



**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Basic Financial Statements, Required Supplementary Information, and  
Other Supplementary Information

March 31, 2021

(With Independent Auditors' Report Thereon)

# NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

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KPMG LLP  
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## Independent Auditors' Report

The Trustee  
New York State and Local Retirement System:

### Report on the Financial Statements

We have audited the accompanying financial statements of the New York State and Local Retirement System (the System) as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements for the year then ended as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly in all material respects, the fiduciary net position of the System as of March 31, 2021, and the changes in its fiduciary net position for the year then ended, in accordance with U.S. generally accepted accounting principles.



## *Other Matters*

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis and the required supplementary information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying other supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2021, except as to note 2(h), which is as of August 13, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

**KPMG LLP**

July 28, 2021, except as to note 2 (h), which is as of August 13, 2021,

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

### Management's Discussion and Analysis

March 31, 2021

(Unaudited)

The following overview of the financial activity of the New York State and Local Retirement System (the System) for the fiscal year ended March 31, 2021 is intended to provide the reader with an analysis of the System's overall financial position. The System is comprised of the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all assets and record changes in fiduciary net position allocated to the System. This management's discussion and analysis should be read in conjunction with the basic financial statements of the System, which follow.

### Financial Highlights

The fiduciary net position of the System held in trust to pay pension benefits was \$260.08 billion as of March 31, 2021 and \$198.08 billion as of March 31, 2020. This amount reflects an increase of \$62.00 billion from the prior fiscal year. This change is primarily the result of the net appreciation of the fair value of the investment portfolio. The Fund continues to diversify and monitor downside risks. Net appreciation (depreciation) in fair value of investments for the fiscal years ended March 31, 2021 and 2020 was \$67.6 billion and (\$12.14) billion, respectively.

- The System's investments reported a positive money-weighted rate of return, net of investment expense, of 33.43 percent for the fiscal year ended March 31, 2021 and a negative money-weighted rate of return, net of investment expense, of 2.64 percent for the fiscal year ended March 31, 2020.
- Retirement and death benefits paid during the fiscal year ended March 31, 2021 to 496,628 annuitants totaled \$14.02 billion, as compared to \$13.25 billion paid to 487,407 annuitants for the fiscal year ended March 31, 2020. The increase is primarily due to the number of new retirees.
- Contributions from employers increased to \$5.03 billion for the fiscal year ended March 31, 2021, from \$4.78 billion for the fiscal year ended March 31, 2020. The increase in employer contributions was related to an increase in covered employee payroll from the previous year.
- The Net Pension Liability (NPL) for ERS was \$99.6 million for the measurement period ended March 31, 2021 as compared to \$26.48 billion for the measurement period ended March 31, 2020. The fiduciary net position, restricted for pension benefits as of March 31, 2021, was \$220.58 billion, which represents 99.95 percent of the calculated total pension liability for ERS. This NPL is allocated to participating employers and reported in their financial statements pursuant to Governmental Accounting Standards Board (GASB) Statement 68.
- The NPL for PFRS was \$1.73 billion for the measurement period ended March 31, 2021 as compared to \$5.34 billion for the measurement period ended March 31, 2020. The fiduciary net position, restricted for pension benefits as of March 31, 2021, was \$39.50 billion, which represents 96 percent of the calculated total pension liability for PFRS. This NPL is allocated to participating employers and reported in their financial statements pursuant to GASB Statement 68.

### Overview of the Financial Statements

The financial statements consist of the combining basic statement of fiduciary net position, the combining basic statement of changes in fiduciary net position, and the notes to the basic financial statements. The required supplementary information that appears after the notes to the basic financial statements is not a required part of the basic financial statements, but is supplementary information required by the GASB. The other

## **NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

### Management's Discussion and Analysis

March 31, 2021

(Unaudited)

supplementary information following the required supplementary information is not required, but management has chosen to include such information to increase transparency.

The combining basic statement of fiduciary net position reflects the resources available to pay members, retirees and beneficiaries at the close of the System's fiscal year. This statement also provides information about the fair value and composition of the System's fiduciary net position.

The combining basic statement of changes in fiduciary net position presents the changes to the System's fiduciary net position for the fiscal year, including net investment income (loss), which includes net appreciation (depreciation) in fair value of the investment portfolio, and contributions from members and employers. Benefits and administrative expenses paid by the System are included under the deductions section of the statement.

The notes to the basic financial statements are an integral part of the basic financial statements and provide additional information about the plans, policies, and performance of the System.

The required supplementary information includes: Management's Discussion and Analysis, Schedule of Changes in the Employers' Net Pension Liability and Related Ratios, Schedule of Employer Contributions and Schedule of Investment Returns and related notes to the required supplementary information.

The additional supplementary information includes: Schedule of Administrative Expenses, Schedule of Investment Expenses, and Schedule of Consulting Fees.

### **Analysis of the Overall Financial Position of the System**

The purpose of the System's investments is to provide for long-term growth, while also ensuring a reliable cash flow that meets the funding requirements of the near-term pension obligations. To achieve these goals, the investments are allocated to a variety of asset types and strategies in order to meet the System's current funding needs as well as future growth requirements. Equity-related investments are included for their long-term return and growth characteristics. While a majority of fixed income and debt-related investments are generally included in the allocation for their ability to control investment risk and provide for a reliable cash flow that meets the funding requirements, a portion is strategically invested in more actively traded markets. It is important to note that the change from year to year is due not only to changes in fair values but also to purchases, sales, and redemptions. Tables 1, 2, and 3 summarize and compare financial data for the current and prior years.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

March 31, 2021

(Unaudited)

*Table 1*

Summary schedule of fiduciary net position as of March 31, 2021, as compared to March 31, 2020:

	<u>2021</u>	<u>2020</u>	<u>Dollar change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
<b>Assets:</b>				
Investments	\$ 258,135,801	\$ 194,317,163	\$ 63,818,638	32.8%
Securities lending collateral – invested	16,923,148	6,865,125	10,058,023	146.5
Receivables and other assets	<u>3,317,830</u>	<u>4,633,762</u>	<u>(1,315,932)</u>	<u>(28.4)</u>
Total assets	<u>278,376,779</u>	<u>205,816,050</u>	<u>72,560,729</u>	<u>35.3</u>
<b>Liabilities:</b>				
Securities lending obligations	16,930,860	6,880,350	10,050,510	146.1
Payables and other liabilities	<u>1,364,836</u>	<u>855,938</u>	<u>508,898</u>	<u>59.5</u>
Total liabilities	<u>18,295,696</u>	<u>7,736,288</u>	<u>10,559,408</u>	<u>136.5</u>
Net position, restricted for pension benefits	<u>\$ 260,081,083</u>	<u>\$ 198,079,762</u>	<u>\$ 62,001,321</u>	<u>31.3%</u>

The fiduciary net position of the System totaled \$260.1 billion as of March 31, 2021, an increase of \$62.0 billion from the prior fiscal year, primarily attributable to the net appreciation of invested assets.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Management's Discussion and Analysis

March 31, 2021

(Unaudited)

*Table 2*

Schedule of invested assets as of March 31, 2021, as compared to March 31, 2020:

	<u>2021</u>	<u>2020</u>	<u>Dollar change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
Domestic equity	\$ 90,263,828	\$ 62,548,268	\$ 27,715,560	44.3%
Global fixed income	47,722,955	45,410,315	2,312,640	5.1
International equity	43,480,400	30,673,634	12,806,766	41.8
Private equity	29,470,165	20,314,177	9,155,988	45.1
Real estate	17,647,993	15,693,661	1,954,332	12.5
Short-term investments	11,082,651	5,697,690	5,384,961	94.5
Real assets	3,929,594	3,085,682	843,912	27.3
Opportunistic/ARS investments	5,016,078	9,881,892	(4,865,814)	(49.2)
Mortgage loans	1,043,621	1,011,844	31,777	3.1
Credit	8,478,516	—	8,478,516	—
Total investments	<u>\$ 258,135,801</u>	<u>\$ 194,317,163</u>	<u>\$ 63,818,638</u>	<u>32.8%</u>

The largest percentage increases to the invested assets were in short-term investments and private equity, which represent 4.29 percent and 11.42 percent of the total portfolio, respectively. In the short-term investment portfolio the growth largely reflected temporary liquidity needs for funding new mandates. In the private equity portfolio the increase was due to a moderate increase in activity and a sharp increase in asset values from the prior year.

The largest percentage decrease to the invested assets was in Opportunistic/ARS investments, which represents 1.94 percent of the total portfolio. The decrease reflects redemptions in the ARS portfolio and a reclassification of assets into the Credit portfolio, which was established in the new asset allocation policy.



## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

### Management's Discussion and Analysis

March 31, 2021

(Unaudited)

*Table 3*

Summary schedule of changes in fiduciary net position for the year ended March 31, 2021, as compared to the year ended March 31, 2020:

	<u>2021</u>	<u>2020</u>	<u>Dollar change</u>	<u>Percentage change</u>
	(Dollars in thousands)			
<b>Additions:</b>				
Net investment (loss) income	\$ 70,649,606	\$ (8,798,771)	\$ 79,448,377	902.9%
Total contributions	<u>5,638,783</u>	<u>5,383,166</u>	<u>255,617</u>	<u>4.7</u>
Total additions	<u>76,288,389</u>	<u>(3,415,605)</u>	<u>79,703,994</u>	<u>2,333.5</u>
<b>Deductions:</b>				
Total benefits paid	14,121,971	13,311,136	810,835	6.1
Administrative expenses	165,097	139,050	26,047	18.7
OPEB expense	<u>—</u>	<u>223,608</u>	<u>(223,608)</u>	<u>—</u>
Total deductions	<u>14,287,068</u>	<u>13,673,794</u>	<u>613,274</u>	<u>4.5</u>
Net increase (decrease)	62,001,321	(17,089,399)	79,090,720	462.8
Net position, restricted for pension benefits – beginning of year	<u>198,079,762</u>	<u>215,169,161</u>	<u>(17,089,399)</u>	<u>(7.9)</u>
Net position, restricted for pension benefits – end of year	<u>\$ 260,081,083</u>	<u>\$ 198,079,762</u>	<u>\$ 62,001,321</u>	<u>31.3%</u>

The change in net investment income is primarily attributable to the net appreciation in fair value of investments from 2020 to 2021. The increase in total benefits paid is attributable to the number of new retirees.

