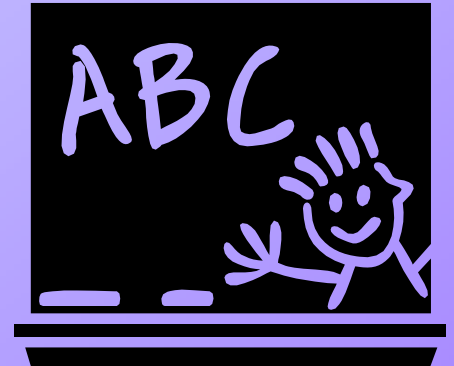




The Security
of a
NYSTRS
Pension



Today's Lesson Plan

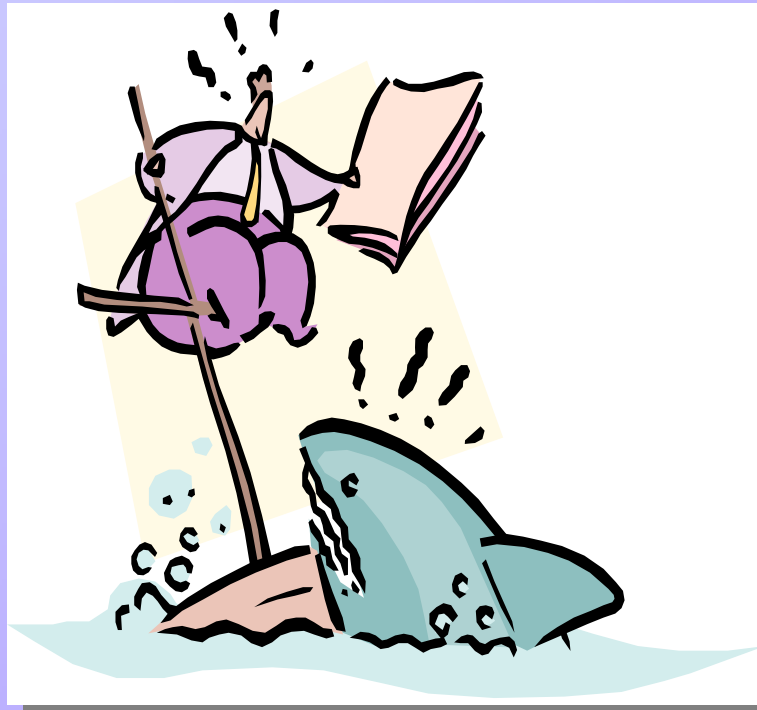


- Defined Contribution vs. Defined Benefit
- Reports from Independent Agencies
- NYS Constitutional Guarantee
- NYSTRS Funding
- NYSTRS Investment Strategy
- Employer Contribution Rate
- What *Does* Impact Your Pension



About NYSTRS...

- Was created by an act of the New York State Legislature in 1921.
- Administers the fund from which public school teachers and administrators receive retirement benefits.
- Is funded through employer contributions, member contributions and investments.
- Is a defined benefit plan.



Defined Contribution Plans:

During tough economic times

benefits could be at risk...



Defined Benefit Plans:

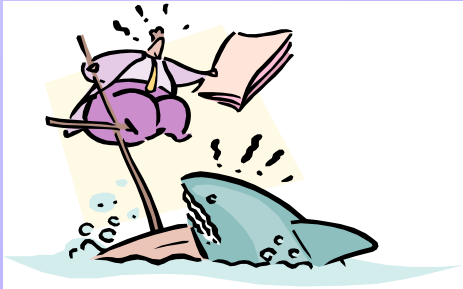
(e.g., NYSTRS) Regardless of the economic times...

benefits are protected.



