trsnyc

Teachers' Retirement System of the City of New York

89th Annual Report

Fiscal Year Ended June 30, 2006

Teachers' Retirement System of the City of New York

55 Water Street
New York, NY 10041

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www.trs.nyc.ny.us

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Introduction

TEACHERS' RETIREMENT BOARD
TEACHERS' RETIREMENT SYSTEM
55 WATER STREET, NEW YORK, N.Y. 10041

December 31, 2006

Board of Trustees
Teachers' Retirement System of the City of New York (TRS)
55 Water Street
New York, NY 10041

One of TRS' greatest strengths is our commitment to living our five Core Values: Customer Responsiveness, Quality, Agency/Associate Commitment, Communication, and Teamwork. While each of these values continued to be equally important in helping us achieve our mission, we intensified our focus on Customer Responsiveness during Fiscal Year 2006. The key accomplishments highlighted below illustrate our attempts to exceed the expectations of our customers—more than 177,000 TRS in-service members, retirees, and beneficiaries.

Also provided below is a snapshot of the performance of our Qualified Pension Plan (QPP) and Tax-Deferred Annuity (TDA) Program. The QPP, a defined-benefit plan, continued to offer our members a solid sense of security. In addition, nearly two thirds of our members now supplement their secure QPP pensions with our TDA Program, one of the largest unified Section 403(b) Programs in the country.

Financial and Investment Overview

TRS' investments reflect our commitment to diversification as a prudent long-term investment strategy. During Fiscal Year 2006, this investment strategy allowed our funding to remain stable, with total assets of nearly $40.0 billion in the QPP and $2.76 billion paid in QPP retirement benefits. Net assets in the TDA Program grew to $14.12 billion this fiscal year, from nearly $12.61 billion in Fiscal Year 2005. The Pension Fund yielded a return of 9.95%, a decrease from the previous year's 10.63% return. The Variable A Annuity Program returned 11.75%, slightly underperforming the composite benchmark's return of 11.85%. The Variable B Annuity Program remained consistent with a 3.76% return.

Major Initiatives and Objectives

As part of ongoing efforts to enhance our level of service to members, we introduced an easy-to-use calculator on our website that helps members learn the estimated cost to purchase service credit—a key factor in determining eligibility for, and the amount of, many TRS benefits. We also began offering members the option of viewing quarterly statements containing important information about their TRS accounts online, and created a website section that gives members tips on how to protect their personal information.

We had the convenience and security of our customers in mind when we began offering them the option to receive their loans via Electronic Fund Transfer (EFT). In addition to eliminating the need for members to deposit their checks, EFT protects against lost or stolen checks.

We also improved the ease-of-use of the TRS Service Line, which members call to access important information on a 24/7 basis or to speak to a TRS representative during business hours. The Service Line received close to 133,000 calls during the fiscal year.

Member satisfaction and service levels will be further enhanced when we complete several large-scale initiatives now underway. These include a major expansion of the investment choices we offer members and the increased automation of service-credit processing. In addition, the implementation of a new payroll system will provide retirees with benefits such as quicker activation of EFT for their monthly payments and more detailed payment information.

Acknowledgements

As always, we thank the Trustees of the Teachers' Retirement Board for their support and dedication, and we thank the entire staff of TRS for its commitment to our Core Values. We also thank the Office of the Comptroller for its investment services, the Office of the Actuary for its actuarial services, and the City's Corporation Counsel for its legal services.

We are proud to present you with this *89th Annual Report*. On the next several pages, we have summarized the fiscal year's most important financial and membership data. In other sections of the book, you will find detailed statistical, financial, and actuarial information. We hope that you find this material informative.

Nelson Serrano

Nelson Serrano
Executive Director

Paul J. Raucci
Chief Accountant

CHIEF ACCOUNTANT'S CERTIFICATION

The management of the Teachers' Retirement System of the City of New York (TRS) is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance that TRS' assets are protected from loss, theft, or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The concept of reasonable assurance recognizes that:

- the cost of a control should not exceed the benefits likely to be derived from it; and
- the valuation of costs and benefits requires estimates and judgment by management.

I hereby certify that the following consolidated financial statements and attached schedules of the Qualified Pension Plan and the Tax-Deferred Annuity Program were prepared under the direction and supervision of the Chief Accountant, that they give a complete and correct exhibit of TRS' financial operations from July 1, 2005 to June 30, 2006, and that on June 30, 2006, the assets and liabilities were as enumerated to the best of my knowledge and belief.

Paul J. Raucci
Chief Accountant

Teachers' Retirement System
of the City of New York

PRINCIPAL ADVISORS

TEACHERS' RETIREMENT BOARD

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Mona Romain

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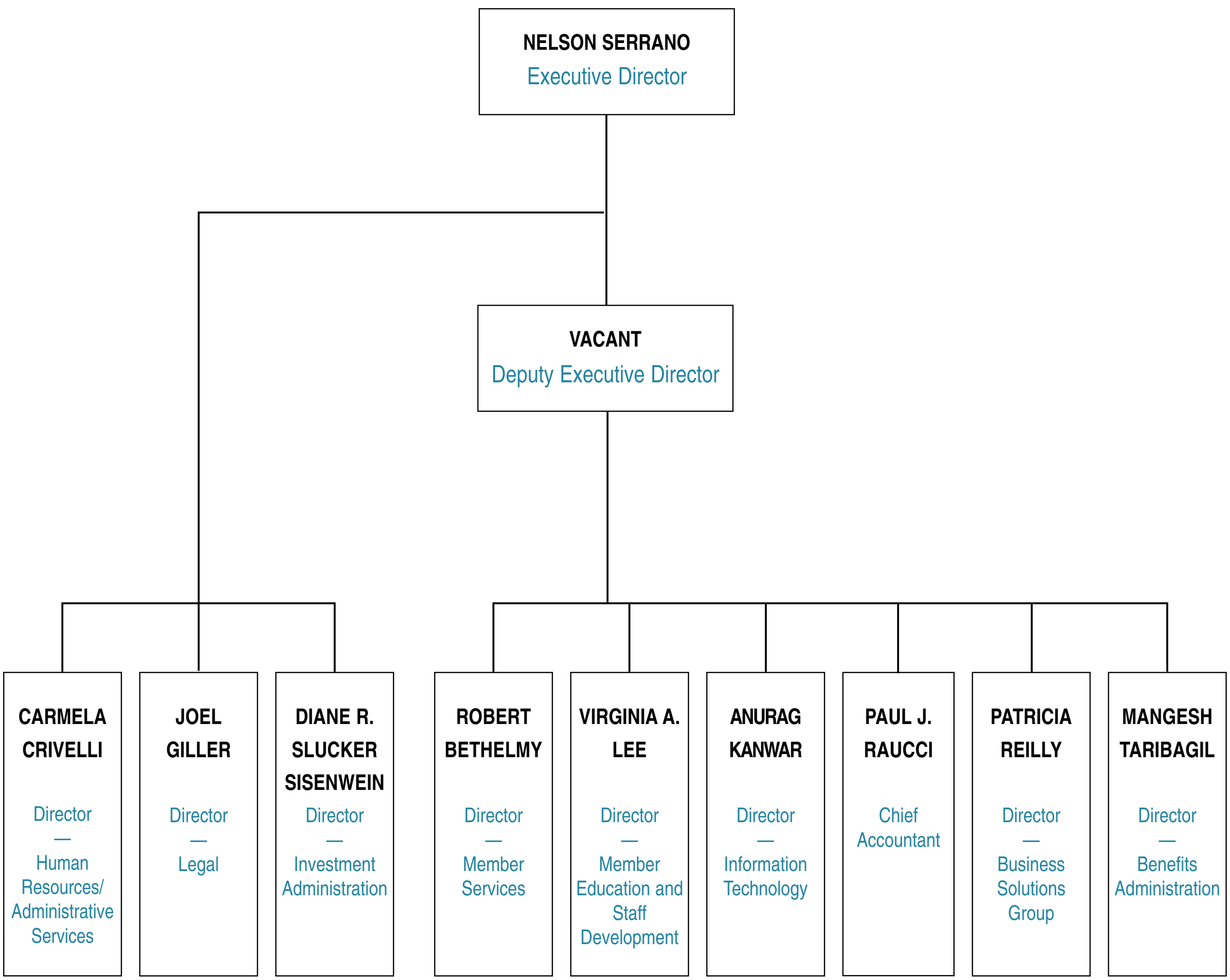
Alan David, M.D.
Walter F. Pizzi, M.D.

