The consulting organization issued a final report dated October, 2003 in which a number of changes in actuarial assumptions were recommended. Because the publication date of the report is a relatively short time before the completion of this examination, it would not be reasonable to expect that any of the changes recommended in the report would have been implemented by the completion of this examination. The recommendations in the consultant's report included making changes in the salary scale assumption, withdrawal assumption, and mortality assumption, among others.

The principal actuarial assumptions include an interest assumption (the assumed investment yield, which is also the rate at which liabilities are discounted), a salary scale assumption (the assumed percentage increase in salaries), and assumptions regarding the rate at which members leave active status according to reason: mortality, retirement, withdrawal or disability. A selected summary of the assumptions is shown below:

Interest: 8% per year

Salary Scale:

Age	Annual Percentage Increase
25	8.50%
40	5.50
55	4.75

Withdrawal from active service (for other than service retirement):
Rates shown are for females, who comprise about 75% of total plan liability.

Age	Termination	Ordinary Disability Retirement	Ordinary Death
25	1.80%	.01%	.02%
40	1.80	.06	.06
55	1.00	.13	.25

Withdrawal from active service (for service retirement):
Rates shown are for females, who comprise about 75% of total plan liability.

	- - Years of service since eligibility - -		
Age	0-1	1-2	2+
50	0%	0%	0%
55	10	0	0
60	10	8	8
65	30	30	30
70	100	100	100

Both the interest assumption and the salary scale assumption are made up of other, more fundamental, components. The interest assumption is composed of a price inflation assumption and a "real" interest rate; i.e., a rate of return in the absence of any price inflation. The salary scale assumption is composed of the price inflation assumption, a "real" wage increase (in the absence of any price inflation), and a merit/promotion increase. The merit/promotion increase assumption varies by age and service. The components of the interest assumption and the salary scale assumption can be illustrated as follows:

Component	Investment Return	Salary Scale
Price Inflation	2.5%	2.5%
Real interest rate	5.5	---
Real wage growth	---	.5
Merit/Promotion	---	varies by age and service
Total	8.0%	3.0% plus value that varies by age and service

Actuarial Standard of Practice No. 27 (ASOP 27), "Selection of Economic Assumptions for Measuring Pension Obligations", provides professional actuarial guidelines for choosing an investment return assumption; generally, the discount rate, used in determining the present value of expected future plan payments, is the same as the investment return assumption. ASOP 27 states that, for the investment return assumption, the actuary should choose a single point that is within a "best-estimate range", which is also developed by the actuary.

The prior report on examination (for the period July 1, 1994 to June 30, 1999) contained a comment related to the "spread", or excess of the interest rate assumption over the wage growth assumption. The wage growth assumption is the sum of the price inflation and the real wage growth. The spread for the three-year period of this examination, based on the values shown in the table above, is 8.0 – (2.5 + .5) = 8.0 – 3.0 = 5.0%. The comment in the prior report noted that the spread has increased from 2.75% to 5% over the previous eleven years. An increasing spread results in decreasing employer contributions. The comment in the prior report was meant to raise awareness of the fact that the spread has been increasing, resulting in a less conservative funding approach. Although the spread did not increase further during the four years covered by this examination (July 1, 1999 to June 30, 2003), it still remains at a relatively high level compared to the spread for this system for much of its history. The spread is also higher than that of most other public retirement systems in this country during the same time period. As mentioned above, a higher spread results in lower current contributions, but also higher contributions in subsequent years; i.e., a deferral of a portion of the otherwise required employer contribution.

18. INVESTMENT MANAGEMENT OPERATIONS

The highest governing body at Teachers' is its board of trustees. The trustees are fiduciaries for Teachers', its members and its retirees. The trustees delegate the System's investment functions to the New York City Comptroller, pursuant to Section 13-702 of the New York City Administrative Code. The investment powers transferred to the Comptroller are subject to written delegations which may not exceed one year. Although this authority is renewed annually, the System is not required to use the Comptroller for investment services. The investment services provided to Teachers' by the Comptroller are provided through the Bureau of Asset Management (BAM), a division of the Comptroller's office. The delegated powers authorize the Comptroller of the City of New York to make any investment which Teachers' trustees are authorized to make. Also, the Comptroller is authorized to hold, sell, assign, transfer, or dispose of any of the properties, securities or investments in which any of the funds of the System have been invested.

Section 136.2 of Department Regulation No. 85 states in part:

> (b) "*Administrative head* shall mean,…the board of trustees of a retirement system, in their individual and collective capacities"

Section 136.6 of Department Regulation No. 85 states in part:

> "(a) The administrative heads are fiduciaries and as such shall act solely in the interests of the members and beneficiaries of the systems they administer. They shall perform their responsibilities in a manner consistent with those of a reasonably prudent person exercising care, skill and caution. (b) The assets of a system shall at all times be under the control of the administrative head. (c) No investment or loan transaction shall be made by a system unless the same has been approved by the administrative head. The administrative head may delegate its powers of investment to a committee or agent of the administrative head within well-defined established guidelines. Such committee or agent shall render timely written reports of its activities to the administrative head under a schedule to be established by the administrative head and shall render special reports whenever requested by the administrative head. (d) In respect to the delegation of investment powers, the administrative head shall periodically review: (1) the present holdings in the investment account; (2) any marked changes in the account during the preceding period; (3) the reasons for such changes and the results achieved thereby; (4) the investment activity in the account including the rate of turnover; and (5) any other factors the administrative head considers pertinent to an analysis of the financial performance and planning, consistent with its obligation as a fiduciary."