Pension Plan Comparison

Defined Contribution Plans (DC)



- Important to be a wise investor / have a financial planner
- Return has direct correlation to what you contribute
- Market performance has direct impact on return
- Lump sum to manage or annuitize

Defined Benefit Plans (DB)

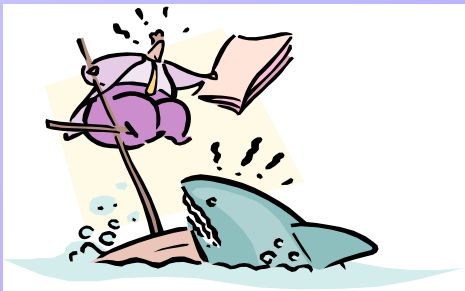


- Benefit tied to service credit, final average salary and possibly age
- Mandatory contributions not directly related to benefit
- Constitutional guarantee, regardless of market performance
- Lifetime benefit



Pension Plan Comparison

Defined Contribution Plans (DC)



Defined Benefit Plans (DB)



Average *value* for workers in their 50's

401(k) balance :
\$164,000¹

NYSTRS Pension :
\$700,000²

1- US News & World Report, 8/10/2007

2- approximate value if converted to a lump sum



Averages for Recent Retirees

Age: **59**

Service: **28 years**

FAS: **\$77,000**

Maximum Pension: **\$46,000**



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Defined Contribution Plans (DC)

- ❖ Predominate in private sector.
- ❖ Typically less than 50% of employees participate.
- ❖ COLAs virtually unheard of.
- ❖ Employer matching can be discontinued.

Defined Benefit Plans (DB)

- ❖ Predominate in public sector.
- ❖ Coverage is typically universal.
- ❖ Some COLA is common.
- ❖ Benefits are typically guaranteed.



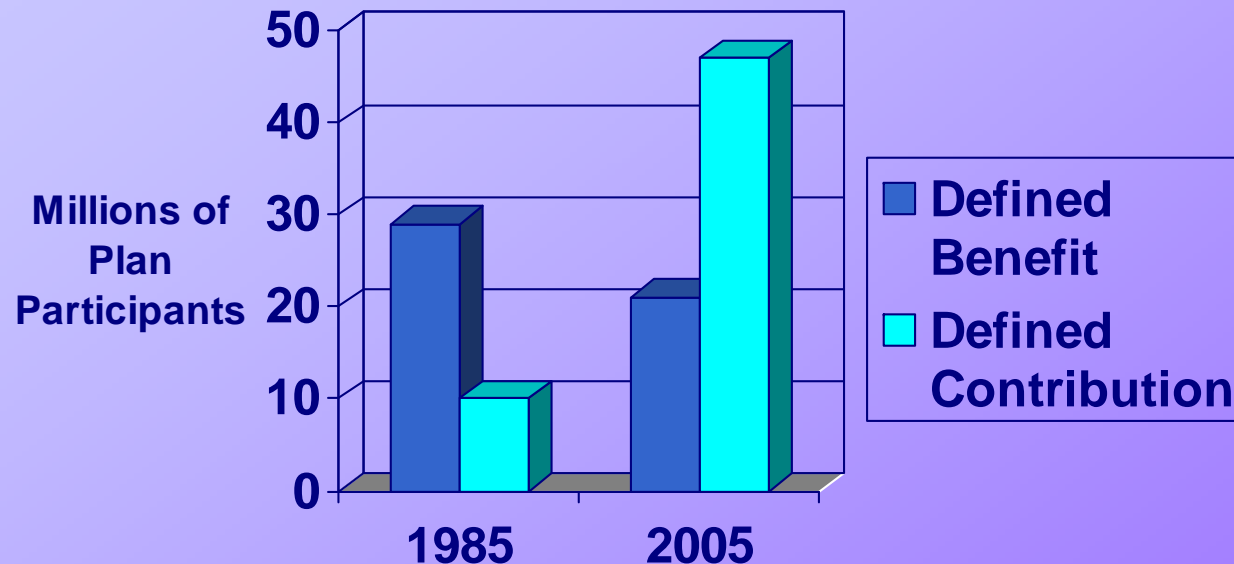
Recently “Frozen” Retirement Plans

- Hewlett Packard
- IBM
- Verizon





The Shift to DC Plans



- In the private sector, the burden of retirement has shifted from employer to employee.
- This year, the average 401(k) balance has dropped an average of 7% - 11%,* and many are still falling!