CHIEF ACTUARY

Robert C. North, Jr.

PRINCIPAL OFFICIALS



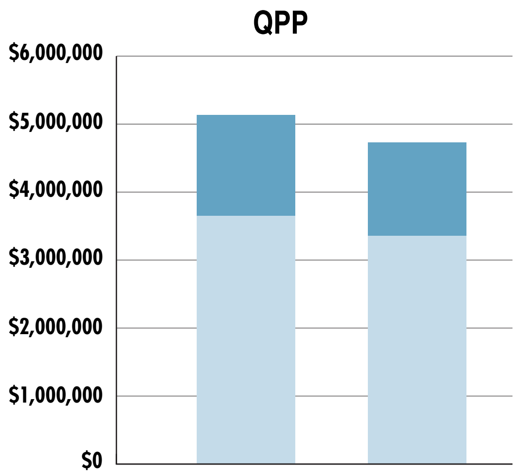
FINANCIAL HIGHLIGHTS

(In Thousands)

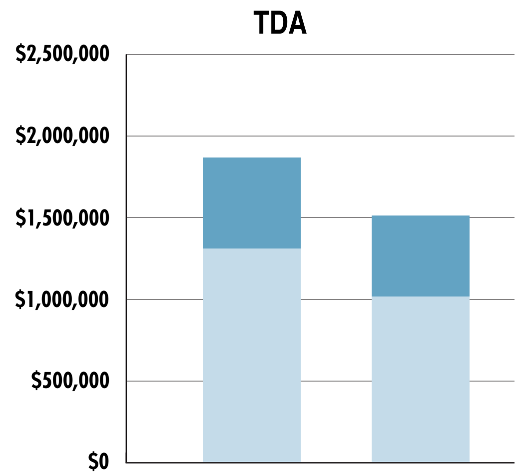
	2006	2005
QUALIFIED PENSION PLAN (QPP)		
Total Assets (As of June 30)	**$ 40,022,193**	$ 37,563,834
Total Investments	**$ 38,573,430**	$ 36,133,048
Total Receivables, Cash, and Other Assets	**$ 1,448,763**	$ 1,430,786
Total Liabilities (As of June 30)	**$ 7,815,476**	$ 7,071,664
Net Assets Held in Trust for Pension Benefits (As of June 30)	**$ 32,206,717**	$ 30,492,170
Total Revenue (For the Fiscal Year)	**$ 5,130,686**	$ 4,727,563
TAX-DEFERRED ANNUITY (TDA) PROGRAM		
Total Assets (As of June 30)	**$ 15,460,617**	$ 14,374,614
Total Investments	**$ 15,217,609**	$ 14,148,825
Total Receivables and Cash	**$ 243,007**	$ 225,789
Total Liabilities (As of June 30)	**$ 1,340,379**	$ 1,764,435
Net Assets Held in Trust for Benefits (As of June 30)	**$ 14,120,238**	$ 12,610,178
Total Revenue (For the Fiscal Year)	**$ 1,867,867**	$ 1,511,669

TOTAL REVENUE

(In Thousands)



As of June 30	2006	2005
INVESTMENT INCOME	$ 3,651,292	$ 3,354,320
TOTAL CONTRIBUTIONS	$ 1,479,394	$ 1,373,243
TOTAL REVENUE	$ 5,130,686	$ 4,727,563



As of June 30	2006	2005
INVESTMENT INCOME	$ 1,311,054	$ 1,018,146
TOTAL CONTRIBUTIONS	$ 556,813	$ 493,523
TOTAL REVENUE	$ 1,867,867	$ 1,511,669

Providing Retirement Benefits

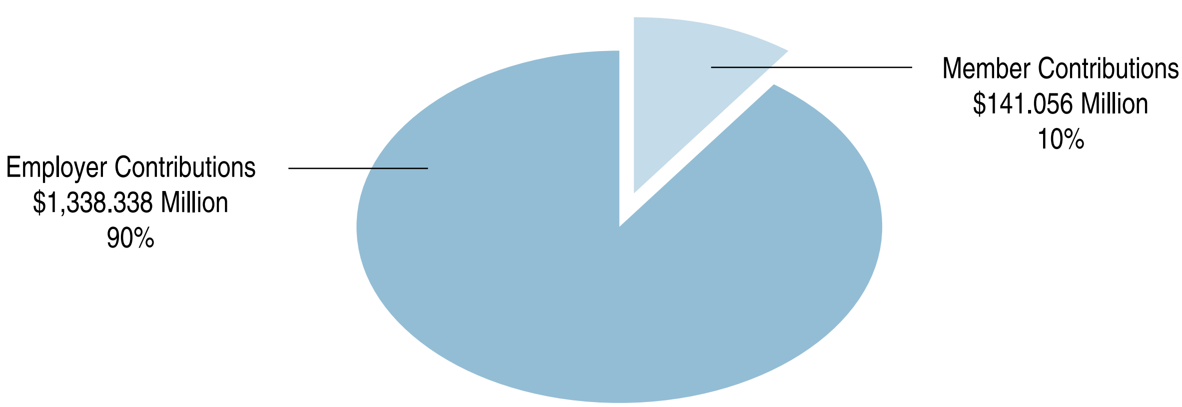
The Teachers' Retirement System of the City of New York (TRS) was established on August 1, 1917 and has since grown into one of the 30 largest pension funds in the U.S. Our programs impact over 177,000 in-service members, retirees, and beneficiaries. Our mission is to "provide retirement, disability, and death benefit services to our members, including the efficient collection of contributions, the prudent investment of retirement funds, the responsible disbursement of member benefits, and the delivery of exceptional levels of member service."

Among the many services we provide our membership, TRS' primary responsibility remains managing and distributing our members' retirement benefits. In order to receive a retirement allowance, all TRS members participate in the Qualified Pension Plan (QPP), a retirement plan administered under Section 401(a) of the Internal Revenue Code. The QPP combines features of a defined-benefit pension plan with those of a defined-contribution pension plan.

Contributions to the QPP totaled $1,479.394 million during the 2006 Fiscal Year. Employer contributions represented $1,338.338 million, while the remaining $141.056 million came from member contributions. As of the end of the fiscal year, 109,992 members were on payroll. Accordingly, the average employer contribution was $12,167 per member and the average member contribution was $1,282.

TOTAL CONTRIBUTIONS—QPP

2006 Fiscal Year—$1,479.394 Million



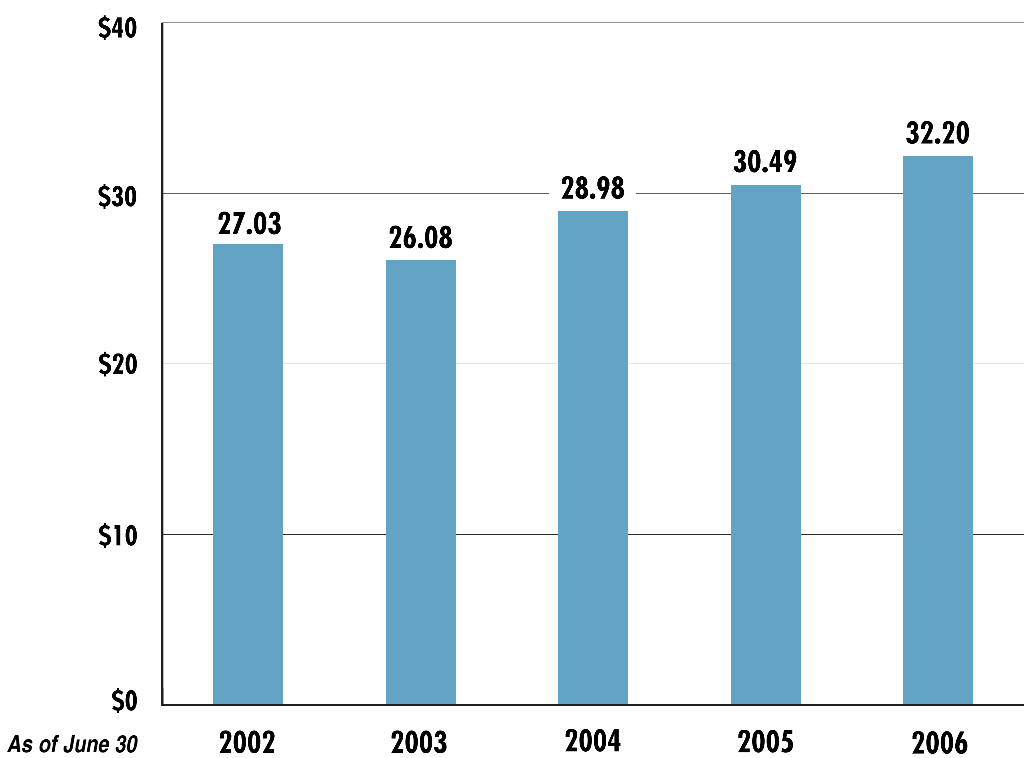
At the end of the 2006 Fiscal Year, 67,576 members and beneficiaries were receiving QPP retirement allowances totaling $2.76 billion. The chart below organizes this information by members' type of retirement.