### **Economic Factors and Rates of Return**

The Fund announced a positive investment performance for the fiscal year ended March 31, 2021, with a time-weighted rate of return of positive 33.55 percent with equity markets rebounding sharply as the governments across the globe provided unprecedented amounts of monetary and fiscal support. All asset classes performed well in a “risk on” environment. Despite this, uncertainties remain across asset classes, particularly in real estate. The COVID-19 pandemic continues to affect countries across the globe with the long-term implications still uncertain. We continue to monitor inflation, potential earnings erosion, tensions with China, the political climate domestically and other potential risks.

### **Requests for Information**

This financial report is designed to provide a general overview of the System's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244-001. The report can also be accessed on the Comptroller's website at:

[www.osc.state.ny.us/retire/about\\_us/financial\\_statements\\_index.php](http://www.osc.state.ny.us/retire/about_us/financial_statements_index.php)

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Combining Basic Statement of Fiduciary Net Position

March 31, 2021

(Dollars in thousands)

	<b>Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets:</b>			
Investments (notes 2(b), 4, 5, 8, and 11):			
Domestic equity	\$ 76,558,006	\$ 13,705,822	\$ 90,263,828
Global fixed income	40,476,616	7,246,339	47,722,955
International equity	36,878,258	6,602,142	43,480,400
Private equity	24,995,362	4,474,803	29,470,165
Real estate	14,968,290	2,679,703	17,647,993
Opportunistic/ARS investments	4,254,428	761,650	5,016,078
Short-term investments	9,399,841	1,682,810	11,082,651
Real assets	3,332,917	596,677	3,929,594
Credit	7,191,123	1,287,393	8,478,516
Mortgage loans	885,156	158,465	1,043,621
	<u>218,939,997</u>	<u>39,195,804</u>	<u>258,135,801</u>
Securities lending collateral – invested (notes 7 and 8)	14,353,507	2,569,641	16,923,148
Forward foreign exchange contracts (notes 6 and 8)	58,388	10,453	68,841
<b>Receivables:</b>			
Employers' contributions	662,316	266,847	929,163
Members' contributions	5,336	617	5,953
Member loans	916,146	6,807	922,953
Investment income	294,396	52,704	347,100
Investment sales	281,386	50,375	331,761
Other	153,670	26,069	179,739
	<u>2,313,250</u>	<u>403,419</u>	<u>2,716,669</u>
Capital assets, at cost, net of accumulated depreciation	451,491	80,829	532,320
	<u>236,116,633</u>	<u>42,260,146</u>	<u>278,376,779</u>
<b>Liabilities:</b>			
Securities lending obligations (notes 7 and 8)	14,360,048	2,570,812	16,930,860
Forward foreign exchange contracts (notes 6 and 8)	58,338	10,444	68,782
Accounts payable – investments	570,758	102,180	672,938
Benefits payable	125,644	11,641	137,285
Other liabilities (note 2(f))	421,262	64,569	485,831
	<u>15,536,050</u>	<u>2,759,646</u>	<u>18,295,696</u>
Net position, restricted for pension benefits	\$ <u>220,580,583</u>	\$ <u>39,500,500</u>	\$ <u>260,081,083</u>

See accompanying notes to basic financial statements.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Combining Basic Statement of Changes in Fiduciary Net Position

Year ended March 31, 2021

(Dollars in thousands)

	<u>Employees' Retirement System</u>	<u>Police and Fire Retirement System</u>	<u>Total</u>
Additions:			
Income from investing activities:			
Interest income	\$ 1,015,078	\$ 180,883	\$ 1,195,961
Dividend income	1,321,312	235,453	1,556,765
Other income	987,386	175,949	1,163,335
Less: investment expenses	(767,490)	(136,764)	(904,254)
Net appreciation in fair value of investments	<u>57,377,655</u>	<u>10,224,678</u>	<u>67,602,333</u>
Total income from investing activities	<u>59,933,941</u>	<u>10,680,199</u>	<u>70,614,140</u>
Income from securities lending activities:			
Securities lending income	40,225	7,168	47,393
Less: securities lending rebates	(7,601)	(1,354)	(8,955)
Less: securities lending management fees	<u>(2,522)</u>	<u>(450)</u>	<u>(2,972)</u>
Total income from securities lending activities	<u>30,102</u>	<u>5,364</u>	<u>35,466</u>
Total net investment income	<u>59,964,043</u>	<u>10,685,563</u>	<u>70,649,606</u>
Contributions:			
Employers	4,062,302	967,488	5,029,790
Members	427,032	65,309	492,341
Interest on accounts receivable	63,096	12,529	75,625
Other, net	<u>40,845</u>	<u>182</u>	<u>41,027</u>
Total contributions	<u>4,593,275</u>	<u>1,045,508</u>	<u>5,638,783</u>
Total additions	<u>64,557,318</u>	<u>11,731,071</u>	<u>76,288,389</u>
Deductions:			
Benefits paid:			
Retirement benefits	11,606,094	2,158,674	13,764,768
Death benefits	244,443	13,556	257,999
Other, net	<u>97,646</u>	<u>1,558</u>	<u>99,204</u>
Total benefits paid	<u>11,948,183</u>	<u>2,173,788</u>	<u>14,121,971</u>
Administrative expenses	<u>144,234</u>	<u>20,863</u>	<u>165,097</u>
Total deductions	<u>12,092,417</u>	<u>2,194,651</u>	<u>14,287,068</u>
Net increase	52,464,901	9,536,420	62,001,321
Net position, restricted for pension benefits – beginning of year	<u>168,115,682</u>	<u>29,964,080</u>	<u>198,079,762</u>
Net position, restricted for pension benefits – end of year	<u>\$ 220,580,583</u>	<u>\$ 39,500,500</u>	<u>\$ 260,081,083</u>

See accompanying notes to basic financial statements.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Notes to Basic Financial Statements

March 31, 2021

### (1) Description of Plans

The Office of the New York State Comptroller administers the following plans: the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), which are collectively referred to as the New York State and Local Retirement System (the System). The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all assets and record changes in fiduciary net position allocated to the System.

The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four-year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November 2018, he was elected for a new term commencing January 1, 2019.

The external advisory committees appointed by the Comptroller meet periodically throughout the year and provide independent, expert assistance in guiding the Fund. These committees include: the Advisory Council for the Retirement System; the Investment Advisory Committee; the Real Estate Advisory Committee; the Actuarial Advisory Committee; and the Audit Advisory Committee.

System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Generally, members of the System are employees, other than teachers, of the State and its municipalities, other than New York City.

ERS and PFRS are cost-sharing, multiple-employer, defined benefit pension plans. The System is included in the State of New York's financial report as a pension trust fund. The Public Employees' Group Life Insurance Plan (GLIP) provides death benefits in the form of life insurance. In these statements, GLIP amounts are apportioned to and included in ERS and PFRS.

As of March 31, 2021, the number of participating employers for ERS and PFRS consisted of the following:

	ERS	PFRS
State	1	1
Counties	86	4
Cities	72	61
Towns	937	169
Villages	487	299
Other	763	37
School districts	706	—
Total	3,052	571

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Notes to Basic Financial Statements

March 31, 2021

As of March 31, 2021, the System membership for ERS and PFRS consisted of the following:

	<u>ERS</u>	<u>PFRS</u>
Retirees and beneficiaries currently receiving benefits	458,261	38,367
Active members	469,968	31,922
Inactive members*	<u>170,613</u>	<u>3,016</u>
Total members and benefit recipients	<u><u>1,098,842</u></u>	<u><u>73,305</u></u>

\* Includes vested members not currently receiving benefits and nonvested members.

**(a) Membership Tiers**

Pension legislation enacted in 1973, 1976, 1983, 2009 and 2012 established distinct classes of membership. For convenience, the System uses a tier concept to distinguish these groups, generally:

**ERS**

- Tier 1 Those persons who last became members before July 1, 1973.
- Tier 2 Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 Generally, those persons who are State correction officers who last became members on or after July 27, 1976, but before January 1, 2010, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 Generally, except for correction officers, those persons who last became members on or after September 1, 1983, but before January 1, 2010.
- Tier 5 Those persons who last became members on or after January 1, 2010, but before April 1, 2012.
- Tier 6 Those persons who first became members on or after April 1, 2012.

**PFRS**

- Tier 1 Those persons who last became members before July 31, 1973.
- Tier 2 Those persons who last became members on or after July 31, 1973, but before July 1, 2009.
- Tier 3 Those persons who last became members on or after July 1, 2009, but before January 9, 2010.
- Tier 4 Not Applicable.
- Tier 5 Those persons who last became members on or after January 9, 2010, but before April 1, 2012, or who were previously PFRS Tier 3 members who elected to become Tier 5.
- Tier 6 Those persons who first became members on or after April 1, 2012.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

### Notes to Basic Financial Statements

March 31, 2021

#### **(b) Vesting**

Members who joined the System prior to January 1, 2010 need five years of service to be 100 percent vested. Members who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) require ten years of service credit to be 100 percent vested.

#### **(c) Employer Contributions**

Participating employers are required under the RSSL to contribute to the System at an actuarially determined rate adopted annually by the Comptroller. The average contribution rate for ERS for the fiscal year ended March 31, 2021 was approximately 14.6 percent of covered employee payroll. The average contribution rate for PFRS for the fiscal year ended March 31, 2021 was approximately 24.4 percent of covered employee payroll. Delinquent annual bills for employer contributions accrue interest at the actuarial interest rate applicable during the year. For the fiscal year ended March 31, 2021, the applicable interest rate was 6.8 percent.

#### **(d) Member Contributions**

Generally, Tier 3, 4, and 5 members must contribute 3 percent of their salary to the System. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

#### **(e) Benefits**

##### **Tiers 1 and 2**

**Eligibility:** Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

**Benefit Calculation:** Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months.

Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 1 members who joined on or after June 17, 1971, each year's compensation used in the final average salary calculation is limited to no more than 20 percent greater than the previous year. For Tier 2 members, each year of final average salary is limited to no more than 20 percent greater than the average of the previous two years.