* Washington Post, 10/14/2008



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Why Have Defined Benefit Plans Survived in the Public Sector?

Different workforces:

*Older, less likely to change employers,
more risk averse, more unionized*

Different employers:

*Governments don't go out of business,
and face fewer market pressures*

Different regulatory environment:

*Fewer federal regulations,
less expensive to run*



- “The investigative arm of congress”
- Stellar reputation as an objective source of research
- Asked in 2006 by the U.S. Senate Finance Committee to review state & local government employee benefits.
Specifically:
 - the types of benefits provided and how they are structured
 - how retiree benefits are protected and managed, and
 - the fiscal outlook for retiree benefits and what governments are doing to ensure they can meet their future commitments.



- GAO completed two reports:
 - *Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*, released October 2007
 - *Current Funded Status of Pension and Health Benefits*, released January 2008
- Among Key Findings:
 - “**The funded status of state and local pensions is reasonably sound ...**”



NATIONAL COUNCIL ON TEACHER RETIREMENT



NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS

- National Association of State Retirement Administrators (NASRA)

- *Non-profit association whose members are directors of the nation's largest state-wide public retirement systems*

- National Council on Teacher Retirement (NCTR)

- *Independent association dedicated to safeguarding the integrity of public teacher retirement systems in the U.S. and promoting the rights of all present and future members of the systems.*



NATIONAL COUNCIL ON TEACHER RETIREMENT



NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS

Joint Press Statement in September 2008: “State & Local Pensions Navigating the Storm”

- “State & local retirement systems remain sound amid the current downturn in financial markets, and retirement benefits of the nation’s ...public workers remain safe and secure.”
- Pension fund investments in companies making the headlines are just a small portion of their overall portfolio.
- By holding on to their investments and providing liquidity to the market, pension funds are aiding the recovery of the capital markets.



NATIONAL COUNCIL ON TEACHER RETIREMENT



NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS

Public Pension Funds Have Endured Many Past Financial Market Crises:

- The 1970s, when the inflation rate was substantially higher than the rate of return on investments for a number of consecutive years.
- The market crash of 1987, when a 500-point one-day drop in the Dow Jones equaled a 22% loss, not the 5% loss it means today.
- The downfalls of Enron and WorldCom and the bursting of the tech stock bubble early this century.



NYS “Constitutional Guarantee”

New York Constitution – Article 5, Section 7:

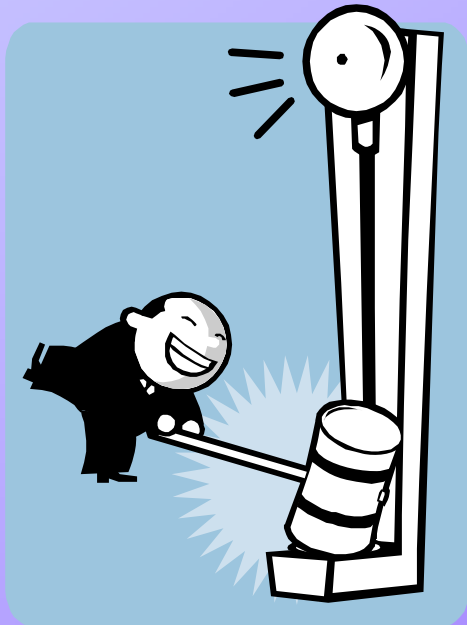


“...membership in any [state] retirement system...shall be contractual...the benefits of which shall not be diminished or impaired.”