As outlined in Department Regulation No. 85, the trustees are the fiduciaries of the System and as such must act solely in the interests of its members and beneficiaries. No board collectively, no trustee individually, nor any administrative head, can delegate their fiduciary obligations to others. They must perform their responsibilities in a manner consistent with those of a reasonably prudent person exercising care, skill and caution. The Regulation requires that the assets, at all times, be under the control of the trustees and that investments and loan transactions be approved by the trustees. Department Regulation No. 85 allows the trustees to delegate its investment powers within well–defined established guidelines and with the rendering of timely written reports of its activities to the trustees under a schedule established by the trustees. At a minimum, the Department believes that appropriate implementation of such guidelines requires a comprehensive Investment Policy Statement.

Investment Policy Statement

The examiner reviewed a sample of the transcripts of the meetings of the board of trustees for the period under examination, and made the following findings:

1. The sampled transcripts revealed instances where the trustees were concerned about the lack of an overall Investment Policy Statement.

2. The sampled transcripts show that the board began to formulate a comprehensive investment policy statement only toward the end of the period that is the subject of this review. The transcripts reveal no material substantive consideration of an investment policy statement's specific contents or provisions before the end of that period. Similarly, in the following areas, where the responsibility to establish standards belongs to the trustees, the board meeting transcripts reveal little board discussion:

    1. The sampled transcripts reveal no board discussion of establishing an investment policy statement of sufficient detail to guide a third party when trying to implement the trustees' instructions.
    2. The sampled transcripts do not reveal a clear definition of the duties and responsibilities of the investment committee, the Comptroller's office (either as custodian or as fund manager), the investment consultants, or the separate account managers.

Based on the examiner's review, it was revealed that during the period of examination the System did not have a comprehensive Investment Policy Statement that governed, controlled, and monitored its investment activities. However, subsequent to the examination period the System did develop a comprehensive Investment Policy Statement which the Department believes satisfies its concerns about proper governance of the System's investment activities. It is noted that the System and the Comptroller maintain that the System did have various policies and guidelines in place governing investment activities, and that in an effort to consolidate those guidelines an Investment Policy Statement was adopted starting in 2004.

19. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations 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 eliminate "inactive status" member loans from the loan receivable asset. The System continued to report loans of inactive members as part of the loan receivable asset during the examination period. (See item 7 of this report)
B	The examiner recommended that the System pay advance partial benefits in accordance with its procedures. Advance payments were paid in accordance with procedures during the current examination period.
C	The examiner recommended that the System expedite efforts to alleviate the telephone service problem and devote a reasonable amount of additional resources to servicing the TDA accounts. The System has alleviated the telephone service problem and updated its Web-site to service members in a more timely manner.
D	The prior report commented on the fact that the actuarial value of assets was adjusted twice, as of June 30, 1995 and June 30, 1999, in such a way as to reduce the employer contribution each time. The report recommended that, if the System continued to make adjustments to the actuarial value of assets, it do so in such a way as to not consistently bias the level of contributions (in either direction). During the four years of this examination, the System has not made any similar asset adjustments.

20. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No
A	The System violated Section 136.6(i) of Department Regulation No. 85 when it failed to record and maintain proper minutes and furnish the examiner the minutes for six investment committee meetings.	7
B	Three of the System's trustees did not attend a majority of the Board meetings. The examiner recommends that all board members attend scheduled board meetings.	7
C	With regard to loaned securities, it was noted that the board of trustees and the Comptroller's office did not give clear guidance to Citibank on how to deal with downgraded securities in the portfolio. This issue was also a concern raised in the Independent Fiduciary Services, Inc. Management Study and Operations Review report of the New York City Comptroller's Asset Management Function. Subsequent to the examination period, however, the System adopted an Investment Policy Statement which the Department believes has controls that should provide adequate oversight of the Systems Securities Lending Program.	19
D	The System overstated its loan receivable asset by $6.9M in the 2003 annual statement.	20
E	The examiner recommends that the System eliminate "inactive status" member loans from the loan receivable asset. This is a repeat recommendation from the two prior reports on examination.	20
F	The System violated Section 136.4(a) of Department Regulation No. 85 and Section 243.2 of Department Regulation No. 152 when it did not maintain the proper documentation in its claim files.	21
G	The examination noted that the "spread" which has increased over the years prior to the examination period still remains at a relatively high level compared to the spread for this system for much of its history.	44

Item	Description	Page No

H Based on the examiner’s review, it was revealed that during the period of examination the System did not have a comprehensive Investment Policy Statement that governed, controlled, and monitored its investment activities. However, subsequent to the examination period the System did develop a comprehensive Investment Policy Statement which the Department believes satisfies its concerns about proper governance of the System’s investment activities. It is noted that the System and the Comptroller maintain that the System did have various policies and guidelines in place governing investment activities, and that in an effort to consolidate those guidelines an Investment Policy Statement was adopted starting in 2004. 46

Respectfully submitted,

_____________/s/___________

Joshua Weiss
Associate Insurance Examiner

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

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

_____________/s/___________

Joshua Weiss

Subscribed and sworn to before me

this__________ day of ___________________2009.

Respectfully submitted,

/s/
Michael J. Lambert
Principal Actuary

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

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

/s/
Michael J. Lambert

Subscribed and sworn to before me

this__________ day of ___________________2009.

APPOINTMENT NO. 22197

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

JOSHUA WEISS

as a proper person to examine into the affairs of the

TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

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 5th day of April, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent