TEACHERS' RETIREMENT SYSTEM OF THE CITY OF NEW YORK

BOARD MEETING

November 21, 2024

3:29 p.m.

Teachers' Retirement System of New York City

55 Water Street, 16th Floor

New York, New York 10041

William Montague
Digital Reporter
Notary Commission No. 01MO0009174

APPEARANCES:

PATRICIA REILLY, EXECUTIVE DIRECTOR

THOMAS BROWN, CHAIR, TRUSTEE

BRYAN BERGE, MAYOR'S OFFICE, TRUSTEE

JOHN DORSA, OFFICE OF THE COMPTROLLER, TRUSTEE

VICTORIA LEE, TRUSTEE

ANTHONY GIORDANO, PANEL FOR EDUCATIONAL POLICIES, TRUSTEE

CHRISTINA MCGRATH, TRUSTEE

Also Present:

THAD MCTIGUE, DEPUTY EXECUTIVE DIRECTOR, TRS

VALERIE BUDZIK, DIRECTOR, TRS

PRISCILLA BAILEY, DIRECTOR, TRS

KAVITA KANWAR, DIRECTOR, TRS

LIZ SANCHEZ, ADMINISTRATIVE MANAGER, TRS

ANDREW BRADFORD, CHIEF RISK OFFICER, TRS

AMEET CHAUDHURY, TRS

RENEE PEARCE, TRS

MATT LASKOWSKI, TRS

ERICC DIAZ, TRS

DINA SIMON, TRS

MAREK TYSZKIEWICZ, CHIEF ACTUARY

DOLORES CAPONE, ACTUARY

KATE CHEN, CHIEF AUDIT EXECUTIVE

ISAAC GLOVINSKY, LAW DEPARTMENT

MARTA ROSS, LAW DEPARTMENT
JOE EBISA
KI TSE

(The proceedings commenced at 3:29 p.m.)

MS. REILLY: Good afternoon. Welcome to the Teachers' Retirement System Board Meeting for November 21st, 2024. I'll start by calling the roll.

Bryan Berge?

MR. BERGE: Bryan Berge representing Mayor Adams. Present.

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good afternoon, Patricia.

MR. BERGE: Should we start over?

CHAIRMAN BROWN: Present.

MS. REILLY: I'll at least start by calling the roll.

Bryan Berge?

MR. BERGE: Bryan Berge, still present.

MS. REILLY: Thomas Brown?

CHAIRMAN BROWN: Good afternoon, Patricia Present. Thank you.

MS. REILLY: Good afternoon.

Gregory Faulkner?

Alison Hirsh or John Dorsa?

MR. DORSA: John Dorsa, present for Comptroller Brad Lander.

MS. REILLY: Victoria Lee?

MS. LEE: Present.

MS. REILLY: Christina McGrath?

MS. MCGRATH: Good afternoon, Patricia. Present.

MS. REILLY: Good afternoon.

We have a quorum.

And next on the agenda is an update on TRS operations given to us by Kavita Kanwar.

MS. KANWAR: Thank you, Patricia.

Good afternoon everyone.

CHAIRMAN BROWN: Good afternoon, Kavita.

MS. KANWAR: Regarding system upgrades, this week, TRS successfully completed a system upgrade for our member portal. To provide increased security for our members, we have introduced a new login and registration process that uses two factor authentication.

For the TDA, TRS has updated the individual limits for member contributions to the TDA program in 2025. The IRS recently announced that the general limit will be $23,500 next year. Most members age 50 and up can contribute a catch up amount of $7,500, but based on new IRS rules, the catch up limit is $11,250 for members between age 60 and 63.

The new limits are posted on our website and we will email TDA participants soon about the recent

changes.

Regarding our account statements, earlier this month, TRS posted member account statements for the third quarter of 2024, and we emailed the members when they were available for online viewing.

Member newsletters, TRS has also published our fall 2024 member newsletters on our website, and copies have been mailed to members.

And finally, for the summer retirements, as a final report on our summer retirements, there were nearly 1,400 members who retired in July or August, and 92 percent of them are receiving finalized benefits as of the November payroll. Thank you.

MS. REILLY: Thank you, Kavita.

CHAIRMAN BROWN: Thank you, Kavita. Can you send that to us electronically.

MS. KANWAR: Absolutely.

CHAIRMAN BROWN: And thank you, TRS, for finalizing 92 percent of our members over the summer. Thank you very much.

MS. REILLY: Thank you.

Next on the agenda is an update from the Actuary.

MR. TYSZKIEWICZ: Good afternoon. So I'd like to start by introducing an actuary from my office

joining us from Zoom, Delores Capone. She is one of my deputies and she leads your evaluation team for TRS and BERS. So she's going to be presenting or she's going to be sharing the executive summary of what's on the agenda for discussion.

Thank you, Delores.

Okay. So in your Board material is a memo, it is Executive Summary with Analysis of Legislation Posed by the Mayor's Office. I'll go through the Executive Summary and answer any questions you may have.

Go ahead, next slide.