NYSTRS Funding

New York was recently listed in the top 5 states for funded public pension plans.*



- Oregon
- North Carolina
- Florida
- Delaware
- New York

**Forney Post, October 2008*



NYSTRS Funding

- Pay-As-You-Go vs. Advance Funding
- 3 Sources:
 - Member Contributions
 - Employer Contributions
 - Investment Returns





NYSTRS Investment Strategy



- Diversification
- Long-Term Investing



Diversification

- Spread funds over many types of investments
- Manage to indexed funds
- Multiple investment managers





The Benefit of Time

Historically, long term investors have been rewarded for staying the course during periods of declining stock prices. From 1939-2007:

For all **1**-year periods, **76%** of the time.
the stock market posted gains

For all **2**-year periods, **87%** of the time.

For all **5**-year periods, **91%** of the time.

For all **10**-year periods, **100%** of the time.



5-Year Rate of Return as of 6/30/08

Market Value

| | |
|--------------|-------------|
| '03 -'04 | 16.1% |
| '04 -'05 | 10.6% |
| '05 -'06 | 11.8% |
| '06 -'07 | 19.3% |
| '07 -'08 | -6.4% |
| 5-yr: | 9.9% |





Employer Contribution Rate (ECR)



- Percentage of payroll paid in by employers each year
- Fluctuates over time
- Impacted by:
 - Investment Returns (5-year smoothing)
 - Legislation
 - Membership

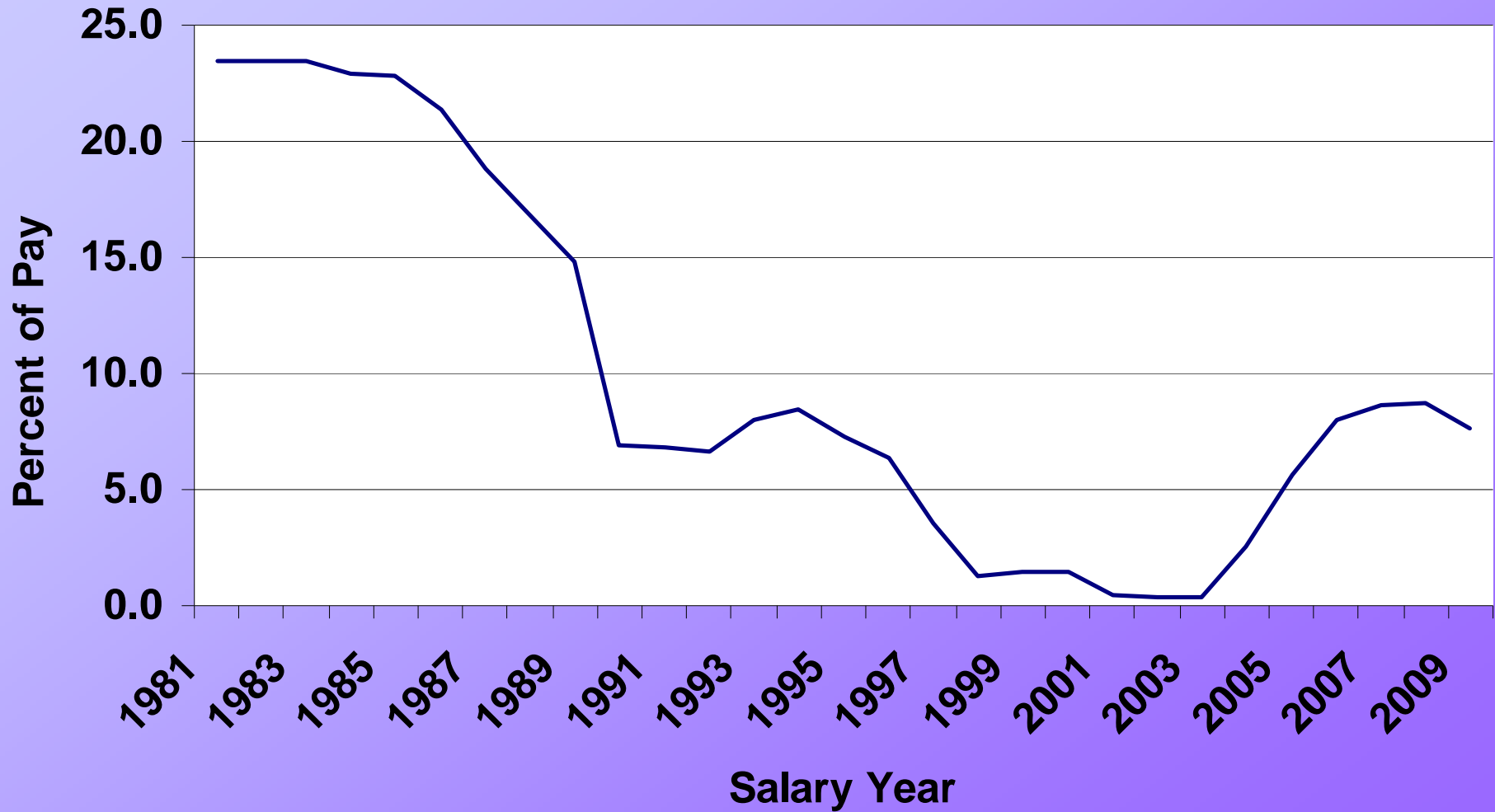


ECR - The Last 30 Years

| | | |
|------------------|-----------------|-----------------|
| '79 -'80: 22.49% | '89 -'90: 6.87% | '99 -'00: 1.43% |
| '80 -'81: 23.49% | '90 -'91: 6.84% | '00 -'01: 0.43% |
| '81 -'82: 23.49% | '91 -'92: 6.64% | '01 -'02: 0.36% |
| '82 -'83: 23.49% | '92 -'93: 8.00% | '02 -'03: 0.36% |
| '83 -'84: 22.90% | '93 -'94: 8.41% | '03 -'04: 2.52% |
| '84 -'85: 22.80% | '94 -'95: 7.24% | '04 -'05: 5.63% |
| '85 -'86: 21.40% | '95 -'96: 6.37% | '05 -'06: 7.97% |
| '86 -'87: 18.80% | '96 -'97: 3.57% | '06 -'07: 8.60% |
| '87 -'88: 16.83% | '97 -'98: 1.25% | '07 -'08: 8.73% |
| '88 -'89: 14.79% | '98 -'99: 1.42% | '08 -'09: 7.63% |

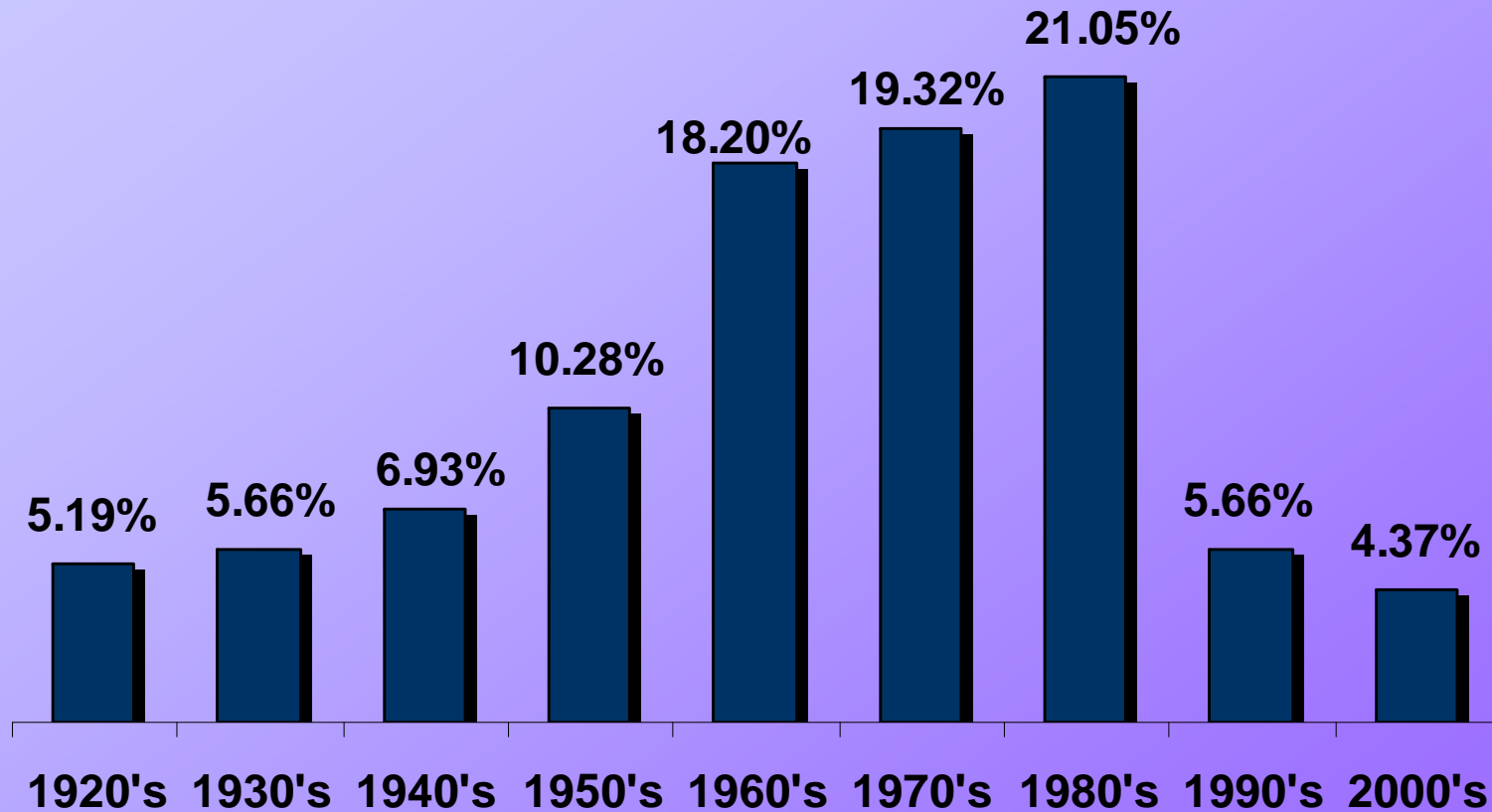


History of the ECR





Average ECR by Decade





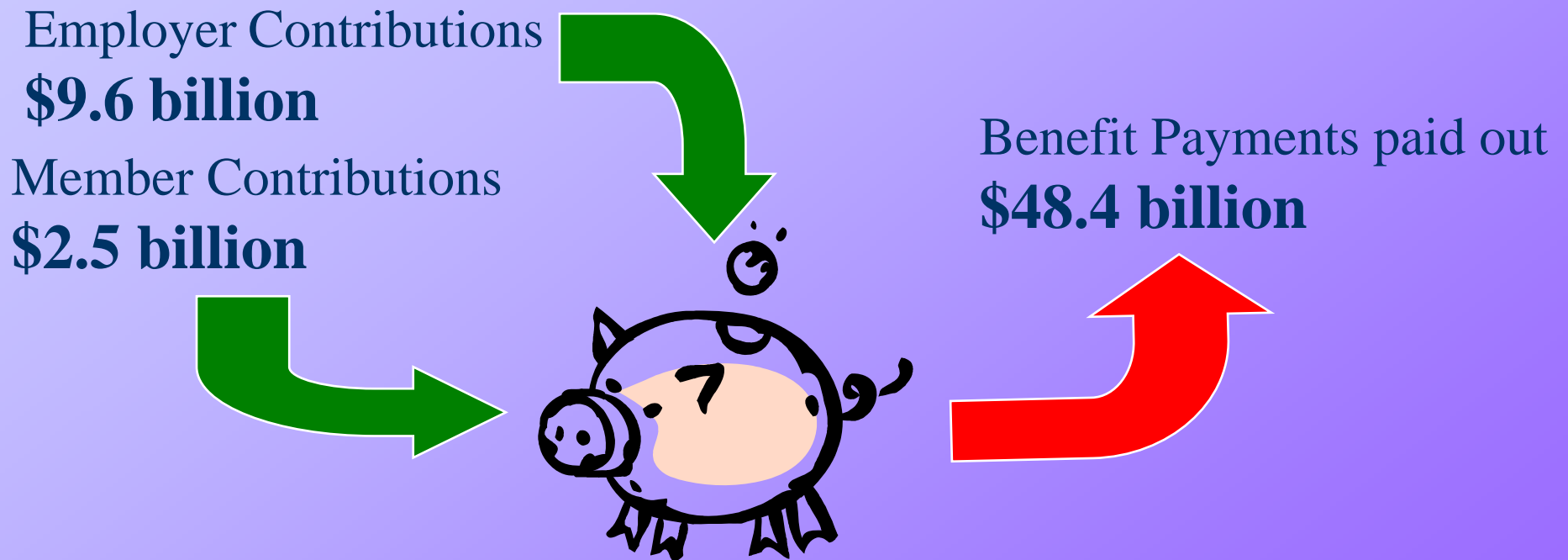
Beyond This Year

- First quarter 2008-09 return: Approx. -8%
- October 2008:
 - S&P 1500: Approx. -17%
 - EAFE: Approx. -20%
- Barring a market reversal, next ECR will be higher, likely significantly higher





Incoming Contributions vs. Benefits Paid: 1990 - 2008



Approx. Market Value of Assets – 1990: \$30B
Approx. Market Value of Assets – 2008: \$96B



What *Does* Impact Your Pension?

Taxes and Inflation



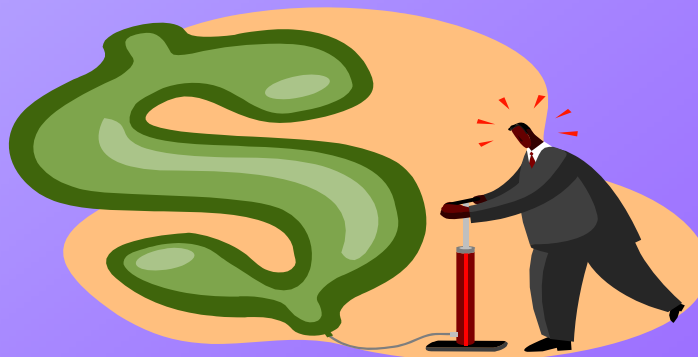
Income: Gross vs. Net

| | <u>Employed</u> | <u>Retirement</u> | <u>Difference</u> |
|--|----------------------|----------------------|--------------------|
| Pre-Tax Yearly <u>GROSS</u> : | \$70,000 | \$40,000 | (-)\$30,000 |
| Gross Monthly | \$5,833 | \$ 3,333 | |
| Federal Tax (M-0) | -710 | -335 | |
| State Tax (M-0) | -366 | 0 | |
| <u>FICA & Medicare</u> | <u>-446</u> | <u>0</u> | |
| Total Net: | \$4,311 | \$ 2,998 | |
| Yearly <u>NET</u> After Taxes : | \$51,732 | \$35,980 | |
| | (deductions = 26.1%) | (deductions = 10.0%) | (-)\$15,752 |



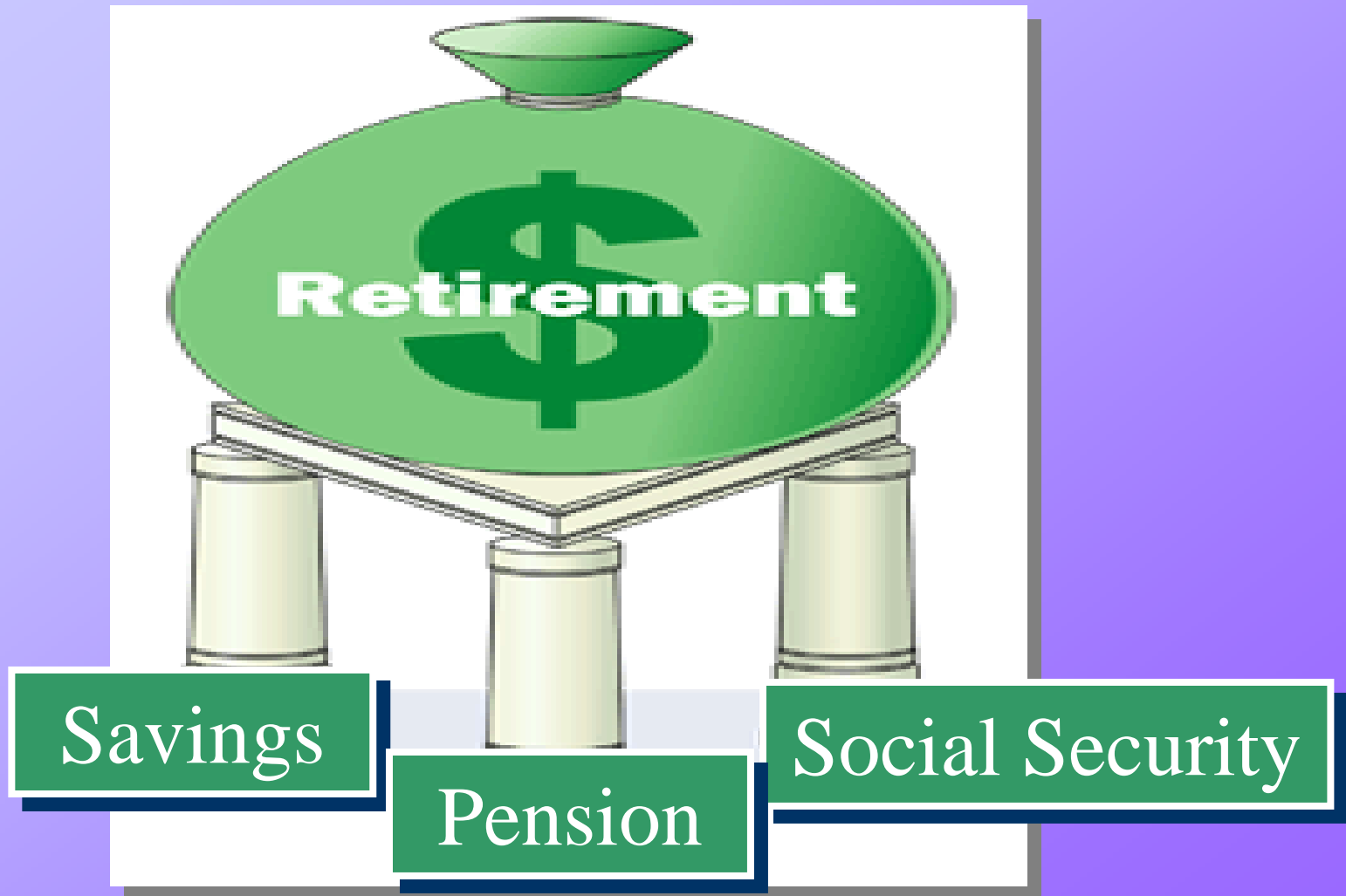
Examples of Inflation

| | <u>1934</u> | <u>1980</u> | <u>2004</u> |
|---------------------|-------------|-------------|-------------|
| Postage Stamps | \$.03 | \$.15 | \$.37 |
| Automobiles | \$1,436 | \$6,200 | \$25,800 |
| One Day in Hospital | \$12 | \$344 | \$3,924 |





Three-Legged Retirement Stool





Summary



- Your NYSTRS Pension is SECURE!
 - Designed to weather market fluctuations
 - NYS Constitutional Guarantee
- A tax-sheltered fund will help augment your pension and build a hedge against taxes and inflation.