In the Matter Of:

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

BOARD MEETING

January 21, 2021

NEW YORK CITY TEACHERS' RETIREMENT SYSTEM

BOARD MEETING

Held on Thursday, January 21, 2021 via Videoconference

ATTENDEES:

DEBRA PENNY, Chairperson, Trustee
DAVID KAZANSKY, Trustee
SUSANNAH VICKERS, Comptroller's Office
THOMAS BROWN, Trustee
JOHN ADLER, Trustee
NATALIE GREEN-GILES, Trustee
RUSSELL BUCKLEY, Trustee
VALERIE BUDZIK, Teachers' Retirement System
PATRICIA REILLY, Teachers' Retirement System

REPORTED BY:
YAFFA KAPLAN
JOB NO. 5981033

ATTENDEES (Continued):

THAD McTIGUE, Teachers' Retirement System
LIZ SANCHEZ, Teachers' Retirement System
ISAAC GLOVINSKY, Teachers' Retirement System
ANTHONY MEZZACAPPA, Teachers' Retirement System
SUSAN STANG, Teachers' Retirement System
CARMELA CRIVELLI, Teachers' Retirement System
ANDREW BRADFORD, Teachers' Retirement System
RENEE PEARCE, Teachers' Retirement System
NATARAJAN KRISHNAMOORTHY, Teachers' Retirement System
ROBERT BETHELMY, Teachers' Retirement System
SHERRY CHAN, Office of the Actuary
KATE CHEN, Teachers' Retirement System
KAVITA KANWAR, Teachers' Retirement System
MATT LASKOWSKI, Teachers' Retirement System
JOHN DORSA, Bureau of Asset Management
MARTA ROSS, Law Department
BILL BENSON, Teachers' Retirement System
SERRATA ANGEL
DICK RILEY

Proceedings

MS. REILLY: Good afternoon, and welcome to the Board meeting of the Teachers' Retirement Board for January 21, 2021. I will start by calling the roll.

John Adler?

MR. ADLER: Here.

MS. REILLY: Thomas Brown?

MR. BROWN: I am here, Patricia.

MS. REILLY: Natalie Green-Giles?

MS. GREEN-GILES: Here.

MS. REILLY: David Kazansky?

MR. KAZANSKY: Present.

MS. REILLY: Lindsey Oates -- oh, I'm sorry. Russell Buckley?

MR. BUCKLEY: Russell Buckley here for Lindsey Oates. Thank you.

MS. REILLY: Debra Penny?

MS. PENNY: Present. Thank you.

MS. REILLY: And Susannah Vickers?

MS. VICKERS: Here.

MS. REILLY: Okay. So we have a quorum. So first item on our agenda is an update from TRS operations, and Kavita Kanwar is going to give us that update. Kavita?

Proceedings

MS. KANWAR: Hi. Good afternoon, everybody. The 1099 forms for tax year 2020 are being mailed in January. TRS worked with FSA and issued the 1099 forms for the nonperiodic distributions such as withdrawals and refunds. And FSA generated the 1099s on behalf of TRS for approximately 93,500 retirees and continuing beneficiaries who receive monthly payments. As part of this effort, TRS is also sending an informational brochure to 3,173 new retirees who are receiving a 1099 form for the first time.

On December 30, TRS files its 2020 Comprehensive Annual Financial Report, the CAFR, with the Government Finance Officers Association, the GFOA. The report is also available for viewing on the TRS website.

And finally, the provisions of the CARES Act related to TRS membership expired at the end of 2020. In the nine months that the CARES Act was in effect, the TRS issued over 2,300 CARES Act withdrawals, nearly 2,100 CARES Act loans, and processed nearly 3,700 separate requests for loan payment deferral.

Proceedings

Thank you.

MR. BROWN: Can you send that to us electronically?

MS. KANWAR: Sure. Will do.

MR. BROWN: Great. Thank you. I appreciate it.

MS. REILLY: Okay. Thanks, Kavita. Next on the agenda is a report from the Actuary.