RETIREMENT ALLOWANCES UNDER THE QPP
As of June 30, 2006

	Service	Ordinary Disability	Accident Disability	Beneficiary
Retirees and Beneficiaries Receiving QPP Allowances	61,457	1,988	516	3,615
Total Annual Allowances Paid	$ 2,619,237,695	$ 37,816,268	$ 18,324,422	$ 88,379,876
Average Annual Retirement Allowance	$ 42,619	$ 19,022	$ 35,512	$ 24,448

TRS' ability to fund QPP retirement benefits remained strong, with $32.20 billion of net assets held in trust for pension benefits as of June 30, 2006.

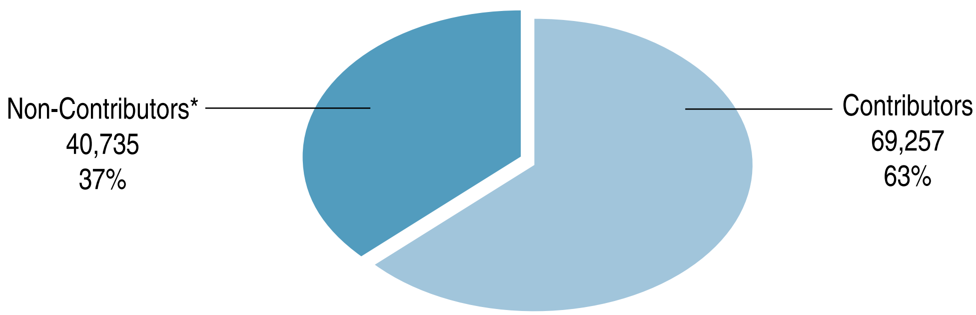
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS—QPP
(In Billions)



While members are required to make QPP contributions, their participation in the Tax-Deferred Annuity (TDA) Program is optional. A defined-contribution plan under Section 403(b) of the Internal Revenue Code, the TDA Program allows in-service members to defer taxes on the portion of their salary that they invest. The TDA Program is funded exclusively through members' contributions, interest earned, and investment returns. As of the end of the fiscal year, 69,257 members were contributing to the TDA Program through salary deductions.