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#### **Tiers 3, 4, and 5**

**Eligibility:** Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

**Benefit Calculation:** Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits.

Final average salary is the average of the wages earned in the three highest consecutive years of employment. For Tier 3, 4 and 5 members, each year's compensation used in the final average salary calculation is limited to no more than 10 percent greater than the average of the previous two years.

#### **Tier 6**

**Eligibility:** Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63 for ERS members and 62 for PFRS members.

**Benefit Calculation:** Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits.

Final average salary is the average of the wages earned in the five highest consecutive years of employment. For Tier 6 members, each year's compensation used in the final average salary calculation is limited to no more than 10 percent greater than the average of the previous four years.

#### **Special Plans**

The 25-Year Plans allow a retirement after 25 years of service with a benefit of one-half of final average salary, and the 20-Year Plans allow a retirement after 20 years of service with a benefit of one-half of final average salary. These plans are available to certain PFRS members, sheriffs, and correction officers.

#### **Disability Retirement Benefits**

Disability retirement benefits are available to ERS and PFRS members unable to perform their job duties because of permanent physical or mental incapacity. There are three general types of disability benefits: ordinary, performance of duty, and accidental disability benefits. Eligibility, benefit amounts,

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and other rules such as any offsets of other benefits depend on a member's tier, years of service, and plan.

#### **Ordinary Death Benefits**

Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

#### **Post-Retirement Benefit Increases**

A cost-of-living adjustment is provided annually to: (i) all retirees who have attained age 62 and have been retired for five years; (ii) all retirees who have attained age 55 and have been retired for ten years; (iii) all disability retirees, regardless of age, who have been retired for five years; (iv) ERS recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years; and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible retiree as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

## **(2) Summary of Significant Accounting Policies**

### **(a) Basis of Accounting**

The System maintains records and accounts, and prepares financial statements using the accrual basis of accounting. Employer contributions are recognized when legally due, pursuant to statutory requirements, in accordance with the terms of each plan. Member contributions are based on earned member salaries and are recognized when due. Benefits, expenses, and refunds are recognized when due and payable.

### **(b) Investments**

Investments are recorded on a trade-date basis and reported at fair value. Fair value is defined as the amount that can reasonably be expected to be received for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future, and such changes could materially affect the amounts reported. The amounts reported as investments on the financial statements are allocated between ERS and PFRS based on each system's monthly average equity in the Fund. See note 4(c) for detailed information on the System's policy on investment valuation and note 8 for more detail regarding the methods used to measure the fair value of investments.

### **(c) Member Loan Programs**

Members who joined prior to January 1, 2018 are entitled to participate in a loan program that allows them to borrow up to 75 percent of their member contributions or \$50,000, whichever is less. Members who joined on or after January 1, 2018, may borrow up to 50 percent of their contribution balance or \$50,000, whichever is less. Repayment of outstanding amounts is generally made through payroll



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deductions within five years. The interest rate charged for COESC Member Loans is fixed at 1 percent below the actuarial interest rate at the time the loan is granted. The rate for loans issued during the fiscal year ended March 31, 2021 was 6.0 percent.

#### **(d) Capital Assets**

Capital assets are capitalized at cost and depreciated on a straight-line basis over the related assets estimated useful lives.

During the fiscal year ended March 31, 2014, the System began capitalizing outlays associated with the redesign of its pension administration system. As of March 31, 2021, capitalized outlays for the project total \$483.6 million. This project is currently ongoing and is expected to be completed in the period ending July 31, 2022, at which time depreciation of the capitalized costs will begin.

#### **(e) Contributions Receivable**

Employers' contributions receivable are presented net of withdrawals, refunds, advance employer payments, and credits due employers. Receivable amounts from participating employers include \$20.7 million for amortization of retirement incentives, new plan adoptions, and retroactive membership. The RSSL includes several provisions related to the amortization of employer contribution amounts. These include:

- Chapter 57 of the Laws of 2010 authorized the State and local employers to amortize a portion of their annual pension costs during periods when actuarial contribution rates exceed thresholds established by the statute. Amortized amounts will be paid in equal annual installments over a ten-year period including a rate of interest set by the Comptroller annually. Employers may prepay these amounts at any time without penalty. The first payment will be due in the fiscal year following the decision to amortize. Chapter 57 further provides that when contribution rates fall below legally specified levels and all outstanding amortizations have been paid, employers that elected to amortize will be required to pay additional moneys into reserve funds, specific to each employer, which will be used to offset their contributions in the future. These reserve funds will be invested separately from pension assets.

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The following represents the amortized receivable balance from the State and Local participating employers as of March 31, 2021, including the statutory amortization threshold and interest rate, for each respective fiscal year:

**Chapter 57, Laws of 2010**

Year	% of Payroll		Interest %	State	Local
	ERS	PFRS			
				(Dollars in millions)	
2012	10.5	18.5	3.75	\$ —	\$ 18.5
2013	11.5	19.5	3.00	23.3	68.9
2014	12.5	20.5	3.67	36.8	58
2015	13.5	21.5	3.15	41.1	57.6
2016	14.5	22.5	3.21	32.2	34.8
2017	15.1	23.5	2.33	—	3.8
2018	14.9	24.3	2.84	—	3.2
2019	14.4	23.5	3.64	—	3.5
				<u>\$ 133.4</u>	<u>\$ 248.3</u>

- The fiscal year 2014 Enacted Budget included an alternate contribution program (the Alternate Contribution Stabilization Program) that provided certain participating employers with a one-time election to amortize slightly more of their required contributions than would be available for amortization under the 2010 legislation. In addition, the maximum payment period was increased from ten years to twelve years. The election was available to: counties, cities, towns, villages, BOCES, school districts and the four public health care centers operated in the counties of Nassau, Westchester and Erie. The State was not eligible to participate in the Alternate Contribution Stabilization Program.

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The following represents the amortized receivable balance from Local participating employers as of March 31, 2021, including the statutory amortization threshold and interest rate, for each respective fiscal year:

**Chapter 57, Laws of 2013**

Year	% of Payroll		Interest %	Local (Dollars in millions)
	ERS	PFRS		
2014	12.0	20.0	3.76	\$ 64.5
2015	12.0	20.0	3.50	97.7
2016	12.5	20.5	3.31	76.7
2017	13.0	21.0	2.63	59.9
2018	13.5	21.5	3.31	58.9
2019	14.0	22.0	3.99	21.7
2020	14.2	22.5	2.87	18.1
2021	14.1	23.0	1.60	45.1
				<u>\$ 442.6</u>

**(f) Postemployment Benefits Other than Pensions**

Employees of the System participate in a Postemployment Benefits Other than Pensions (OPEB) Plan administered by the State. The State administers the OPEB plan on a pay-as-you-go basis. Substantially all of the System’s employees may become eligible for postemployment benefits if they reach retirement age while working for the System. The costs of providing the postemployment benefits, which primarily consists of health insurance coverage, are shared between the System and the retired employee.

The System’s total OPEB liability was measured as of March 31, 2020 and was determined by an actuarial valuation as of April 1, 2019 rolled forward to March 31, 2020. The total OPEB liability and related OPEB amounts were allocated to the System based on the percentage of the System’s full-time equivalents to the total full-time equivalents of the State. The OPEB amounts recorded by the System include the total OPEB liability (\$275.1 million), deferred outflows of resources (\$37.4 million), deferred inflows of resources (\$15.3 million) and OPEB expense (\$35.2 million). OPEB expense is recorded as part of administrative expenses on the combining statement of changes in fiduciary net position. Due to immateriality of the OPEB amounts to the System as a whole, the total OPEB liability, deferred outflows of resources and deferred inflows of resources are netted and included in other liabilities on the combining statement of fiduciary net position. Additionally, due to immateriality, the System has not presented all disclosures and required supplementary information prescribed by GASB Statement No. 75. For the fiscal year ended March 31, 2021, the System paid \$7.9 million in benefit payments.

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#### **(g) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the combined statement of fiduciary net position. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

#### **(h) Immaterial Correction of an Error**

The System corrected an immaterial error in the combining statement of changes in fiduciary net position by reducing member contributions and other deductions by approximately \$872 million.

#### **(3) System Reserves**

The legally required reserves, as covered by provisions of the RSSL, are maintained by the System, are fully funded as of March 31, 2021, and are described below:

- *Annuity Savings Funds* – Funds in which contributions of Tier 1 and Tier 2 members are accumulated.
- *Annuity Reserve Funds* – Funds from which member contribution annuities are paid.
- *Pension Accumulation Funds* – Funds in which employer contributions and income from the investments of the System are accumulated.
- *Pension Reserve Funds* – Funds from which pensions are paid.
- *Designated Annuitant Funds* – Funds from which beneficiary annuities are paid.
- *Loan Insurance Funds* – Funds that provide loan insurance coverage for members with existing no default loan balances at time of death.
- *Group Life Insurance Plan Reserve* – Reserves that provide group term death benefits not to exceed \$50,000, payable upon the death of eligible members.
- *Coescalation (COESC) Contribution Funds* – Funds in which member contributions are accumulated. These funds are transferred to the Pension Accumulation Fund at retirement.

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As of March 31, 2021, the System reserves for ERS and PFRS consisted of the following:

	<u>ERS</u>	<u>PFRS</u>
	(Dollars in thousands)	
Annuity savings	\$ 2,540	\$ 70,608
Annuity reserve	54,527	23,179
Pension accumulation	91,304,618	14,535,155
Pension reserve	120,197,818	24,663,154
Designated annuitant	53,494	22,305
Loan insurance	1,275	112
Group Life Insurance Plan reserve	161,746	3,161
COESC contribution	8,804,565	182,826
	<u>\$ 220,580,583</u>	<u>\$ 39,500,500</u>
Total		

**(4) Investments**

**(a) Investment Policy**

The State Comptroller, currently Comptroller Thomas P. DiNapoli, is Trustee of the Fund. He is directly accountable for the investment of Fund assets and for the oversight and management of the Fund. Comptroller DiNapoli is responsible for implementing an asset allocation with an appropriate balance of risk and return. The Trustee has put in place investment policies and practices designed to ensure that investments are made for the exclusive benefit of the participants and beneficiaries of the System, on whose behalf the assets of the Fund are invested, and that Fund investments are made with the care that a prudent person serving in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims – the “prudence” and “exclusive benefit” fiduciary standards of investment. Additionally, the Trustee has adopted policies and practices to ensure that the Fund is managed with high levels of ethical conduct and transparency.

The Comptroller seeks the input of a wide range of internal and external advisors to determine the allocation of assets and the appropriate investment choices for the Fund. The Comptroller appoints a Chief Investment Officer to oversee the Division of Pension Investment and Cash Management (PICM) operations, manage staff, and supervise investments on a day-to-day basis. The Fund also relies on advice from a network of outside advisors, consultants, and legal counsel, as well as the members of independent external advisory committees appointed by the Comptroller. Outside advisors and internal investment staff are part of the chain of approval that must recommend all investment decisions before they reach the Comptroller for final approval.

The asset allocation is not intended to be an absolute limit on the type of investments that can be made by the Comptroller or considered by staff. The Comptroller is expressly permitted to invest the assets of the Fund pursuant to various provisions of State law, including, among others, Article 4-A of the RSSL, which also contains limitations on the amount and quality of investments the Fund may hold in certain asset categories. Investments purchased pursuant to these provisions are so-called “legal list” investments. In addition to the foregoing, section 177(9) of the RSSL contains a provision that currently

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provides that up to 25 percent of the Fund's assets may be placed in investments not specifically authorized by any other provision of law. In making investments under this provision, the Comptroller is subject to the exclusive benefit and prudence standards in the statute. Subject to such standards, investments made under this provision must also, to the extent reasonably possible, benefit the overall economic health of the State. Investments made pursuant to section 177(9) of the RSSL are so-called "basket clause" investments.

#### **(b) Asset Allocation**

The following was the adopted asset allocation policy as of March 31, 2021:

<u>Asset class</u>	<u>Target allocation</u>
Domestic equity	32.0%
International equity	15.0
Private equity	10.0
Real estate	9.0
Opportunistic/Absolute Return Strategy	3.0
Credit	4.0
Real assets	3.0
Fixed Income	23.0
Cash	1.0
	<u>100.0%</u>

#### **(c) Methods Used to Value Investments**

Equity securities traded on a national or international exchange are reported at current quoted fair values.

Bonds and other fixed income assets are primarily reported at fair values obtained from independent pricing services.

Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments.

Direct investments in real estate are valued based on independent appraisals made every three years or according to the contract.

Real estate partnerships, global fixed income funds, commingled international equity funds and various alternative investments (private equity, opportunistic/ARS funds, real assets, and credit) are reported at net asset values as provided by the general partners or investment managers.

Information on securities lending is available in note 7. Information on foreign currency risks and derivative financial instruments can be found in note 5(f) and note 6, respectively.

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The Fund trades in foreign exchange contracts in the normal course of its investing activities in order to manage exposure to market risks. Such contracts, which are generally for a period of less than one year, are used to purchase and sell foreign currency at a guaranteed future price. These contracts are recorded at fair value using foreign currency exchange rates.

#### **(d) Rates of Return**

In accordance with U.S. generally accepted accounting principles, the money-weighted rate of return on plan investments, net of investment expenses, was 33.43 percent for the year ended March 31, 2021. For internal purposes, the System evaluates investment performance using the time-weighted rate of return, gross of certain investment fees, which was 33.55 percent for the year ended March 31, 2021.

#### **(5) Deposit and Investment Risk Disclosure**

##### **(a) Custodial Credit Risk for Investments**

Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the Fund, or are held either by the counterparty or the counterparty's trust department or agent, but not in the name of the Fund.

Equity and fixed income investments owned directly by the Fund, which trade in the United States (U.S.) markets, are generally held by the Fund's custodian, in separate accounts, in the name of the Comptroller of the State of New York in Trust for the Fund. These securities are typically held in electronic form through the Federal Book Entry System and by the Depository Trust Company (DTC) and its subsidiaries acting as an agent of the Fund's custodian bank. Securities held directly by the Fund that trade in markets outside the U.S. are held by a subsidiary of the Fund's custodian bank in the local market, a bank performing custodial services in the local market acting as an agent for the Fund's custodian bank, and in some foreign markets, the securities are held in electronic form by a DTC subsidiary or an organization similar to DTC.

Equity investments held indirectly by the Fund via limited partnerships, commingled investment funds, joint ventures, and other similar vehicles are held in custody by an organization contracted by the general partner and/or the investment management firm responsible for the management of each investment organization.

Title to real estate invested in by the Fund is held either by a real estate holding company or a real estate investment fund. Ownership of mortgage assets is documented by the Fund's holding of original mortgage and note documents by the Office of the State Comptroller's PICM.

##### **(b) Custodial Credit Risk for Deposits**

Deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance or the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging institution's trust department or agent, but not in the name of the Fund.

In accordance with existing policies and procedures, the PICM in the Office of the State Comptroller monitors deposit balances for the purpose of determining collateralization levels. Collateral sufficient to cover all uninsured deposits is held at the State's custodial bank.

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### **(c) *Interest Rate Risk***

The System is subject to interest rate risk, which is the risk that changes in market interest rates will adversely affect the fair value of the Fund's fixed income securities. Pursuant to the Fund's investment policies and procedures and to address changing economic factors and their impact on various sectors of the economy, PICM staff meets regularly to discuss the investment strategy for the fixed income portfolio. Several factors are taken into account when formulating this strategy, including sector weightings and the current duration of the portfolio.

The price volatility of the Fund's fixed income holdings is measured by duration. Effective duration is a measure of the price sensitivity of a bond to interest rate movements. Effective duration follows the concept that interest rates and bond prices move in opposite directions.



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As of March 31, 2021, the duration of the fixed income portfolio is as follows (dollars in thousands):

Category	Fair value	Percentage of portfolio	Effective duration (In years)
Global fixed income:			
Core portfolio:			
Treasury	\$ 13,439,002	28.2 %	10.93
Treasury Inflation-Protected Securities (TIPS)	2,110,359	4.4	3.33
Federal agency	698,271	1.5	4.64
Corporate	15,301,141	32.1	6.84
Asset-backed	1,819,641	3.8	3.05
Commercial mortgage-backed	1,830,010	3.8	3.11
Mortgage-backed	6,888,716	14.4	4.22
Collateralized loan obligations	2,898,394	6.1	0.10
Municipal bonds	612,624	1.3	11.64
Core portfolio	45,598,158	95.6	6.17
Externally managed funds:			
Advent Capital	480,884	1.0	2.76
Calvert Research and Management	254,105	0.5	5.93
DoubleLine Capital	283,264	0.6	15.65
New Century Advisors	531,805	1.1	5.60
Semper Capital	315,934	0.7	3.20
Teachers Advisors (Nuveen)	258,805	0.5	6.14
Total global fixed income	\$ 47,722,955	100.0 %	
Mortgage loans:			
Berkadia	552,872	53.0	4.19
CPC	490,749	47.0	6.38
Total mortgage loans	\$ 1,043,621	100.0 %	
Total	\$ 48,766,576		

**(d) Credit Risk of Debt Securities**

Fixed income obligations purchased pursuant to section 177(1-a) of the RSSL must be investment grade at the time of their acquisition. A bond is considered investment grade if its credit rating is Baa or higher by Moody's or BBB- or higher by Standard & Poor's. Fixed income obligations purchased pursuant to section 177(9) of the RSSL, the "basket clause," are subject to a standard of prudence. As

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of March 31, 2021, credit ratings, obtained from several industry rating services, for the fixed income portfolio are as follows (dollars in thousands):

<u>Quality rating</u>	<u>Fair value</u>	<u>Percentage of fair value</u>
Global fixed income:		
AAA	\$ 28,228,352	59.15 %
AA	3,404,294	7.13
A	6,805,349	14.26
BBB	8,388,306	17.58
BB	169,865	0.36
B	31,208	0.06
CCC	14,459	0.03
CC	339	0.01
C	20,220	0.04
Not Rated	344,629	0.72
Externally managed funds of one:*		
Semper Capital	<u>315,934</u>	<u>0.66</u>
Total Global fixed income	\$ 47,722,955	<u>100.00 %</u>
Mortgage loans:           Not Rated	<u>1,043,621</u>	<u>100.00 %</u>
Total	\$ <u>48,766,576</u>	

\* These externally managed funds are considered investments under the "basket clause," subject to the standards of prudence. All or a part of the holdings can be non-investment grade. While this fund is not rated, the underlying securities credit ratings range from AAA to CCC & Not Rated.

**(e) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer.

As of March 31, 2021, the System did not hold any investments in any one issuer that totaled 5 percent or more of the pension plan's fiduciary net position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded.

Issuer limits for investments held by the Fund are established by law and by policy guidelines adopted by the PICM.

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Short-term fixed income investments not purchased pursuant to section 177(9) of the RSSL are generally limited to the following investment types maturing in one year or less:

- Obligations for which the full faith and credit of the U.S. government is pledged to provide payment of interest and principal.
- Obligations issued by any Federal Home Loan Bank or obligations fully guaranteed as to principal and interest by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.
- Commercial paper that has received the highest rating from two nationally recognized rating services. A maximum of \$1 billion of the short-term portfolio may be invested in any one commercial paper issuer.
- Simultaneous purchase and sale of U.S. Treasury obligations may be executed with Primary Government dealers. A maximum of \$200 million may be invested with any one Primary Government dealer.
- Corporate and asset-backed securities (ABS) that are rated investment grade by two nationally recognized rating services. ABS must have a weighted average life of one year or less.

Fixed income investments not purchased pursuant to section 177(9) of the RSSL are generally limited to the following investment types with maturities longer than one year:

- Obligations for which the full faith and credit of the U.S. government is pledged to provide payment of principal and interest.
- Obligations payable in U.S. dollars issued by any department, agency, or political subdivision of the U.S. government or issued by any corporation, company, or other issuer of any kind or description created or existing under the laws of the U.S., any state of the U.S., the District of Columbia, or the Commonwealth of Puerto Rico, and obligations payable in U.S. funds of Canada or any province or city of Canada, provided each obligation at the time of investment shall be rated investment grade by two nationally recognized rating services (or by one nationally recognized rating service in the event only one such service rates such obligation). The aggregate investment by the Fund in the obligations of any one issuer shall not exceed 2 percent of the assets of the Fund or 5 percent of the direct liabilities of the issuer.
- Interest-bearing obligations payable in U.S. funds, which at the time of investment are rated in one of the three highest rating grades by each rating service approved by the New York State Department of Financial Services that has rated such obligations. The aggregate amount invested in the obligations of any single issuer may not exceed 1 percent of the assets of the Fund.
- Bonds issued or guaranteed by the State of Israel and approved by the United States Comptroller of the Currency, payable in U.S. dollars, not to exceed 5 percent of the assets of the Fund.
- Obligations issued or guaranteed by the International Bank for Reconstruction and Development (not to exceed 5 percent of the assets of the Fund), the Inter-American Development Bank, the Asian Development Bank, or the African Development Bank.

