Office of the New York State Comptroller
Thomas P. DiNapoli, Comptroller
New York State and Local Retirement System
Employees' Retirement System
Police and Fire Retirement System
110 State Street, Albany, New York 12244-0001

Kevin F. Murray, Deputy Comptroller
Telephone: 1-866-805-0990

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September 2008

Re: Employees' Retirement System
Final Contribution Rates for
February 1, 2010 Payment

Dear Employer:

Once a year, as a participating employer, you are billed for your share of the annual cost of paying for the future pension benefits of your employees. Because we want to provide you with as clear a picture as possible about how your contribution rates are determined, we include last year's contribution rates and the long-term expected contribution rates for your information. Enclosed are the rates to be used in estimating your required contribution for fiscal year ending (FYE) 2010 (highlighted in tan), the rates for 2009 (highlighted in blue) and the long-term expected rates (highlighted in green).

What do we mean when we refer to the long-term expected contribution rates? The System Actuary assumes an 8% annual rate of return on investments when calculating funding requirements. Long-term expected contribution rates, therefore, are those rates that would be established if the Retirement System's Common Retirement Fund (the Fund) consistently earned an 8% rate of return annually. So, if the Fund averages more than 8% over an extended period of time, you should expect your contribution rate to be less than the long-term expected rate. If the Fund earns less than 8% over an extended period of time, your contribution rate would be higher than the long-term expected rate. It is important to note that the long-term expected rate for most Tier 3 and 4 members is 11% of payroll (11.1% if you have elected Section 41-j, the sick leave benefit). This is the plan most of your employees are enrolled in and the plan almost all new members will be covered by. In most cases, on a long-term basis, employers should expect to pay 11% of their payroll to the Retirement System yearly, as long as investment results average 8% annually.

In the 1990's and early in this decade, employer contributions were unusually low due to exceptional Fund performance. By 2004-05, when the Fund's return over the previous few years had fallen short of its target, employer contribution rates increased, returning close to their expected annual levels. More recently, because the Fund's returns have averaged more than the expected 8% over the past few years, employer rates have declined; in fact, the contribution rates for the fiscal year 2010 represent the fifth decrease in five years.

Reducing employer contribution rate volatility is an issue we continue to address but, ultimately, the Common Retirement Fund's rate of return will continue to have a significant impact on employer contribution levels. When the stock market does well, the increase in investment income reduces the amount employers are required to pay to the Retirement System. Conversely, when the rate of return falls short of projections, employer contributions will go up.

The good news for employers is that the Retirement System is fully funded and, with investment results in most of the last five years exceeding 8% annually, employer rates for fiscal year ending 2010 are less than the 2009 rates and well below the long-term expected rates. This is due to the calculation of the rates using an investment smoothing technique that looks at the average of the investment experience over a five year period that includes periods of significant gains. The investment gain for FYE 2008, however, was 2.6% - better than what was achieved by most public plans, but significantly less than the actuarial assumption.

We strongly caution you regarding rates for future years. If the current economic conditions result in continued investment performance below the 8% actuarial assumption in FYE 2009, you should be prepared for employer contributions to begin to rise. FYE 2011 rates could rise to the level of FYE 2009. Contribution rates for FYE 2012 and later could continue to rise towards the long-term expected rates. When doing long-term budget planning, it would be appropriate to assume that contribution rates will be rising.

In addition to the rates, I am enclosing a worksheet to help you calculate the amount due as of February 1, 2010, or the discounted amount due December 15, 2009. If you chose to amortize any previous years' payments, your calculation should include any amortization repayment amounts. Using the February 2009 estimate sent to you several weeks ago, you can confirm your plans and options to find the appropriate 2010 contribution rates.

On or before October 15, 2008, we will furnish you with our projection of the amount of your required contribution due February 1, 2010. This projection will also provide the required contribution amount due should you decide to prepay by December 15, 2009.

If you have any questions regarding the rates or any of the above information, please contact Michael J. Clenahan, Assistant Director, Member & Employer Services Bureau at (518) 473-4132 or via e-mail at mclenahan@osc.state.ny.us. If you prefer to contact our Billing Unit directly, the telephone number is 518-474-7573. You can also visit our website at www.osc.state.ny.us/retire for additional information about rates.

Sincerely,

/s/

Kevin F. Murray

Enclosures