MS. CHAN: Good afternoon, everyone. On my agenda is the proposed changes to the actuarial assumptions and methods. I don't have screen share enabled but --

MS. REILLY: Everybody should be looking at the documents that you sent out individually. I'm sorry. I should have mentioned that.

MS. CHAN: So if you don't have it, just let me know, but just to give you a little background about this package, as the actuary and technical advisor to this retirement system, one of my main functions and main duties is to make sure that there is going to be enough funds in the trust to pay out

Proceedings

pension benefits when either current retirees are waiting on it or future retirees' dependents for these promised benefits. So part of making sure there is enough funds is to make sure that the calculation and the projections of these pension benefits are accurate. And of course, with, you know, projections of future benefits in place, you do need assumptions to make assumptions into the future to make sure that the benefit payments in the future are reflective of what you think they are going to be. And then there is also methodology. So once you have the assumptions, you have the data, you also need a method to project it.

So making sure that these assumptions and methodologies are accurate entails, you know, active management to make sure that if there is any changes to the demographics or there is any changes to the economic environment that they are reflected in these assumptions. So this is what is done. It's a normal process that is brought to the Board about once every three to five years I would

Proceedings

say. So we -- I did look at some of the assumptions, reviewed some of them, and in this package and in this memo are some suggested and some proposed changes. If you have it in front of you, I will be happy to walk through it very quickly on high level.

This document is divided into an actuarial assumptions section, an actuarial methods section, and then an other section. So the actuarial assumptions covers mainly the CPI, the Consumer Price Index assumption which is currently 2.5 percent. The proposal is to drop 20 basis points over four years, so it's evenly phased in at a 5-basis-point decrease each year. The Consumer Price Index is the underlying assumption and four other assumptions. One of them is a discount rate, and another is the general wage increase.

So for the discount rate, it's the CPI, the inflation assumption plus what your real expected return is going to be on the asset portfolio. Your general wage increase assumption is the CPI or the inflation assumption plus a productivity assumption in

Proceedings

there too. If you add those two together, you would get the current rate at 3 percent, but again, both the discount rate and the general wage increase is supposed to be dropped at the same phase in the schedule, at 5 basis points per year for four years.

The other two assumptions in effect is the escalation assumption and also cost of living assumption that's applied to pension benefits. Part of the other actuarial assumptions that are being proposed is the mortality improvement scale. Again, this is the rate at which you think life expectancy is going to improve over time. Data has shown year after year that our life expectancy is not improving as fast as we think it is, so this is kind of to scale it back a little bit. This doesn't really affect Teachers, but there is a loan assumption in there built into our valuations, and that is to assume what percentage of members actually take loans and that affects some of the underlying assumptions as far as the option factors that are applied to the loans.

Proceedings

So moving on to the actuarial methods section, if you have the memo in front of you, this is, the main proposal here is to align the actuarial value of assets to equal the market value of assets. So if you recall, the actuarial value of assets are smooth assets. So in any given year, we don't necessarily meet exactly 7.0. Some years we meet above that, some years we get below that, and so there are times where we have these gains or losses where we get more or less than our assumed rate. Those gains and losses are phased in over time. We didn't want to account all of those gains and losses in one year because sometimes in some years it could be pretty dramatic, and doing so, recognizing it all in one year could fluctuate the contribution much more than we want it to from a budgetary standpoint. So we do phase it in in six years currently, and because we are coming off of a few years of gains, if we reset the smooth assets to equal the market value of assets, we are basically recognizing the past year's gains all at one time whereas

Proceedings

before we had a plan to recognize it over time. But now if you recognize it, it would be more in line with market value of assets, and then going forward instead of smoothing it six years, I am proposing to smooth it over five years just because it's more easily explainable. It's more used in the industry, and so that does not affect the values today because you are just -- that's a fee change. Once you reset the market value of assets, the actual value of assets to equal market value of assets, then it's going to affect the future gains and losses.

I will point out for Teachers because we do have that TDA co-mingled with the QPP, it does have a leveraging effect on the assets. So you will see that for Teachers come off of a few more -- relatively new gains that we have come off of in the past few years have been larger than other retirement systems who may not have TDA.