So in the appendix, in Appendix A of my memo, it contains legislation proposed by the Mayor, Mayor's Office, that would impact the funding of the plan. That impact can be broken down into four categories, and those four categories are up on the screen.

The first category is re-amortization of your current UAL payments. That's the biggest item in this legislation. We'll talk most about that.

The legislation also impacts the funding of the plan in three other categories by extending the amortization period for new bases, changing the asset smoothing method, and an auto fresh start under certain scenarios. So I'll touch on those as well in this summary.

Next page?

So this picture kind of tells, you know, the story. You know, this is an illustration of your UAL payments and your current statute. What we're talking about under this legislation is refinancing those payments, kind of like refinancing a mortgage, except we're using the same interest rate and, you know, the mortgage or the liability we're talking about refinancing is over on the right there. It's a $9.1 billion UAL, unfunded accrued liability. So the blue line is your currently scheduled payments to pay off that $9.1 billion UAL.

What this legislation does is it refinances that $9.1 billion with payments that are represented by that red dotted line. You see in the blue line, in fiscal year 2032, there's a big drop off in the payments. We're calling that the contribution cliff. That kind of sounds negative, but it's a positive because you're paying off a liability. But that drop is $2.5 billion.

What the red dotted line does is it refinances that to get rid of that cliff. So instead of having a big drop of $2.5 billion, each year, you have a $70 million drop in the required payment.

So the next slide shows the budget impact of

this. So the first column there, what's labeled the "Current," that's the blue line from the previous slide. Those are the current UAL payments.

The second column there, the fresh start, that is the payments under this legislation, the red dotted line.

Both of those at the bottom have that present value of $9.1 billion if we're using 7 percent interest. The difference between the two is the budget impact, and you can see the numbers are negative for the first like eight years, and then they become positive.

If you took that column, the budget impact, put it in Excel, calculated the present value at 7 percent, that present value would be zero. What that means is every dollar you're delaying in the early years is paid back by the employer, by the City, with 7 percent interest at the later years. So the net impact, the net change is zero, but there's a change in the timing of contributions.

So this change in contribution, there's not a long-term savings to changing the timing. This timing has an impact on contribution volatility.

So on the next slide, we have got a little analysis that shows how contribution volatility is reduced. So what this is, this is 5,000 10-year

simulations where investment return was randomly generated from a normal distribution with 7 percent interest. I showed this kind of stochastic projection to Trustees before and they said this is like a multiverse, and that's a good way of looking at it. This is 5,000 multiverses of possible things that could happen.

The yellow is the multiverse where we always get 7 percent, right, and what's shown with the dotted lines above and below is the 25th and 75th percentile, what could happen with the random investment between fluctuations?

Now, the top is what you currently -- we're projecting under the current methodology, current statutory requirements, and that's not just the UAL payment, that's the total payment, UAL plus normal cost of administrative expenses.

No matter what happens with these stochastic generations, there's always a cliff because everyone, you know -- because there's a cliff already hard coded into the projections, there's always going to be this cliff no matter what kind of scenario we're looking at in the future.

And the bottom one is what happens in our projections if we fresh start and do this 20-year ramp.

You notice it's a flat line, or more of a flat line. It's not even decreasing that much like I showed you on the previous slide. That's because, while the UAL payments are going down, the normal cost is going up, and the two are kind of canceling, creating this kind of horizontal level of contribution that doesn't have as much volatility as the current scenario or situation.

On the next slide, we look at how intergenerational equity is impacted. So intergenerational equity is kind of the concept that taxpayers pay the cost of service over the period it is provided. So we are trying not to take the can down the road.

So to do this intergenerational equity analysis, I did what's called a solvency test. I took all the money that's in the plan and I allocated to the people who are going to use it first or need it first. So the retirees, they're going to need it first.

And so everything in green there are members that are 100 percent covered by current assets. So all the retirees are currently 100 percent covered by current assets. All the actives or all the inactives are covered by assets, and then we start going through the actives, and a big chunk of the actives are also covered.

We keep working down from the oldest active to the youngest active to figure out, when do we start running out of money, and when we run out, when we get to that $9.1 billion UAL, in the circle below shows the cohort of unfunded actives that make up that unfunded liability under the solvency test. So it's a group of like 68,000 actives, average age of 36 years, average service of around eight years.

The big important number is the one highlighted below average future working lifetime. It's 20.8, so 21 years. So if you're looking at this from a taxpayer's point of view, saying I want to fund this unfunded liability over the working career of the people who are unfunded, it'd be like a period of 21 years, and for TRS the ramp is 20 years, so that kind of fits. You know, the 20-year financing is close to the 21-year average future working lifetime.

So once again, we show the graph there that I showed previously. So just simply two different ways of funding the $9.1 billion. The red dotted line actually funds it over the future working lifetime. The blue line funds it before you get, you know, it's fully funded in about eight years, and then money starts coming back to the employer as credits against the normal cost.

Next slide?

So that, so we covered kind of the big ticket items, the refinancing of the current UAL payments. The rest of these slides are just other things, the legislation changes, not as important. These are kind of like nice to haves.

The first one is extending the amortization period for new bases. So the first column there is what's in statute right now. So when there's, every year, there's an actuarial gain or loss, we amortize that over 14 years. If there's an investment gain or loss, the smoothening method, it gets amortized over 18 payments. There's an assumption or method change and do those over 19 payments. Benefit payments are over the expected future working lifetime minus one year.

Under this legislation, everything changes to 20 years, or 20 payments, other than the benefit changes are still consistent to what was done before the minus one kind of disappeared. So it's just amortized over future working lifetime.

The last column is a range published by the Conference of Consulting Actuaries. They just released a white paper called "Actuarial Funding Policies for Public Plans," and they listed what are reasonable ranges for these amortization periods. And you can see

the numbers fall, under this legislation fall into the reasonable range.

What they did say in that paper is, as plans mature, you should consider pushing it to the large -- to the right, to the bigger numbers on the right. And the reason for that is, as plans mature, the contributions become much more volatile. So when a plan is young, there aren't a lot of retirees in relationship to actives. There's not a lot of money in the plan, but over time, you know, assets grow at 7 percent, the payroll grows at 3 percent. There's more retirees are added, and so, as plans mature, you get these big retiree liabilities, you get this big pool of money in relationship to payroll. So any tiny change in assets, you know, a 1 percent change in your investment return for a year, can have this dramatic as a percent of pay.

So the logic there is, as plans mature, you should lengthen the amortization period, just so this impact isn't quite so volatile, and that's what this legislation does. It impacts kind of a uniform 20-payment amortization.

Next slide?

It also changes the asset smoothing method. So I showed two kind of fairly equivalent asset smoothing methods. Number one is what we currently use

for New York City. It's a common method in the industry. Basically, it's a five-year smoothing. And I gave an example with a $1 million investment gain or loss. So say you had $1 million loss, under the current method, we wouldn't recognize it immediately. We'd divide it by five. We'd recognize the first one-fifth, $200,000, we put it into our gain/loss, which would be 14 payments, and we take the rest and we put it on a piece of paper.

The next year we take another fifth, the next $200,000. We put it in -- we add another 14 payments for that, and we do that every year for five years. And then you get that schedule of payments slowly coming into the valuation.

Because we're not recognizing it immediately, we're keeping, you know, a separate set of assets on the side, it causes us to have two sets of books, two asset smoothing methods, a market value of assets and an actuarial value of assets, which kind of tends to confuse people, confuses the layperson. When you we have two different funded percents, market value funded percent and actuarial funded percent, people ask what is the right funded percent?

Well, the second method kind of does the same smoothing as the first method, but it doesn't require

having a second set of assets or second set of books. And this is a method used for by the California Public Employees' Retirement System, CalPERS.

CHAIRMAN BROWN: This is for gains too?

MR. TYSZKIEWICZ: Yeah. So the second one is the same $1 million gain, but now we're saying we're going to recognize it immediately. So immediately, we recognize it, but we're going to smooth in the payments. We're going to have a ramp for five years going up, we're going to have level payments for that, was it 12 years, and a five-year ramp going down.

If you graph that, that would look like a trapezoid, so it's called a trapezoidal amortization. It does the same thing. It's not 100 percent equivalent because interest credits are treated a little different. But as far as the impact on the contribution rate for smoothing, it's a five-year ramp in, five-year ramp out, just like Paramount does.

MR. DORSA: So I recognize the California plans do it. Do like a majority of, taking us out of the equation, right, the top 50 plans, like how many -- what's -- how many use which, which model?

MR. TYSZKIEWICZ: I'd say the vast majority use the top one.

MR. DORSA: Okay.

MR. TYSZKIEWICZ: Because the top is what -- the first method I learned in 1989.

MR. DORSA: So it's advanced.

(Laughter.)

MR. TYSZKIEWICZ: Yeah, no, it's a simple method of smoothing, and back in the days before you had computers, right?

MR. DORSA: Yeah, that's why I was kind of just asking how it evolved.

MR. TYSZKIEWICZ: Yeah, it was before you had computers. It's not perfect because you notice there's no interest charged for the delayed recognition. And the concept there is, well, it's not actuarily correct because I'm not charging interest when I kick the four-fifths down the road. On the other hand, I'm thinking there's going to be gains and losses every year, so that error will cancel.

On the one on the bottom, that's pure finance math. I'm just going to -- that exactly has the present value of $1 million, and so it's really just like a cleaner approach. And then once again, it's more transparent. You don't have two sets of books, two funded percents. When you do the projections, everything's recognized and it's there right away.

MR. DORSA: And then at the CIA, the

Conference of Certified whatever -- the Actuarial --

MR. TYSZKIEWICZ: They didn't comment on this.

MR. DORSA: No, they didn't, I was just curious.

MR. TYSZKIEWICZ: No, they -- well, they say you should have a smoothing method, typically five years.

MR. DORSA: So it's consistent with --

MR. TYSZKIEWICZ: Oh yeah, it's -- nothing here is inconsistent with actuarial standards or with what actuaries recommend.

Next slide?

Auto fresh start under certain scenarios, so that's in here, and I call this handling the weird stuff. Whenever you hard code actuarial methods and just statute, weird stuff can bubble up.

And so an example of a weird thing would be you have an unfunded liability, but because of the way the amortization basis is lined up and which one's dropped off first, you could have a credit. So you could go to the City and say, hey, you owe money, but we're going to give you money back from your contribution, and that would be a weird thing. So this would allow the actuary to say, if I see an anomaly where things don't make sense, I can wipe out all the

existing amortization bases and start fresh.

A second example actually happened to BERS, and this is a case study of what happened to BERS. So back in June 30th, 2021, BERS was 109 percent funded based on the market value of assets. But because of the way -- so they had a surplus of $854 million, but even though they had a surplus of $854 million on the market value, because these payments were hard coded based on statute, we had to keep charging the employers that amount.

So you see, you know, they got a surplus of 854, but we're going to charge the employer another $440 million through fiscal year, was it 2032, and then we're going to give the employer back a whole bunch of money, you know, to use as a credit for the normal costs.

So if this legislation --

CHAIRMAN BROWN: Over how many years for that?

MR. TYSZKIEWICZ: Hmm?yeah, it had effectively.

MR. BERGE: Yeah, because it would have effectively been overpayments as if there were UAL, when there is no unfunded.

MR. TYSZKIEWICZ: Yeah.

CHAIRMAN BROWN: But you give money back over a period of --

MR. TYSZKIEWICZ: Yes, you give it back over a period of time.

Under this fresh start, we also give money back over a period of time, but we do it right away. We say, all right, you're overfunded, so we're going to re-amortize this. We're going to wipe out all those rows that created this blue line, we're going to start with a new row, and it's going to produce that red dotted line. It's going to be an $83 million credit that's applied to the normal cost.

Now, say next year, they drop below 100 percent, there's a huge investment loss, like capital, and they drop below. All of a sudden, we go back to the previous slide where we take that loss, we use the trapezoidal amortization on it, and we'd start phasing that back in. So, it just -- and then, every time, it would pop up over 100 percent, it would fresh start.

TRS I think came close in that same year. I think you might have been 99 percent on the market value. So eventually, this is going to hit TRS too, as you get more funded. There are times, years where you'll have good investment returns and you'll pop up over 100 percent. When that happens, though, an auto fresh start, and you'd have a new amortization schedule with a credit that's applied to the normal cost.

The concept is you don't want -- you're targeting 100 percent. You're not trying to target 120 percent or 150 percent. So it is a way to kind of go back to 100 percent every time it goes over.

MR. DORSA: So all of your stuff is always based on the historic or factually based on the data that we have.

I guess my question is, as the workforce changes and less people do 30 years, like your calculation says 21 years is what the current worker is going to work.

While I totally agree that that's what it is, as the workforce changes and they go to doing 15 years instead of 20 years, or they alternatively go to 25 years instead of -- how does that impact? How does that impact this, or is that 20-year ramp, that won't impact this 24 ramp?

MR. TYSZKIEWICZ: So if this legislation passes, whatever's unfunded as of June 30th, '23 gets that 20-year ramp, and it's hard coded, just like the current schedule is hard coded statute.

New people come on, they're going to be charging the normal costs. They won't have any unfunded liability. You know, so it really doesn't change the unfunded liability other than gains or losses. So we're

kind of focusing on paying off the unfunded liability for the current snapshot --

MR. DORSA: Just curious.

MR. TYSZKIEWICZ: The last page, conclusions. So this legislation manages the volatility. I already amortized any contribution for over 20 years. It lengthens the amortization period of 20, and auto fresh starts under certain scenarios.

It does this at a cost of slowing down. It manages the contribution volatility at the cost of slowing down the current funding of the plan. So that becomes a question, the decision for the Trustees to make in supporting this legislation, is slowing down the funding worth the reduction in volatility?

For me, as an actuary, I look at this, I don't think there's a bad decision here, a bad choice. You could do nothing and your plan is going to be funded quicker and you've just got to realize there's going to be a big contribution cliff, a big surplus that occurs in fiscal year 2033.

Or you could smooth it out a little bit, fund the plan slower, it has the benefit of less contribution volatility, which is also recognized as a good thing. So there's good things on both sides. Good thing on the current method is funds it faster. Good thing on the

alternate method is there's less contribution volatility.

So I'm happy to answer any questions.

CHAIRMAN BROWN: Any questions for Marek?

Thank you.

MR. TYSZKIEWICZ: Thank you.

CHAIRMAN BROWN: Well done.

MR. TYSZKIEWICZ: Thanks, Dolores.

CHAIRMAN BROWN: Thank you.

MS. CAPONE: Thank you. You're welcome.

CHAIRMAN BROWN: Thanks, Delores.

MS. CAPONE: You're welcome.

CHAIRMAN BROWN: Thank you. Thank you, Marek.

MS. CAPONE: I'll See everyone hopefully soon.

MS. REILLY: Okay.

CHAIRMAN BROWN: Thank you, Marek, well done.