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Fixed income investments purchased pursuant to section 177(9) of the RSSL are subject to standards of prudence and the exclusion benefit rules. Subject to such standards, investments made under section 177(9) must, to the extent reasonably possible, benefit the overall economic health of the State.

**(f) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Fund has exposure through direct investments in international equities, international equity commingled funds, international real estate investments, international private equity investments, international opportunistic/ARS funds, international real asset funds and international credit funds. The Fund's asset allocation and investment policies allow for active and passive investments in international securities. The Fund permits the managers of direct investments in international equities to use forward currency contracts to manage their exposure to foreign currencies relative to the U.S. dollar. Where the Fund participates in commingled funds, limited partnerships, or other investment arrangements, the decision whether or not to use forward currency contracts to manage their foreign currency exposure is left up to the individual investment managers. To address the impact of changes in exchange rates, only forward foreign exchange contracts of one year or less are allowed when used to lessen portfolio volatility or hedge the portfolio's currency exposure.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

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Foreign investments included in the combining basic statement of fiduciary net position as of March 31, 2021 are as follows (dollars in thousands):

	<u>Equity</u>	<u>Cash</u>	<u>Real estate</u>	<u>Private Equity, OARS, Real assets, and Credit</u>	<u>Total</u>
Albanian Lek	\$ —	\$ —	\$ 10	\$ 11	\$ 21
Angolan Kwanza	—	—	—	179	179
Argentine Peso	—	1	29	12,066	12,096
Australian Dollar	529,489	9,593	155,399	292,797	987,278
Bahamian Dollar	—	—	1,336	4,466	5,802
Bahraini Dinar	—	—	—	(146)	(146)
Belarusian Ruble	—	—	—	1,913	1,913
Bermudian Dollar	—	—	—	154,454	154,454
Bolivian Boliviano	—	—	—	(351)	(351)
Botswana Pula	—	—	—	4,102	4,102
Brazilian Real	233,394	240	46,693	424,442	704,769
British Pound Sterling	2,974,941	4,274	563,150	1,970,436	5,512,801
Bulgarian Lev	—	—	116	11,530	11,646
Burmese Kyat	—	—	—	13,409	13,409
Cambodian Riel	—	—	—	3,323	3,323
Canadian Dollar	459,143	7,061	143,381	610,790	1,220,375
Cayman Islands Dollar	—	—	—	661,158	661,158
Central African CFA Franc	—	—	—	(109)	(109)
Chilean Peso	20,197	27	—	18,949	39,173
Chinese Renminbi (Yuan)	303,121	—	195,007	1,316,768	1,814,896
Colombian Peso	5,748	—	2	46,065	51,815
Costa Rican Colon	—	—	—	360	360
Czech Koruna	3,423	5	—	2,880	6,308
Danish Krone	574,819	816	66,073	141,060	782,768
Dominican Peso	—	—	—	2,670	2,670
Egyptian Pound	1,030	14	—	57,350	58,394
Euro	5,917,591	1,803	2,119,016	5,394,641	13,433,051
Georgian Lari	—	—	—	16	16
Ghanaian Cedi	—	—	—	21,731	21,731
Hong Kong Dollar	1,858,685	1,323	60,527	129,149	2,049,684
Hungarian Forint	29,196	60	—	30,454	59,710
Indian Rupee	627,727	717	226,832	971,133	1,826,409
Indonesian Rupiah	27,632	22	—	128,796	156,450
Iraqi Dinar	—	—	—	(409)	(409)
Israeli New Shekel	17,716	1,495	—	434,477	453,688
Japanese Yen	3,392,827	6,315	80,292	320,051	3,799,485
Kazakhstani Tenge	—	—	—	1	1
Kenyan Shilling	—	—	—	25,533	25,533
Malaysian Ringgit	56,016	40	—	48,696	104,752
Maldivian Rufiyaa	—	—	5,189	1,804	6,993
Mauritian Rupee	—	—	39	63,017	63,056
Mexican Peso	62,099	373	7,857	143,058	213,387

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	<u>Equity</u>	<u>Cash</u>	<u>Real estate</u>	<u>Private Equity, OARS, Real assets, and Credit</u>	<u>Total</u>
Moroccan Dirham	\$ —	\$ —	\$ —	\$ 8,172	\$ 8,172
Mozambican Metical	—	—	—	1,246	1,246
New Taiwan Dollar	799,382	97	135	19,107	818,721
New Zealand Dollar	22,245	512	—	66,573	89,330
Nigerian Naira	—	—	—	41,714	41,714
Norwegian Krone	126,197	1,031	3,116	105,914	236,258
Omani Rial	—	—	—	(310)	(310)
Pakistan Rupee	2,470	—	—	—	2,470
Panamanian Balboa	—	—	—	(319)	(319)
Peruvian Sol	—	1	—	70,916	70,916
Philippine Peso	11,470	5	—	35,001	46,476
Polish Zloty	25,141	85	65,956	365,199	456,381
Qatari Riyal	6,003	—	—	515	6,518
Romanian Leu	—	—	—	26,058	26,058
Russian Ruble	—	—	2,679	107,909	110,588
Saudi Riyal	17,068	17	—	(4,924)	12,161
Serbian Dinar	—	—	19	1,594	1,613
Singapore Dollar	217,271	3,188	92,428	177,943	490,830
South African Rand	140,876	1,676	—	90,005	232,557
South Korean Won	990,120	77	23,689	152,927	1,166,813
Sri Lankan Rupee	—	—	—	4,492	4,492
Swedish Krona	870,903	5,556	39,761	954,475	1,870,695
Swiss Franc	1,142,357	1,798	11	289,312	1,433,478
Tanzanian Shilling	—	—	—	2,785	2,785
Thai Baht	68,065	—	—	31,583	99,648
Tunisian Dinar	—	—	—	35	35
Turkish Lira	44,320	1,016	—	61,618	106,954
Ugandan Shilling	—	—	—	1,581	1,581
Ukrainian Hryvnia	—	—	3,042	12,945	15,987
United Arab Emirates Dirham	5,274	—	8,193	63,979	77,446
Uruguayan Peso	—	—	—	(949)	(949)
Venezuelan Bolívar Soberano	—	—	—	2,537	2,537
Vietnamese Dong	—	—	116	45,292	45,408
West African CFA Franc	—	—	—	9,637	9,637
Zambian Kwacha	—	—	—	196	196
Other	—	—	23,372	89	23,461
<b>Total subject to foreign currency risk</b>	<b>21,583,956</b>	<b>49,238</b>	<b>3,933,465</b>	<b>16,207,567</b>	<b>41,774,226</b>
Commingled international equity in U.S. Dollars	15,545,326	—	—	—	15,545,326
Foreign investments in U.S. Dollars	6,351,118	—	470	7,831,621	14,183,209
<b>Total foreign investments</b>	<b>\$ 43,480,400</b>	<b>\$ 49,238</b>	<b>\$ 3,933,935</b>	<b>\$ 24,039,188</b>	<b>\$ 71,502,761</b>

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### (6) Derivatives

A derivative is generally defined as an investment contract or security with a value that depends on, or is derived from, the value of an underlying asset, reference rate, or financial index.

#### *Forward Currency Contracts*

The System may enter into forward currency contracts to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings. The System also enters into forward exchange contracts to settle future obligations. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risk associated with such contracts includes movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation/depreciation in the combining statement of fiduciary net position. Realized gain or loss on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the combining basic statement of changes in fiduciary net position.

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The table below summarizes the fair value of foreign currency contracts as of March 31, 2021 (dollars in thousands):

Currency	Forward currency contracts	Spot currency contracts	Totals
Australian Dollar	\$ (725)	\$ (1,077)	\$ (1,802)
Brazilian Real	—	(118)	(118)
British Pound	886	1,733	2,619
Canadian Dollar	(4,057)	(4,475)	(8,532)
Chinese Yuan Renminbi	—	2,244	2,244
Czech Koruna	229	—	229
Danish Krone	4,960	—	4,960
Euro	20,327	(3,947)	16,380
Hong Kong Dollar	(3,964)	1,272	(2,692)
Indonesia Rupiah	—	(923)	(923)
Israeli Shekel	—	(99)	(99)
Japanese Yen	(9,202)	9,674	472
Mexican Peso	112	—	112
New Taiwan Dollar	—	(358)	(358)
New Zealand Dollar	—	(467)	(467)
Norwegian Krone	(70)	—	(70)
Polish Zloty	1,595	—	1,595
Singapore Dollar	(326)	614	288
South African Rand	(855)	—	(855)
South Korean Won	—	341	341
Swedish Krona	(875)	—	(875)
Swiss Franc	5,006	(1,365)	3,641
Thai Baht	—	(224)	(224)
U.S. Dollar	(12,982)	(2,828)	(15,810)
Total	\$ <u>59</u>	\$ <u>(3)</u>	\$ <u>56</u>

**(7) Securities Lending Program**

Section 177-d of the RSSL authorizes the Fund to enter into security loan agreements with broker/dealers and state or national banks. The Fund has two providers to manage a securities lending program. These programs are subject to written contracts between the Fund and the Contractor who acts as securities lending agent for the Fund. The custodian is authorized to lend securities within the borrower limits and guidelines established by the Fund. Types of collateral received from borrowers for securities loaned are cash, government securities, and obligations of federal agencies. The securities lending providers are authorized to invest the cash collateral in short-term investments that are legal for the Fund. These include domestic corporate and bank notes, U.S. Treasury obligations, obligations of federal agencies, repurchase agreements, and specific asset-backed securities. All rights of ownership to securities pledged as collateral remain with the borrower except in the event of default. As of March 31, 2021, there were no violations of



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legal or contractual provisions. The Fund has not experienced any losses resulting from the default of a borrower or lending agent during the year ended March 31, 2021.