Then the other change section, which is on page 3 of the memo, there are a few other things that don't neatly fit into the

Proceedings

assumption or methods but are categorized as leading a common theme, which is to tighten up and strengthen the funding of the retirement system. One of the three that's being proposed is to credit early contributions. So right now, contributions are calculated for an entire fiscal year, and they are assumed to be made in the middle of the fiscal year, which for us is from July 1st to June 30th. Middle of the fiscal year is January 1st. So if on an actuarially adjusted basis, on a time evaluated method, if it's before July 1st -- or I'm sorry January 1st, right now if it's after January 1st, there is language in the law that in the state statute for the actuary to charge late interest to the employers that pay after January 1st on average. However, there is no balancing item, and there is no symmetric law, so to speak, to credit interest if an employer pays before January 1st.

So the proposal is to, you know, make this a little bit more symmetric and fair so that if employers decide to pay before that time frame that we are crediting them interest

Proceedings

for it. And then the next one, the OTB item does not affect Teachers. It is a NYCERS issue, but it is part of the entire package that is being proposed for all five systems, so we do want to include it just for FYI purposes.

The last item on here is the Older Workers Benefit Protection Act. This was raised before about almost a year ago last spring, and it wasn't something that we adopted at that time but it is the same proposal. But -- so if you recall, the Older Workers Protection Benefit Act is part of the Age Discrimination and Employment Act where it does not permit for benefits -- generally speaking, it does not permit for benefits to be discriminated against for older workers unless it's cost justified by the demographics and by the actuarial value, and because it is, you have to do some testing and over time the demographic does change. We do need to make updates to some of the benefit provisions that are covered under OWBPA, so in this case the death benefits, if you recall the death

Proceedings

benefits, there is a factor that is being applied based on the age of when someone passes away. And the older you are, the more reduction, which means the smaller your benefits would be for your beneficiaries.

So the proposal here is instead of reducing it 5 percent per year from age 60 to age 70, it's reducing the reduction to 3 percent, which means reducing the benefit less which means you are paying the beneficiaries more, so then there is a summary on the fourth page that tells you how it would affect the contributions for this fiscal year as well as the next four fiscal years and you will see that there is a savings. The pattern that you will see is that there are savings.

Negative numbers yield savings in a smaller contribution. There is a savings in the first three years and then the pattern flips. The reason for that is because the actual value of assets that are being re-marked to market value of assets, those are being recognized right away, so you do see that savings early on. In the later years you

Proceedings

will see because the discount rate is being phased in over four years, you will see that starts taking affect in later years. And the rest of the memo just talks about some of the data that was used and the assumptions and methods to come up with these costs as well as the timing which we kind of went through.

Then it finishes off with the risk section just to say that there are a lot of things that aren't already included that aren't embedded in these contribution numbers. For example, we already know that because of the financial crisis that the city is in, some of us aren't getting the raises that we thought we would be getting, so if you are not getting a raise in your salary, it means that your future salary theoretically is lower than what you think it will be. So because pension benefits are a potential salary because you will see savings in future fiscal years, there is an early retirement incentive program being discussed now in the city as well as the state. The cost above in this memo does not include any of the year-end savings that we

Proceedings

might incur, and then of course assets, you know, fiscal year date it's been really good. We obviously don't know how the rest of the fiscal year is going to be like quite yet, but there are some savings -- if the performance, this asset performance keeps up, there are some savings that would be -- that we would yield from the asset portfolio that again is not included in the above contribution numbers. So I am happy to answer any questions, or I can turn it back to Patricia.

MS. REILLY: Well, thank you, Sherry.

MS. VICKERS: Sorry. I couldn't unmute myself. I actually have two quick questions. Is that okay, Patricia?

MS. REILLY: Sure.

MS. VICKERS: Sherry, in the methods part, you mentioned that, you know, part of the proposal was realigning the actuarial value with market value. When you talk about the reset, so you are proposing a change from six years to five years, but there would be a reset doing it all at once or one time only?