MS. REILLY: Next on the agenda is the Executive Director's report, and the first item is the matter of the next meeting, which has been set for Thursday, December 19th, 2024. Please mark your calendars.

CHAIRMAN BROWN: Thank you.

MS. REILLY: Next is a resolution for the support -- to support for the legislation concerning unfunded accrued liability payment schedule.

MR. BERGE: Patricia, if I may?

MS. REILLY: Yes.

MR. BERGE: I don't think there's even a need to read the resolution into the record because I think there's an understanding that that matter is going to be tabled today. But if there is an interest in discussing aspects of this initiative that pertain to legislative strategy, or if there's even just an interest in further discussing the topics that Marek discussed just moments ago, which are clearly intimately related to this, we can do that now. We can do that offline.

I'm available at your convenience because, although I totally agree that this matter should be tabled today, it would be wonderful if we could come to a conclusion, I don't want to say one way or another, but hopefully in a way that everyone likes by December, just because the legislative mechanics in Albany, particularly for items you want to get into the budget, are complicated to pursue.

CHAIRMAN BROWN: So by December.

MR. DORSA: So I hope that -- I would -- my understanding is we're going to table this today because it's the first time we're seeing it.

MR. BERGE: Absolutely, yes.

MR. DORSA: I would just ask that any

questions that get posed, if it's of interest to other parties, if we could all be looped in, just so that we are not having several different conversations with the actuary if we're all trying to get to the same goal of understanding what this means and what the impact is.

So I just want to put that out there that, just for the sanity of the actuary, it would be a shame if we ask him the same question seven times from seven different places. So maybe we'll try to --

MS. REILLY: Or --

MR. DORSA: Or at least coordinate the responses.

MR. BERGE: I'm totally comfortable being asked seven different questions. Seven same questions. I love being asked questions, any time you want, any forum, any time.

CHAIRMAN BROWN: Thank you. So let the record show that this is being tabled and laid over.

MR. BERGE: Thank you very much, everyone.

MS. REILLY: Thank you.

CHAIRMAN BROWN: Thank you. Thank you, Marek, again.

MS. REILLY: Next on the agenda is the calendar, and the first item is the approval of the minutes for October 10th, 2024 Investment Meeting

minutes and October 20 -- excuse me, October 17th, 2024 Board Meeting minutes.

CHAIRMAN BROWN: Thank you.

MR. DORSA: No, I'll also move the minutes.

CHAIRMAN BROWN: Thank you. Is there -- is there a motion to accept the Investment Meeting minutes for October 10th, 2024 and the Board Meeting minutes for October 17th, 2024?

MR. DORSA: So moved.

CHAIRMAN BROWN: Great. Is there a second?

MS. MCGRATH: Second.

CHAIRMAN BROWN: All those in favor of accepting the minutes, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? And abstentions?

And the Board Meeting minutes and Investment meeting minutes have been approved. Thank you.

MS. REILLY: Next are the calendar items, and you all should have received your electronic version of the calendar, had an opportunity to review it.

MS. MCGRATH: Please waive the reading.

CHAIRMAN BROWN: Thank you. Is there a motion to accept the calendar items?

MS. LEE: So moved.

CHAIRMAN BROWN: Great. Is there a second?

MS. MCGRATH: Second.

CHAIRMAN BROWN: Any discussion? All those in favor of accepting the calendar items, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? Any abstentions?

And the calendar items have been approved. Thank you.

MS. REILLY: So under Other business, we have a TRS AI presentation by Ericc Diaz, our IT Service Operations and AI Officer.

Ericc?

CHAIRMAN BROWN: Thank you, Ericc.

MR. DIAZ: Good afternoon, Members of the Board. My name is Ericc Diaz, and I serve as the AI Officer in the AI Center of Innovation. With nearly 30 years of experience in information technology, I have had the opportunity to witness firsthand how innovation drives progress.

Today, I'm excited to share our strategic vision for artificial intelligence and how it can transform our operations and member services.

Over the next few minutes, I'll walk you through what AI means for us, why it's a critical

opportunity, and how we are ensuring its responsible and impactful adoption.

First, let's discuss what artificial intelligence is. AI is broadly defined as the ability of machines to imitate human intelligence. In practical terms, this means our systems can analyze complex data, solve challenging problems, and automate tasks with a level of precision that enhances our decision-making. It's about transforming technology into a strategic advantage, making our operations more efficient, accurate, and smarter.

First, let's discuss (cough) excuse me.

Now, let's look at the image on the slide. It was created using AI. The process involves giving the AI a prompt, which is a simple text description that guides it to generate a specific visual. For this image, the prompt was "Create a business focused image representing the Teachers' Retirement System of the City of New York supported by artificial intelligence."

This image is an example of how AI can transform written words into something tangible and creative, showcasing just one of the many ways AI can be applied in the real world.

So why should we embrace AI now? Our strategy is grounded in what I call the VITAL framework, value,

innovation, transformation, augmentation, and leadership.