The Fund lends fixed income, domestic equity, and international equity securities to approved brokers/dealers. Collateral for securities loaned equals 102 percent of fair market value for domestic securities and 105 percent for international securities. Credit risk associated with the investment of cash collateral pledged by borrowers is mitigated by the maturity restrictions, percentage limitations, and rating requirements for individual asset classes included in the Fund's reinvestment guidelines. Each Contractor acknowledges responsibility to reimburse the Fund for losses that might arise from managing the program in a manner inconsistent with the contract. The Fund manages its market risk by recording investments at market value daily and maintaining the value of the collateral held by the Fund in excess of the value of the securities loaned. As of March 31, 2021, the fair value of securities on loan was \$19.55 billion. The associated collateral was \$19.96 billion, of which \$17.34 billion was cash collateral and \$2.62 billion was securities. The cash collateral has been reinvested in other instruments, which had a fair value of \$16.92 billion as of March 31, 2021. The securities lending obligations were \$16.93 billion. The unrealized loss in invested cash collateral on March 31, 2021 was \$7.71 million, which is reported in the combining basic statement of changes in fiduciary net position as part of "Net appreciation in fair value of investments."

All open security loans can be terminated on demand by either the Fund or the borrower. To provide sufficient liquidity, the policy of the Fund is to maintain a minimum of 10 percent collateral in overnight investments. While the Fund's Securities Lending Investment Guidelines allow investments up to a maximum of three years for U.S. Treasury and federal agency obligations and one year for all other investments, the average term of open security loans at March 31, 2021 was 39 days. All loans were open loans. There were no direct matching loans.

The collateral pool is valued at fair value obtained from independent pricing services.

#### **(8) Fair Value Measurement**

The System's investments, measured and reported at fair value, including securities lending collateral and obligations and forward foreign exchange contracts, are classified according to the following hierarchy in which the levels are based on the nature of inputs used to measure the fair value of the investment:

Level 1 – Investment fair values based on prices quoted or published in active markets for identical assets.

Level 2 – Investment fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted or published prices for identical assets in markets that are not considered to be active, and quoted or published prices of similar assets in active or inactive markets.

Level 3 – Investment fair values based on unobservable inputs.

The categorization of investments within the hierarchy above is based solely upon the objectivity of the inputs used in the measurement of the fair value of the investments and does not reflect the level of risk associated with the investments.

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Investments classified in Level 1 of the fair value hierarchy are valued from predetermined external pricing vendors or primary dealers who source quoted or published prices in active markets which are readily attainable exit values of these securities. Investments classified in Level 2 are subject to alternative pricing sources, including a combination of price sources, descriptive data and pricing models based on attributes such as spread data, sector, quality, duration, and prepayment characteristics. Investments classified as Level 3 are valued using best available sources such as property appraisals, discounted cash flow models and public market comparables of similar assets where applicable. The values are supplied by advisors or general partners who hold those or similar assets in investment vehicles they oversee. These pricing sources may or may not be indicative of realizable exit values attainable for the assets.

The table below summarizes assets and liabilities carried at fair value based on levels from the fair value hierarchy as of March 31, 2021, with certain assets carried at net asset value (NAV) and cost also included to allow reconciliation to the statement of fiduciary net position (dollars in thousands):

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	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
<b>Investments by fair value level:</b>				
Fixed income securities:				
Short-term instruments	\$ 10,475,420	\$ —	\$ 10,475,420	\$ —
Global fixed income securities	<u>47,407,021</u>	<u>588,256</u>	<u>46,818,765</u>	<u>—</u>
Total fixed income securities	57,882,441	588,256	57,294,185	—
Equity securities:				
Domestic equities	84,941,220	84,941,032	—	188
International equities	<u>40,356,404</u>	<u>40,355,685</u>	<u>460</u>	<u>259</u>
Total equity securities	125,297,624	125,296,717	460	447
Mortgages	1,043,621	—	—	1,043,621
Private equity	364,292	—	—	364,292
Credit	12,601	—	—	12,601
Real estate	1,116,584	—	—	1,116,584
Securities lending collateral	13,799,671	—	13,799,671	—
Forward foreign exchange contracts	<u>68,841</u>	<u>—</u>	<u>68,841</u>	<u>—</u>
Total investment assets by fair value level	\$ <u>199,585,675</u>	\$ <u>125,884,973</u>	\$ <u>71,163,157</u>	\$ <u>2,537,545</u>
<b>Investments measured at cost:</b>				
Securities lending collateral	\$ <u>3,123,477</u>			
Total investments measured at cost	\$ <u>3,123,477</u>			
<b>Investments measured at Net Asset Value (NAV):</b>				
Global fixed income securities <sup>1</sup>	\$ 315,934			
Domestic equities <sup>2</sup>	5,322,608			
International equities <sup>3</sup>	3,123,996			
Alternative investments: <sup>4</sup>				
Private equity	29,105,873			
Opportunistic/ARS	5,016,078			
Real assets	3,929,594			
Credit	8,465,915			
Real estate	<u>16,531,409</u>			
Total alternative investments	63,048,869			
Total investments measured at NAV	\$ <u>71,811,407</u>			
Investment related cash and cash equivalents not included in above	<u>607,231</u>			
Total investment assets	\$ <u>275,127,790</u>			
<b>Liabilities:</b>				
<b>Investments by fair value level:</b>				
Forward foreign exchange contracts	<u>(68,782)</u>	<u>—</u>	<u>(68,782)</u>	<u>—</u>
Total investment liabilities by fair value level	\$ <u>(68,782)</u>	\$ <u>—</u>	\$ <u>(68,782)</u>	\$ <u>—</u>

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### Notes to Basic Financial Statements

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The table below summarizes liquidity information for investments valued at NAV (dollars in thousands):

<u>Investments measured at NAV</u>	<u>Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>
Global fixed income funds <sup>1</sup>	\$ 315,934	\$ n/a	Daily	N/A
Domestic equities <sup>2</sup>	5,322,608	n/a	N/A, Weekly, Monthly, Annually	N/A, 2-90 days
International equities <sup>3</sup>	3,123,996	n/a	Daily, Monthly, Quarterly	15-120 days
Alternative investments: <sup>4</sup>				
Private equity	29,105,873	15,270,166	N/A	N/A
Opportunistic/ARS	5,016,078	1,030,820	N/A, Monthly, Quarterly, Annually, Semi-annually	NA, 5-120 days
Real assets	3,929,594	4,606,983	N/A	N/A
Credit	8,465,915	2,931,703	N/A	N/A
Real estate	16,531,409	5,765,474	N/A	N/A
Total investments measured at NAV	<u>\$ 71,811,407</u>	<u>\$ 29,605,146</u>		

<sup>1</sup> Global fixed income consists of one fund for which the System is the only investor. This fund invests primarily in both privately and publicly issued global fixed income securities. The investments are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>2</sup> Domestic equities consist of two commingled investment vehicles and one fund for which the System is the only investor. The funds invest primarily in publicly traded domestic equity securities. The investments are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>3</sup> International equities consist of six commingled investment vehicles and one fund for which the System is the only investor. The funds invest primarily in publicly traded international equity securities. The investments are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>4</sup> Alternative investments include private equity, opportunistic/ARS funds, real assets, credit and real estate through various fund structures. Private equity (10.7 percent\* at March 31, 2021) consists of buyout, co-investments, distressed debt and turnaround funds, fund of funds, growth equity, special situations, and venture capital. Opportunistic/ARS (1.8 percent\* at March 31, 2021) consists of investments in strategies including hedged equity, credit, global macro, closed-end funds, and investments that don't fit the mandates of the other asset classes. Real assets (1.4 percent\* at March 31, 2021) consist of commodities, farmland, inflation-linked bonds, infrastructure, and renewables. Credit (3.1 percent\* at March 31, 2021) consists of non-investment grade public and private credit strategies in direct lending, distressed and special situations, specialty finance, structured credit and real assets credit through closed-end and open-end funds, co-investments, separately managed accounts and fund-of-funds. Real estate (6.4 percent\* at March 31, 2021) consists of investments in closed-end, open-end, and fund of funds. The fair values of the alternative investments have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partner's capital. NAV is used as a practical expedient to estimate fair value. Private equity, opportunistic, real assets, and real estate are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over a span of 5-10 years.

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\* percentages are stated relative to total investments and securities lending collateral invested.

See note 7 for detailed securities lending information and note 6 for detail forward foreign currency information.

**(9) Net Pension Liability of Participating Employers**

The components of the net pension liability of the employers participating in the System as of March 31, 2021, were as follows:

	<b>Employees' Retirement System</b>	<b>Police and Fire Retirement System</b>	<b>Total</b>
	(Dollars in thousands)		
Employers' total pension liability	\$ 220,680,157	\$ 41,236,775	\$ 261,916,932
Fiduciary net position	<u>220,580,583</u>	<u>39,500,500</u>	<u>260,081,083</u>
Employers' net pension liability	<u>\$ 99,574</u>	<u>\$ 1,736,275</u>	<u>\$ 1,835,849</u>
Ratio of fiduciary net position to the employers' total pension liability	99.95%	95.79%	99.30%

**(a) Actuarial Assumptions**

The total pension liability at March 31, 2021 was determined by using an actuarial valuation as of April 1, 2020, with update procedures used to roll forward the total pension liability to March 31, 2021. The actuarial valuation used the following actuarial assumptions:

	<b>ERS</b>	<b>PFRS</b>
Inflation	2.7%	2.7%
Salary increases	4.4%	6.2%
Investment rate of return (net of investment expense, including inflation)	5.9%	5.9%
Cost-of-living adjustments	1.4%	1.4%

Annuitant mortality rates are based on April 1, 2015 – March 31, 2020 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2020. The previous actuarial valuation as of April 1, 2019 used April 1, 2010 – March 31, 2015 System experience, mortality improvements based on the Society of Actuaries Scale MP-2018, inflation of 2.5%, cost-of-living adjustments of 1.3%, salary increases of 4.5% (ERS) and 5.7% (PFRS), and investment rate of return of 6.8%.

The actuarial assumptions used in the April 1, 2020 valuation are based on the results of an actuarial experience study for the period April 1, 2015 – March 31, 2020.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2021 (see Investment policy – note 4(a)) are summarized below:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	4.05%
International equity	6.30
Private equity	6.75
Real estate	4.95
Opportunistic/ARS portfolio	4.50
Credit	3.63
Real assets	5.95
Fixed Income	0.00
Cash	0.50

The real rate of return is net of the long-term inflation assumption of 2.00 percent.