MS. CHAN: There is two separate

Proceedings

proposals. One proposal is to re-mark the actuarial value of assets to the market value of assets so it's setting it. So what that does is we have come off a few years of gains. The actual value of assets is getting away from the market value of assets, so we want to kind of accelerate the recognition of those gains.

MS. VICKERS: What's the differential between the two? Like how wide is the difference?

MS. CHAN: I can get you that number before the end of the board meeting. If you can wait, I can do that.

MS. VICKERS: Text me later; that's fine.

MS. CHAN: So the second piece of it which I was saying does not affect the numbers today. So once we reset everything so starting from fresh, let's say times zero, and then going forward, we are going to again obviously have some gains and losses unless we earn exactly 6.9 percent this fiscal year. So whatever the gains and losses are going in the

Proceedings

future, in the past or currently I should say, our recognition would be to recognize it or smooth it over six years, which is currently being recognized at 15 percent per year for the first four years and then 20 percent in the years five and six. So instead of recognizing it in that schedule, we are going to say okay, we are only going to smooth it over five years now at 20 percent all years for five years rather than spreading out over six years.

MS. VICKERS: Got it. So that's what I just needed clarification on. So the first thing you said in terms of change in the assumptions, .5 percent a year over five years would be the assumed rate of return.

MS. CHAN: .05 percent.

MS. VICKERS: Going from what to what?

MS. CHAN: Seven percent to 6.95 percent and the second year is 6.90 percent. Third year would be 6.85 percent, and fourth year period would be 6.8 percent.

MS. VICKERS: So moving it .2 percent over four years?

Proceedings

MS. CHAN: Correct. Twenty basis points over four years, yes.

MS. VICKERS: Thank you.

MS. GREEN-GILES: Sherry, first of all, the differential between the actuarial valuation and the market value, don't just text it to Susannah. I would like to know it also. But can you just clarify because I remember sitting through your very helpful trainings about all of this in terms of what of these assumptions require state statutory approval. I know the discount rate for sure versus what is just standard practice, and you are making the recommendation based on the power invested in you as it were.

MS. CHAN: So the discount rate like you correctly pointed out, that would require state legislation. The OWBPA assumption change. I'm sorry. That's not an assumption change. The plan provision change. It was changing plan benefits. That would require state statute. And I believe that's it. I'm sorry. The credit for the early contributions, if we, you know, make that more

Proceedings

symmetric in the law, that would require a change also.

MS. GREEN-GILES: Okay. And then everything else is at the discretion of the Office of the Actuary?

MS. CHAN: Right but the Board can adopt some of these changes too.

MS. GREEN-GILES: Right. Thanks.

MS. CHAN: You are welcome.

MS. REILLY: Okay. Is that it, Sherry? All right. Thank you, Sherry. Next is the executive director's report on the agenda. And the first item on the executive director's report is the matter of the next meeting, and it has been suggested that the next regular meeting of the Teachers' Retirement Board be held on the fourth Thursday of the month, February 25, 2021. So you should make sure you all mark your calendars. All right. So the next item is a resolution for the proposed changes in the actuarial assumptions and methods.

MS. PENNY: I would like to suggest we hold this over. First, thank you, Madam

Proceedings

Actuary. This was a wonderful report. A lot of information, a lot of details. I think we still have a couple of questions that we would like to maybe break apart some of that that we will talk to you about. So at this point I ask that we hold this over until we can ask all of the questions that we have of you. Everyone good with that? We will hold it over? Okay. Awesome. I saw a thumbs up, so we will hold that over.

MR. BROWN: Here, here.

MS. PENNY: And feel free to ask Sherry all the questions. We will make a list for you, Sherry, and then ask all the questions.

MS. REILLY: The next resolution is attendance at a virtual conference, and it has been resolved that the Trustees of the Teachers' Retirement Board hereby approve the attendance and participation of the Executive Director and/or her designees and any interested Trustee at the National Association of Securities Professionals, NASP, 23 Wall Street Hall of Fame on February 23, 2021.