Value: AI has the potential to deliver measurable benefits from optimizing our operations to enhancing member experiences. It's about achieving outcomes that truly make a difference.

Innovation: AI is already embedded in many aspects of our daily lives, like Waze, Google Assistants, or Alexa. By adopting AI, we tap into the same innovative potential to modernize our organization.

Transformation: We're looking at ways to fundamentally improve how we operate. AI can streamline our processes, reduce inefficiencies, and make our organization more agile.

Augmentation: This technology works hand in hand with our staff, giving them tools to be more effective. It empowers them to focus on tasks that require human expertise, while AI handles the repetitive work.

Leadership: Lead with purpose by aligning AI efforts with our organizational mission and values.

The VITAL framework isn't just a strategic choice. It's about seizing an opportunity to future proof our organization, deliver better services, and stay ahead in an ever evolving landscape.

Let's talk about the how. A crucial part of our AI journey is governance. We understand the responsibility that comes with using this technology, which is why our governance framework is built on five guiding principles.

Integrity: This means building systems that are transparent and fair. We want our AI processes to be clear and trustworthy, ensuring our staff has confidence in the results.

Safeguarding: Keeping sensitive member data secure is essential. We're committed to using robust security practices to protect information and maintain privacy.

Explainability: We believe it important for our staff to understand how AI makes decisions. Our focus is on making these systems easy to explain and ensuring that the reasoning behind AI outputs is accessible and clear.

Human-centric: AI is here to support our team, not replace them. Our goal is to create tools that enhance productivity and make work more manageable, always prioritizing the human element in everything we do.

Sustainability: We're thinking about the future. Our AI efforts are designed to be efficient and

scalable, ensuring they continue to provide value over the long term without overextending our resources.

Now that we have covered the principles guiding our AI governance, let's look at our leadership structure. The Executive Strategy Committee plays a pivotal role in ensuring our AI initiatives are implemented responsibly and effectively.

Chaired by the Executive Director, the committee includes our Deputy Executive Director, Director of Operations, Chief Risk Officer, and Director of Enterprise Applications. Together, they provide strategic vision and oversight, ensuring all AI projects align with TRS's goals and ethical standards.

The governance structure ensures our AI activities are guided by clear strategy, accountability, and commitment to responsible innovation.

As your AI Officer reporting directly to the Executive Director, my role focuses on turning our AI strategy into reality. I oversee the day-to-day management of AI initiatives and work closely with department directors to ensure projects align with agency needs.

Through quarterly meetings with the Executive Strategy Committee, we maintain strong governance and oversight of all AI projects. This ensures our AI

initiatives drive innovation, while adhering the TRS's values and standards.

Currently, we are focusing on identifying common pain points across the organization where AI can be used in a way that is practical and low risk. We understand that, to make AI successful, we need to start small, but think big. By collaborating with various departments, we will ensure that our solution is transparent, effective, and aligned with our long-term vision.

Let me introduce Chat TRS, one of our first AI proof of concepts, aimed at transforming knowledge management across the agency. A key challenge for any organization is maintaining institutional knowledge as experienced employees retire or transition to new roles. Chat TRS addresses this by making information more accessible and actionable for our staff, while capturing and preserving our organization's valuable knowledge.

By streamlining how we share and use information, we not only preserve critical institutional knowledge, but also enable our teams to access reliable, verified information when they need it.

Now, instead of just describing it, let me show you Chat TRS in action with a live demonstration.

On this screen, you can see our interface,

which is designed to be straightforward and user-friendly. I have selected three questions that show how Chat TRS supports different needs across our organization.

First, we have a basic policy question about employee dress code, something any staff member might need to quickly reference.

Next, we have a question about Tier 4, Chapter 504 rules, the type of inquiry our member services representatives regularly handled when assisting our members.

Finally, we see how staff members can better understand board resolution and their impact on TRS, showcasing how Chat TRS helps keep our teams informed about key organizational decisions.

What makes chat TRS particularly valuable is that it provides consistent, reliable information across all departments. Through our verify and trust approach, every answer includes citations to specific internal documents, allowing users to verify the source materials correctly. This transparency helps maintain accuracy and builds confidence in the system.

Let me show you how this works with our first question. We're just waiting for this populating, and I'll just read off some -- a couple of excerpts of this.

The employee dress code guidelines are as follows: Appropriate attire, slacks, short skirts with description shirts, jackets, dresses. Inappropriate attire, different types of slacks, shorts, and skirts, et cetera.

Let's go to the Tier 4 question now.

MS. REILLY: Could you read the question?

MR. DIAZ: Yes, I can, sorry. What are the different rules associated with Chapter 4, Tier 504?

The different rules associated with Tier 4, Chapter 504 include investing period, required number of years to vest for TRS Tier 4 members represented by the UFT was extended from five years to 10 years.

Contribution requirements, Tier 4 members need to contribute 3 percent of their salary for the first 27 years of credited service. They also need to make additional member contributions of 1.85 percent for all required service until retirement.

And we can scroll down and get the rest of the information there.

MR. DORSA: Do you have a question?

MR. BERGE: Does it ever give more than one citation?