**(b) Discount Rate**

The discount rate used to calculate the total pension liability was 5.9 percent. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NEW YORK STATE AND LOCAL RETIREMENT SYSTEM**

Notes to Basic Financial Statements

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**(c) Sensitivity of the Net Pension Liability to the Discount Rate Assumption**

The following presents the current period net pension liability of the employers calculated using the current-period discount rate assumption of 5.9 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (4.9 percent) or one percentage-point higher (6.9 percent) than the current assumption (dollars in thousands):

	<b>One percent decrease (4.9%)</b>		<b>Current assumption (5.9%)</b>		<b>One percent increase (6.9%)</b>
	<u>                    </u>		<u>                    </u>		<u>                    </u>
ERS net pension liability (asset)	\$ 27,637,884	\$	99,574	\$	(25,297,194)
PFRS net pension liability (asset)	\$ 7,383,622	\$	1,736,275	\$	(2,938,270)

**(10) Federal Income Tax Status**

ERS and PFRS are qualified defined benefit retirement plans under section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under section 501(a) of the IRC. ERS and PFRS last received favorable determination letters from the Internal Revenue Service dated August 28, 2014 stating that ERS and PFRS are in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the System's financial statements.

**(11) Commitments**

As of March 31, 2021, the System had contractual commitments totaling \$17.41 billion to fund future private equity investments, \$6.65 billion to fund future real estate investments, \$1.43 billion to fund future investments in opportunistic/ARS funds, \$5.75 billion to fund future real asset investments and \$3.27 million to fund future credit investments. When compared to note 8 the variances that exist are due to the above representing total commitments of the investment type inclusive of investments measured at fair value and net asset value. Future commitments will be funded over the commitment period through transaction income including distributions, redemptions, and maturities.

**(12) Contingencies**

The System is a defendant in litigation proceedings involving individual benefit payments, participant eligibility, and other issues arising from its normal activities. Management of the System believes there will be no material adverse effect on the basic financial statements as a result of the outcome of these matters.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**



## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

(Unaudited)

(Dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
	Employees' Retirement System	Employees' Retirement System	Employees' Retirement System	Employees' Retirement System	Employees' Retirement System	Employees' Retirement System	Employees' Retirement System
Total pension liability:							
Service cost	\$ 4,157,172	\$ 3,365,522	\$ 3,218,553	\$ 3,004,697	\$ 2,951,979	\$ 2,916,374	\$ 2,989,807
Interest	11,133,759	12,529,672	12,463,933	12,063,525	11,723,859	11,198,823	11,581,437
Difference between expected and actual experience	299,922	745,602	704,393	1,235,058	226,737	(2,378,116)	135,177
Changes in assumptions	22,441,226	(575,504)	888,656	—	—	5,350,157	—
Benefit payments	(11,850,537)	(11,207,761)	(10,781,781)	(10,200,205)	(9,740,272)	(9,224,904)	(8,829,751)
Refunds of contributions	(97,646)	(64,699)	(90,915)	(103,071)	(65,261)	(150,294)	(77,388)
Net change in total pension liability	26,083,896	4,792,832	6,402,839	6,000,004	5,097,042	7,712,040	5,799,282
Total pension liability—beginning	194,596,261	189,803,429	183,400,590	177,400,586	172,303,544	164,591,504	158,792,222
Total pension liability—ending (a)	220,680,157	194,596,261	189,803,429	183,400,590	177,400,586	172,303,544	164,591,504
Fiduciary net position:							
Contributions—employer	4,062,302	3,920,360	3,890,215	3,949,873	3,949,710	4,347,619	4,893,110
Contributions—member	427,032	395,338	345,846	318,439	306,218	289,332	272,004
Net investment income (loss)	59,964,043	(7,470,542)	9,140,487	18,128,993	17,194,267	(327,068)	10,582,102
Benefit payments	(11,850,537)	(11,207,761)	(10,781,781)	(10,200,205)	(9,740,272)	(9,224,904)	(8,829,751)
Refunds of contributions	(97,646)	(64,699)	(90,915)	(103,071)	(65,261)	(150,294)	(77,388)
Administrative expense	(144,234)	(121,694)	(119,304)	(106,972)	(93,943)	(93,012)	(93,357)
Other additions	103,941	(53,444)	160,431	181,725	200,379	198,333	193,176
Net change in fiduciary net position	52,464,901	(14,602,442)	2,544,979	12,168,782	11,751,098	(4,959,994)	6,939,896
Fiduciary net position—beginning	168,115,682	182,718,124	180,173,145	168,004,363	156,253,265	161,213,259	154,273,363
Fiduciary net position—ending (b)	220,580,583	168,115,682	182,718,124	180,173,145	168,004,363	156,253,265	161,213,259
Net pension liability—ending (a) – (b)	\$ 99,574	\$ 26,480,579	\$ 7,085,305	\$ 3,227,445	\$ 9,396,223	\$ 16,050,279	\$ 3,378,245
Ratio of fiduciary net position to total pension liability	99.95%	86.39%	96.27%	98.24%	94.70%	90.68%	97.95%
Covered-employee payroll	\$ 27,976,135	\$ 28,169,321	\$ 27,374,387	\$ 26,686,412	\$ 26,200,001	\$ 25,644,078	24,480,045
Net pension liability as a percentage of covered-employee payroll	0.36%	94.01%	25.88%	12.09%	35.86%	62.59%	13.80%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Changes in the Employers' Net Pension Liability and Related Ratios

(Unaudited)

(Dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015
	Police and Fire Retirement System	Police and Fire Retirement System	Police and Fire Retirement System	Police and Fire Retirement System	Police and Fire Retirement System	Police and Fire Retirement System	Police and Fire Retirement System
Total pension liability:							
Service cost	\$ 970,797	\$ 743,762	\$ 713,480	\$ 674,079	\$ 657,407	\$ 628,863	\$ 625,648
Interest	2,020,024	2,252,536	2,236,527	2,154,117	2,065,752	1,935,222	1,997,215
Difference between expected and actual experience	180,496	76,209	106,384	241,387	302,375	(537,163)	39,833
Changes in assumptions	4,930,229	147,086	118,521	—	—	1,531,662	—
Benefit payments	(2,172,230)	(2,038,392)	(1,959,831)	(1,827,136)	(1,708,410)	(1,683,580)	(1,606,417)
Refunds of contributions	(1,558)	(284)	(1,404)	1,493	5,632	(1,694)	(158)
Net change in total pension liability	5,927,758	1,180,917	1,213,677	1,243,940	1,322,756	1,873,310	1,056,121
Total pension liability—beginning	35,309,017	34,128,100	32,914,423	31,670,483	30,347,727	28,474,417	27,418,296
Total pension liability—ending (a)	41,236,775	35,309,017	34,128,100	32,914,423	31,670,483	30,347,727	28,474,417
Fiduciary net position:							
Contributions—employer	967,488	862,346	854,094	873,434	837,253	792,585	904,339
Contributions—member	65,309	58,360	40,673	30,950	22,609	17,297	12,789
Net investment income (loss)	10,685,563	(1,328,229)	1,621,289	3,209,040	3,030,977	(57,765)	1,862,789
Benefit payments	(2,172,230)	(2,038,392)	(1,959,831)	(1,827,136)	(1,708,410)	(1,683,580)	(1,606,417)
Refunds of contributions	(1,558)	(284)	(1,404)	1,493	5,631	(1,694)	(158)
Administrative expense	(20,863)	(17,356)	(17,173)	(15,834)	(13,191)	(13,608)	(13,794)
Other additions/deductions	12,711	(23,402)	9,723	33,889	36,021	134,548	37,623
Net change in fiduciary net position	9,536,420	(2,486,957)	547,371	2,305,836	2,210,890	(812,217)	1,197,171
Fiduciary net position—beginning	29,964,080	32,451,037	31,903,666	29,597,830	27,386,940	28,199,157	27,001,986
Fiduciary net position—ending (b)	39,500,500	29,964,080	32,451,037	31,903,666	29,597,830	27,386,940	28,199,157
Net pension liability—ending (a) – (b)	\$ 1,736,275	\$ 5,344,937	\$ 1,677,063	\$ 1,010,757	\$ 2,072,653	\$ 2,960,787	\$ 275,260
Ratio of fiduciary net position to total pension liability	95.79%	84.86%	95.09%	96.93%	93.46%	90.24%	99.03%
Covered-employee payroll	\$ 3,862,735	\$ 4,024,660	\$ 3,730,337	\$ 3,683,960	\$ 3,633,237	\$ 3,526,980	\$ 3,257,100
Net pension liability as a percentage of covered-employee payroll	44.95%	132.80%	44.96%	27.44%	57.05%	83.95%	8.45%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Employer Contributions

(Unaudited)

(Dollars in millions)

	Employees' Retirement System									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution (1)	\$ 4,062	\$ 3,920	\$ 3,890	\$ 3,950	\$ 3,950	\$ 4,348	\$ 4,893	\$ 5,138	\$ 4,524	\$ 3,879
Contributions in relation to the actuarially determined contribution (2)	4,062	3,920	3,890	3,950	3,950	4,348	4,893	5,138	4,524	3,879
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered-employee payroll	\$ 27,976	\$ 28,169	\$ 27,374	\$ 26,686	\$ 26,200	\$ 25,644	\$ 24,480	\$ 24,361	\$ 24,405	\$ 24,291
Contributions as a percentage of covered-employee payroll	14.52%	13.92%	14.21%	14.80%	15.08%	16.96%	19.99%	21.09%	18.54%	15.97%
	Police and Fire Retirement System									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution (1)	\$ 968	\$ 862	\$ 854	\$ 873	\$ 837	\$ 793	\$ 904	\$ 926	\$ 812	\$ 706
Contributions in relation to the actuarially determined contribution (2)	968	862	854	873	837	793	904	926	812	706
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Covered-employee payroll	\$ 3,863	\$ 4,025	\$ 3,730	\$ 3,684	\$ 3,633	\$ 3,527	\$ 3,257	\$ 3,233	\$ 3,163	\$ 3,191
Contributions as a percentage of covered-employee payroll	25.06%	21.42%	22.90%	23.70%	23.04%	22.48%	27.76%	28.64%	25.67%	22.12%

(1) The actuarially determined contribution includes normal costs, the GLIP amounts, adjustments made to record the reconciliation of projected salary to actual salary, and miscellaneous accounting adjustments.