MS. PENNY: Do I hear a motion to

Proceedings

approve that?

MR. KAZANSKY: So moved.

MS. PENNY: Thank you, Mr. Kazansky.

MR. BROWN: Second.

MS. PENNY: All those in favor, please say aye. Aye.

MR. ADLER: Aye.

MS. VICKERS: Aye.

MR. BUCKLEY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MS. GREEN-GILES: Aye.

MS. PENNY: Any opposed? Okay. Any discussion? We are good. So if you do want to attend, please let Thad or Patricia know about that or Liz. Great.

MS. REILLY: Thank you. Next on the agenda is the matter of the calendar, and the first item on the calendar is the matter of the minutes. The approval of the minutes for the December 3rd investment meeting, the December 17th special investment meeting, and December 17th board meeting minutes.

MS. PENNY: Do I hear a motion to

Proceedings

approve December 3rd, December 17th, and December 17th special minutes?

MR. KAZANSKY: So moved.

MS. PENNY: Okay. That was Mr. Kazansky. Do I hear a second? Was that Mr. Brown?

MR. BROWN: Second.

MS. PENNY: Okay. All those in favor, please say aye. Aye.

MR. ADLER: Aye.

MS. VICKERS: Aye.

MR. BUCKLEY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MS. GREEN-GILES: Aye.

MS. PENNY: Thank you. Anyone opposed? All right? They are approved.

MS. REILLY: Okay. Next on the calendar is the individual items. You all received your electronic version.

MR. KAZANSKY: Please waive the reading of the calendar.

MS. REILLY: Okay. Thank you. We need to approve the calendar.

Proceedings

MS. PENNY: Do I hear a motion to approve the calendar?

MR. ADLER: So moved.

MS. PENNY: Thank you, Mr. Adler. So nice. Do I hear a second?

MR. BROWN: Second.

MS. PENNY: Thank you, Mr. Brown. All those in favor of approving the calendar, please say aye. Aye.

MR. ADLER: Aye.

MS. VICKERS: Aye.

MR. BUCKLEY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MS. GREEN-GILES: Aye.

MS. PENNY: Thank you. Any opposed? Any discussion? Okay. It is approved.

MS. REILLY: All right. Thank you. Next on the agenda is other business, and the first item for discussion is the independent validation and verification report that you received on our modernization project. If you have any questions -- I mean, you received it, and if you have any questions about the

Proceedings

report, you know.

MR. ADLER: I have some questions just because there is still stuff there that I -- and I don't really understand whatever, but I don't think I want to do them in this broad board meeting. Maybe we can create a forum, you know, because really this is the update we get on the modernization project. So there is some stuff in there that I wasn't aware of. And I would be hearing more about it.

MS. REILLY: I can schedule something with you.

MR. ADLER: Thank you, Patricia.

MS. REILLY: Are there any other questions from the Board? Okay. And then the next is questions or comments from the public. If we have any questions or comments from the public.

MS. PENNY: We lost the member that we had that was attending, so he is no longer part of the meeting so we don't have any outside folk.

MS. PENNY: We do have. Are we ready to go into executive session?

Proceedings

MS. REILLY: Questions or comments from the public first.

MS. CHAN: I am not exactly the public, but if I can, I was going to answer Susannah Vickers' question, but I will wait to see if there is questions from the public first. I just didn't want the public meeting to end before I answered your question.

MS. PENNY: No, I think we are ready.

MS. CHAN: So Susannah asked basically what's the difference between the market value of assets and actuarial value of assets. So as of June 30, 2019 for TRS, it's a difference of about 3 billion dollars with a B. The actuarial value of asset was approximately 55 billion, and the market value of assets was approximately 58 billion.

So there is a difference -- like I said it has deviated from each other, and so there is a chance to accelerate some gains and recognize some of the gains of the past, and that would bring the actuarial value of assets up 3 billion dollars.

MS. VICKERS: And we had those gains

Proceedings

because we have exceeded our assumed rate of return?

MS. CHAN: Yes.

MS. VICKERS: By 3 billion dollars?