MR. DIAZ: Yes and I'm going to show you that right now.

MR. DORSA: And I guess to follow up on that, the fact check that that's the like -- that that's the most modern, that nothing has changed in the last like 30 days or something?

MR. DIAZ: So we have a data integrity process that it goes through before we ingest anything into the bot. We started off with policies and procedures that have gone through a vesting process, and then we ingest those.

MR. DORSA: So it's sourced internally rather than external?

MR. DIAZ: Correct.

MR. DORSA: Oh, okay.

MR. DIAZ: So we're leveraging a technology called RAG, Retrieval-Augmented-Generation. So it focuses solely on our internal documentation, and we coded in the back-end to not hallucinate and to only answer things factually.

So in this case, I'll read the first entry. Here are some recent Board resolutions and their impacts on the Teachers' Retirement System. Employer contribution for fiscal year 2024, the Board approved the final employer contribution for fiscal year 2024 in the amount of $3,161,752,125, which is a decrease of $12,661,055 from preliminary employer contribution.

This adjustment reflects a reduced financial obligation for the employer, potentially affecting budget allocation and financial planning for the fiscal year.

Now, if we scroll down, and if you notice here, there are little references to the actual documentation that it's pointing to. So this is the citation to the documents and the actual sections of the documents it's pulling the information from. So we'll select the first one here.

We can go to the document itself, and you can see where it pulled that information from. So now the staff member who is utilizing the tool can verify the information that they're getting as well as review the responses that are there.

Thank you very much for your time. Do you have any further questions?

CHAIRMAN BROWN: Excellent. Thank you. Thank you, Ericc.

Any questions for Ericc?

MS. REILLY: Do you have a question? Go ahead.

MR. BERGE: Well, I just quibbled with the summary of the impact of the final employer contribution.

MS. REILLY: So where did we get the impact

from, Ericc?

MR. BERGE: That was a questionable summary. Yeah, how is the impact created, but when it says what it makes the impact of the solution.

MR. DIAZ: It's making assumptions based on what it's -- well, I'm making assumptions. It's reviewing what season of documentation.

What happens when we ingest the data is it breaks it down into various chunks, takes the keywords, and then it matches it to actually put the information together.

MS. BUDZIK: Do you ever review -- do you review and potentially modify?

MR. DIAZ: So we have a testing team that's going through answering questions, asking many, many questions based on those specific documents or resolutions were recently ingested, those that will go through an additional writing process for questions such as this.

MS. REILLY: So I guess what I'm hearing is that they don't agree with the impact that --

MR. BERGE: Well, just like the finalization of the employer contribution has no effect on TRS budget allocations, like none, you know.

MS. REILLY: Right.

MR. BERGE: It just doesn't.

MS. REILLY: Yeah, so --

MR. DORSA: But on the City budget --

MR. BERGE: Not really, honestly, it's just finalization. It's like an accounting true up.

MR. DIAZ: The whole purpose of the trust and verify is so that we're not just taking it for face value. So in the perspective of the impact, we want someone to review the documentation and see if that's actually factual.

AI, across the board, you have to still keep confident in your review of the documentation. That's why the focus with our governance is to maintain the human in the loop, right? We don't want this solution to just be, all right, I'm going to take that impact statement for face value. That's why we reference the documents.

CHAIRMAN BROWN: Thank you.

MR. DIAZ: Any further questions?

CHAIRMAN BROWN: Any questions for Ericc?

Thank you, Ericc, well done. Thank you so much.

MR. BERGE: Thanks very much.

CHAIRMAN BROWN: Patricia?

MS. REILLY: Okay. I'm sorry. Thank you,

Ericc.

Next, we have questions or comments from the Public.

MR. CROONQUIST: Shall I just -- I taught ninth grade, so I think you can hear me. My name is Robert Croonquist.

CHAIRMAN BROWN: Maybe you can go to the mic for the people on Zoom.

MR. BERGE: Oh yes, that's right, because we can hear you, but there are others.

CHAIRMAN BROWN: Thank you. And just state your full name for the recorder.

MR. CROONQUIST: Yes. My name's Robert Croonquist. I taught Jamaica High School in Queens, and I just -- I'm a retiree. I retired in 2006.

And first off, I just really want to thank you for the wonderful job that you have done in protecting my vision.

At Jamaica High School, I created an organization called Youth Arts New York, and out of that, we brought atomic bomb survivors from Hiroshima and Nagasaki into, over a hundred of them, into classrooms in New York City, to 40,000 plus high school students.

As a result of that, we won the Nobel Peace

Prize, we were part of the international campaign to abolish nuclear weapons that won the Nobel Peace Prize in 2017. And we are very adjacent to this year's Nobel Peace laureate, Nihon Hidankyo, the atomic bomb -- the A and H bomb survivors organization in Japan because we brought many of them to the United States and allowed them to speak at the United Nations and to have a presence in New York.

As a result, the United Nations passed a treaty on the prohibition of nuclear weapons. And you have a packet here. I gave you a packet with a copy of the treaty.