(2) The contributions in relation to the actuarially determined contribution reflects actual payments and installment payment plans.

See accompanying independent auditors' report and notes to required supplementary information.

NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Schedule 3

Schedule of Investment Returns

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expenses <sup>1</sup>	33.43%	-2.64%	5.14%	11.29%	11.40%	0.03%	6.98%

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

<sup>1</sup> Investment expenses include management fees, investment and accounting staff salaries and benefits, and other investment related expenses.

See accompanying independent auditors' report and notes to required supplementary information.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

Notes to Required Supplementary Information (Unaudited)

Year ended March 31, 2021

### Changes in Benefit Terms

There were no significant legislative changes in benefits for the April 1, 2020 actuarial valuation.

### Changes of Assumptions

2021: The demographic assumptions (pensioner mortality and active member decrements) were updated based on the System's experience from April 1, 2015 through March 31, 2020, the mortality improvement assumption was updated to Society of Actuaries' Scale MP-2020, inflation was updated to 2.7%, cost-of-living updated to 1.4%, salary scale updated to 4.4% (ERS) and 6.2% (PFRS), and the interest rate assumption was reduced to 5.9% for the April 1, 2020 actuarial valuation.

2020: The interest rate assumption was reduced to 6.8% and the mortality improvement assumption was updated to Society of Actuaries' Scale MP-2018 for the April 1, 2019 actuarial valuation.

2019: The salary scale for both plans used in the April 1, 2018 actuarial valuation were increased by 10%.

2016: There were changes in the economic (investment rate of return, inflation, COLA, and salary scales) and demographic (pensioner mortality and active member decrements) assumptions used in the April 1, 2015 actuarial valuation.

### Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The April 1, 2019 actuarial valuation determines the employer rates for contributions payable in fiscal year 2021. The following actuarial methods and assumptions were used:

Actuarial cost method	The System is funded using the Aggregate Cost Method. All unfunded actuarial liabilities are evenly amortized (as a percentage of projected pay) over the remaining worker lifetimes of the valuation cohort.
Asset valuation period	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
Inflation	2.5%
Salary scale	4.2% in ERS, 5.0% in PFRS, indexed by service
Investment rate of return	6.8% compounded annually, net of investment expenses, including inflation.
Cost-of-living adjustments	1.3% annually
Active member decrements	Based upon FY 2011-2015 experience
Pensioner mortality	Gender/Collar specific tables based upon FY 2011-2015 experience
Mortality improvement	Society of Actuaries' Scale MP-2018

## **OTHER SUPPLEMENTARY INFORMATION**

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Administrative Expenses

Year ended March 31, 2021

(Dollars in thousands)

Personal services:	
Salaries	\$ 65,996
Overtime salaries	2,903
Fringe benefits	66,270
Total personal services	135,169
Building occupancy expenses:	
Building, lease and condominium fees	4,058
Utilities and municipal assessments	109
Office supplies and services	210
Telephone	432
Total building occupancy expenses	4,809
Computer expenses:	
IT shared services*	19,621
Total computer expenses	19,621
Personal and operating expenses:	
Training	82
Travel and auto expenses – includes pre-retirement seminars	46
Postage – includes member and retiree communication	1,454
Depreciation expense – Imaging System	1,832
Printing – includes member and retiree communication	116
Subscriptions/memberships	209
Total personal and operating expenses	3,739
Professional expenses:	
Audit services	537
Medical/clinical services	704
Miscellaneous consulting services	518
Total professional expenses	1,759
Total	\$ 165,097

\* The System has implemented a shared service, information technology (IT) model within the New York State Office of the State Comptroller, wherein all IT costs, including personal services, will be incorporated into the IT shared services and reflected as nonpersonal service expenditures.

See accompanying independent auditors' report.

## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Investment Expenses

Year ended March 31, 2021

(Dollars in thousands)

## Investment expenses:

## Investment management and incentive fees:

Private equity	\$ 256,901
International equity	177,121
Absolute return strategy funds(ARS)	137,558
Real estate	75,243
Credit assets	71,929
Opportunistic funds	20,390
Domestic equity	80,368
Real assets	43,189
Fixed income	5,223
	<hr/>
Total investment management and incentive fees	867,922
	<hr/>

## Investment-related expenses:

Data processing expenses/licenses	7,108
Custodial fees	5,104
Mortgage loan servicing fees	3,406
Legal fees	4,469
Compliance/Risk monitoring	2,009
Private equity consulting and monitoring	2,125
General consulting	1,049
Opportunistic consulting and monitoring	600
Miscellaneous expenses	6,209
Administrative expenses	955
Research services	912
Real assets consulting and monitoring	440
Real estate consulting and monitoring	1,118
Global equity consulting	282
Fixed income consulting	263
Audit and audit-related fees	122
Emerging manager program consulting and monitoring	82
Domestic equity consulting and monitoring	79
	<hr/>
Total investment-related expenses	36,332
	<hr/>
Total investment expenses	\$ 904,254
	<hr/> <hr/>

See accompanying independent auditors' report.



## NEW YORK STATE AND LOCAL RETIREMENT SYSTEM

## Schedule of Consulting Fees

Year ended March 31, 2021

Fees in excess of \$50,000 paid to outside professionals other than investment advisors.

	Amount	Nature
JP Morgan Chase Bank	\$ 5,104,433	Custodial Banking Services
FIS Investment Systems LLC	3,717,569	EDP Expense/Licenses
Morgan Lewis & Bockius LLP	1,342,248	Legal Services
Bloomberg Finance LP	1,302,223	EDP Expense/Licenses
MSCI BarraOne	810,076	Compliance/Risk Monitoring
Foster Garvey PC	686,922	Legal Services
Orrick Herrington & Sutcliffe LLP	682,245	Legal Services
eFront Financial Solutions, Inc	597,300	EDP Expense/Licenses
DLA Piper LLP	520,021	Legal Services
Intex Solutions Inc	512,400	Compliance/Risk Monitoring
JP Morgan Chase Bank	455,825	Retail Banking Services
KPMG LLP	447,236	Audit Services
FactSet Research Systems, Inc.	428,857	EDP Expense/Licenses
K&L Gates LLP	411,938	Legal Services
Moody's Analytics, Inc.	300,202	EDP Expense/Licenses
Strategas Securities, LLC	250,000	Research
Cohen Milstein Sellers & Toll PLLC	240,000	Legal Services
EFL Associates	235,824	Staff Recruitment Services
Seyfarth Shaw LLP	222,949	Legal Services
Arthur J Gallagher Risk Management	180,121	Audit Services
First Advantage Back Track Reports, LLC	147,720	Compliance/Risk Monitoring
Verizon Business Network Services Llc	138,752	IT Consulting Services
Lexisnexis Risk Solutions FI Inc	133,825	Miscellaneous Consulting Services
BDO USA LLP	129,500	Compliance/Risk Monitoring
Seward & Kissel LLP	128,806	Legal Services
CreditSights, Inc.	126,278	Research
Certified Management Consultants	125,888	Medical/Clinical Services
Institutional Shareholder Services	121,735	Administrative Expense
National Claim Evaluations Inc	121,528	Medical/Clinical Services
Lenox Park Solutions LLC	110,000	Administrative Expense
PitchBook Data, Inc.	110,000	EDP Expense/Licenses
Jurisolutions Inc	109,297	Medical/Clinical Services
D & D Medical Associates Pc	109,012	Medical/Clinical Services
Corporate Resolutions, Inc.	105,450	Compliance/Risk Monitoring
Elkins /McSherry State Street Bank and Trust	102,473	Compliance/Risk Monitoring
Cornerstone Macro LLC	100,000	Research
CoStar Group Inc	97,812	Research
First Choice Evaluations Llc	93,558	Medical/Clinical Services
Marcum Accountants/Advisors	93,504	Compliance/Risk Monitoring
Groom Law Group	93,489	Legal Services
Glass Lewis & Co, LLC	90,480	Administrative Expense
MSCI ESG Research Inc	88,500	Research
New York State Industries For The Blind	83,730	Miscellaneous Consulting Services
Ernst & Young LLP	77,665	Tax Services
Bloomberg Index Services Limited	77,500	EDP Expense/Licenses
Integral Consulting Services Inc	63,718	Medical/Clinical Services
Standard & Poors	61,329	EDP Expense/Licenses
CDP Operations, Ltd	60,000	Research
Eurasia Group	60,000	Research
BCA Research, Inc	55,000	Research
Castine Consulting LLC	53,640	Compliance/Risk Monitoring
Compliance Science, Inc.	53,457	Compliance/Risk Monitoring
Labaton Sucharow LLP	50,000	Legal Services Monitoring
Capital Economics	50,000	Research
CEM Benchmarking	50,000	Miscellaneous Consulting Services



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Trustee  
New York State and Local Retirement System:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the New York State and Local Retirement System (the System), which comprise the combining basic statement of fiduciary net position as of March 31, 2021, and the related combining basic statement of changes in fiduciary net position for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated July 28, 2021, except as to note 2(h), which is as of August 13, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the (consolidated) financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described below that we consider to be a significant deficiency.

*Internal Controls over Year-end Reserve Fund Transfers*

After the release of the March 31, 2021 audited financial statements, the System discovered an immaterial error in amounts reported on the statement of changes in fiduciary net position for member contributions and other deductions. The immaterial error was due to a deficiency in internal controls over financial reporting relating to inadequate oversight of annual internal transfers between System reserve funds. The System corrected the immaterial error and re-issued the March 31, 2021 audited financial statements. We recommend management strengthen internal controls to ensure annual internal transfers to System reserve funds are accurate.



*System's Response:*

Training and procedures will be reviewed with General Ledger staff to ensure their comprehension of the proper accounting for internal transfers. Management will review annual internal transfers to System reserve funds more closely and look for opportunities to automate the journal entries in the future.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The System's Response to the Finding**

The System's response to the finding identified in our audit is described previously. The System's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

July 28, 2021, except as to note 2(h), which is as of August 13, 2021