MS. CHAN: Because we have achieved higher than our assumed rate and because we haven't recognized all of those gains that we have achieved. Obviously we have only recognized a portion of it in the past.

MR. ADLER: Can I just ask a follow-up? You mentioned, Sherry, that the reason that gains are so much greater at Teachers' -- I think they are the greatest of all the systems -- is because of the TDA, but I don't understand because those numbers don't include the TDA assets how the TDA magnifies the impact of the market returns.

MS. CHAN: Because the TDA is a credited fixed amount, a credited fixed amount of return. So if you are getting more than, you know, the 7 percent or the 8.25 percent, depending what member you are, the rest goes into the QPP. So it's almost like --

MR. ADLER: I get it.

Proceedings

MS. CHAN: You are not exactly doubling the gain, but there is a multiplier effect to it that you are getting more than just if you invest just in the QPP.

MR. ADLER: I get it.

MR. BUCKLEY: Is that only for the credited fixed amount if you are in the fixed plan? If you are in the variable, you are getting all those gains?

MS. CHAN: Correct. If it's variable then it's variable, but this is only the fixed we are talking about.

MR. ADLER: Thank you. Very helpful explanation.

MS. CHAN: You are welcome.

MS. PENNY: Okay. I think we are good. So then do I hear a motion to go into executive session?

MR. BROWN: So moved.

MS. PENNY: Thank you, Mr. Brown. Do I hear a second?

MS. VICKERS: Second.

MS. PENNY: Thank you, Ms. Vickers. All those in favor, please say aye. Aye.

Proceedings

MR. ADLER: Aye.

MS. VICKERS: Aye.

MR. BUCKLEY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MS. GREEN-GILES: Aye.

MS. PENNY: Any opposed? Okay. We are going into executive session. Do you want us to stay here?

MS. SANCHEZ: I will send you a link for the breakout room or have Mr. Riley exit the meeting.

MR. KAZANSKY: There is one thing I wanted to mention. A while back NCPERS was doing a fall conference that was actually happening in the fall. I think it was supposed to be happening in October or so, and then due to a terrible contractor that they used to try to make it happen, it didn't go as planned. And we had voted and passed a resolution that anybody that wanted to participate could participate. That has been pushed off and we are finally up and running

Proceedings

with it and it will be February 2nd and 3rd, so if you had registered already and were planning on attending the October one and you wish to participate, it will be up and running for February 2nd and February 3rd, so I just wanted to let everybody know.

(Whereupon, the meeting went into Executive Session.)

MS. SANCHEZ: I am going to bring us back to public session.

MS. PENNY: Okay. Welcome back. We are back into public session. Susan, will you report out?

MS. STANG: I think I will. I would be happy to.

MS. PENNY: Thank you.

MS. STANG: In executive session we received a presentation on an aspect of TRS operations.

MS. PENNY: Thank you. Okay. Anything else for us today? Hearing none, do I hear a

Proceedings

motion to adjourn?

MR. KAZANSKY: So moved.

MS. PENNY: Thank you, Mr. Kazansky. Do I hear a second?

MS. GREEN-GILES: Second.

MS. PENNY: Thank you, Natalie, Ms. Green-Giles. All those in favor, please say aye. Aye.

MR. ADLER: Aye.

MS. VICKERS: Aye.

MR. BUCKLEY: Aye.

MR. KAZANSKY: Aye.

MR. BROWN: Aye.

MS. GREEN-GILES: Aye.

MS. PENNY: Any opposed? Any discussion? Okay. We stand adjourned.

(Time noted: 4:26 p.m.)

Proceedings

C E R T I F I C A T E

STATE OF NEW YORK)
: ss.
COUNTY OF QUEENS)

I, YAFFA KAPLAN, a Notary Public within and for the State of New York, do hereby certify that the foregoing record of proceedings is a full and correct transcript of the stenographic notes taken by me therein.

IN WITNESS WHEREOF, I have hereunto set my hand this 31st day of January, 2021.

Yaffa Kaplan

YAFFA KAPLAN