So in 2018, we began working with council member Danny Drum, who was a retired New York City public school teacher and the head of the Finance Committee of the City Council. And in 2021, the City Council passed a resolution instructing the New York City pension funds to divest from nuclear weapons producers.

We have been working with John Dorsa and John Adler at the Comptroller's Office since I think about 2018, I think from way back at the beginning when Scott Stringer was the Comptroller. And finally, we have gotten to this point where we feel that we're working with a -- in our group is a man named Michael Lent, who

oversaw the Ford Foundation's divestment from fossil fuel production.

What we're looking for is a divestment from nuclear weapons producers, which is much, much simpler than divestment from fossil fuels. It's targeting 25 producers, and we feel that we can thread the needle to divest from -- we're working with a group called The Don't Bank on the Bomb based in the Netherlands, and looking at exactly how we could thread the needle for you to fulfill your fiduciary responsibility, so that I can continue to live well, and future retirees, and divest from these weapons of mass destruction.

So what I would really -- I am here today is just to open up communication, and I wonder who would be here on the Board to continue this discussion. And so thank you for your time, and I don't know if you have any questions.

CHAIRMAN BROWN: Any questions for Robert?

Thank you, Robert, for coming up and sharing.

MR. CROONQUIST: Okay. Who would I -- who would I be in touch with to continue a conversation?

CHAIRMAN BROWN: You can email us. You can email us.

MR. CROONQUIST: And how do I do that? Is it --

CHAIRMAN BROWN: TRS?

MS. REILLY: TRS.

CHAIRMAN BROWN: TRS's email.

MS. REILLY: Me?

CHAIRMAN BROWN: Or --

MS. REILLY: Well, I'm not the board members, so.

CHAIRMAN BROWN: Yeah.

MS. REILLY: I mean, you could send it to me and I could send it out to the Board.

CHAIRMAN BROWN: That would be okay.

MS. REILLY: All right.

CHAIRMAN BROWN: Yeah.

MS. REILLY: Okay. So I'll give you my --

MR. CROONQUIST: Okay, great.

MS. REILLY: I'll give you my card.

MR. CROONQUIST: And I do want to thank you for doing such a wonderful job of -- with our pensions. It's made my life be able to live a good life in my retirement, so thank you.

CHAIRMAN BROWN: Thank you, Robert. Thank you for coming up. Appreciate it. Thank you.

Okay. Before we ask for a motion to adjourn, I just wanted to mention that, at the UFT on October 26th, we sponsored a UFT Pension Expo, and over 400 of

our members came to the UFT, and we provided them information about their retirement benefits.

And TRS representatives came, and I just wanted to thank TRS for coming to our first Pension Expo. And the associates from TRS I'd like to mention, Jimmy Ramsoonder (phonetic), Sahar --

MS. REILLY: Gergis.

CHAIRMAN BROWN: Gergis (phonetic), Suzanne Corbin, Anna Abreu (phonetic), Russine Coles (phonetic), and Roland Lussante (phonetic)all came, spoke with our members, gave pension information out. Well received, and we just want to thank them very, very much for spending practically an entire day with us on Saturday, October 26th. It was much appreciated. And so please pass along our thank you to those members.

MS. REILLY: Thank you, Tom.

CHAIRMAN BROWN: Thank you.

MS. REILLY: I just want to let you know that I spoke with a few of the employees that attended and they really enjoyed it and they really felt really good after they were able to meet with the members and talk with them.

CHAIRMAN BROWN: Yeah, it was great. It was great.

MS. REILLY: It was great.

CHAIRMAN BROWN: We had our pension consultants there, but I heard people whispering, TRS is here, TRS is here. Go to that room over there, TRS, and it really -- well, we have always had a great relationship with Teachers' Retirement System, and our members love TRS. They provide --

MS. REILLY: Except when they don't.

(Laughter.)

CHAIRMAN BROWN: You provide us with a defined benefit pension along with the opportunity to voluntarily join a 403 BTDA program.

And if you ever get a chance to come to one of our expos, you see happy, happy, happy people, as Robert is, is a happy retiree. So thank you, Robert, for coming.

MR. CROONQUIST: Thank you.

CHAIRMAN BROWN: Thank you, again, appreciate it.

So any questions? Anything else anyone would like to add to the agenda? So I think this is an appropriate -- oh, and I want to thank, before I forget, Adrian, our TRS tech, and of course, Will, our recorder. So, much appreciated, thank you, guys, and thank you, Ericc, for your presentation.

So is there a motion to adjourn?

MS. LEE: So moved.

CHAIRMAN BROWN: And is there a second?

MS. MCGRATH: Second.

MR. DORSA: Second. You beat me to it. You beat me to it, I'm sorry.

CHAIRMAN BROWN: Any discussion? So all those in favor of adjourning, please say aye?

(Ayes were heard.)

CHAIRMAN BROWN: Those opposed, say nay? Any abstentions? We are adjourned.

(The proceedings concluded at 4:20 p.m.)

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I, WILLIAM MONTAGUE, a Digital Reporter and Notary Public within and for the State of New York, do hereby certify:

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