MEMBER PARTICIPATION IN THE TDA PROGRAM

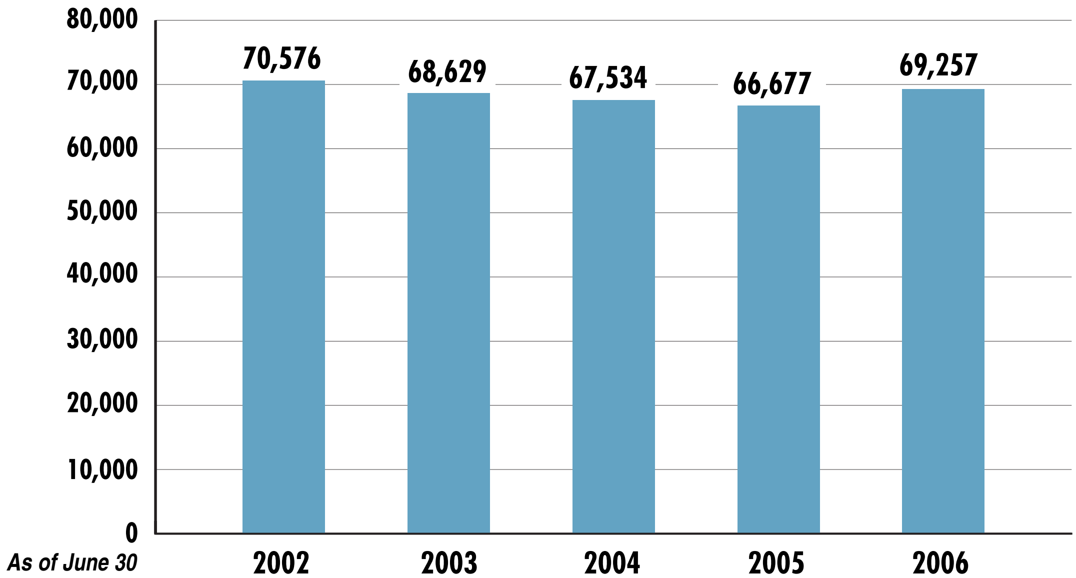
As of June 30, 2006



** This total includes members who have made TDA contributions but were not contributing as of June 30, 2006.*

This year's figure, representing 63% of TRS' in-service membership, indicates that our members continue to understand the importance of actively planning for their financial future.

MEMBERS MAKING TDA CONTRIBUTIONS



At retirement, TDA participants may elect to receive their TDA funds as an annuity separate from their QPP retirement allowance. At the end of the 2006 Fiscal Year, 4,373 members and beneficiaries (or 6.46% of those receiving QPP allowances) were receiving TDA annuities; these annuities totaled $38.3 million. The chart below organizes this TDA information by members' type of retirement under the QPP.

ANNUITIES UNDER THE TDA PROGRAM

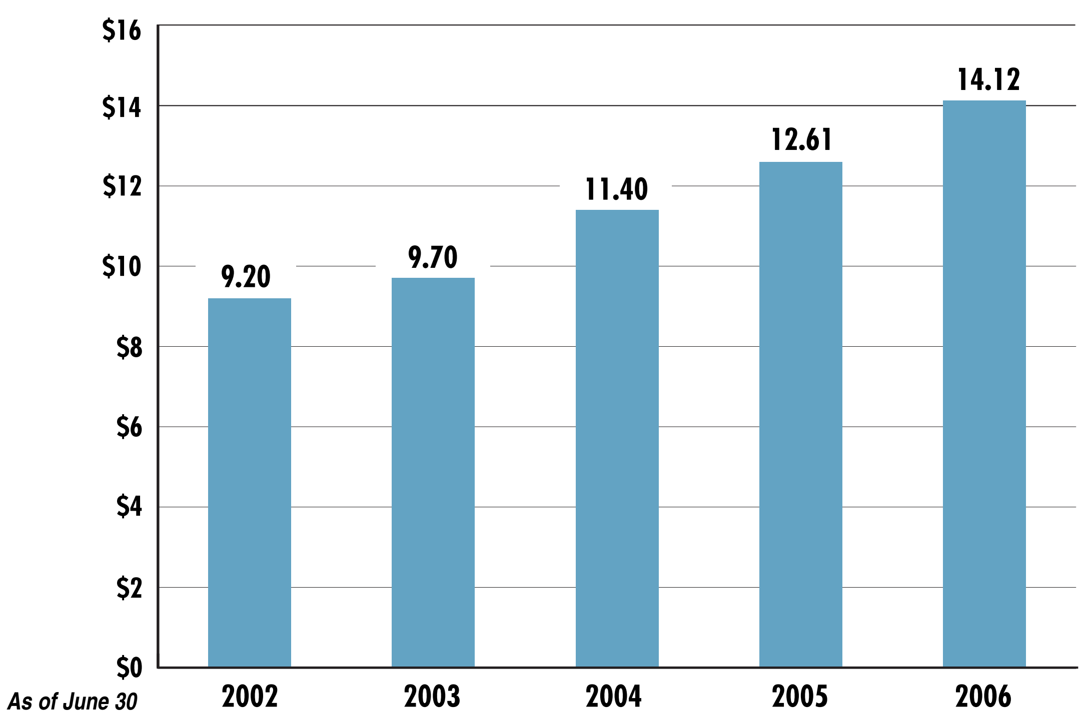
As of June 30, 2006

	Service	Ordinary Disability	Accident Disability	Beneficiary
Retirees and Beneficiaries Receiving TDA Annuities	3,341	269	33	730
Total Annual Annuities Paid	$ 30,932,904	$ 1,841,567	$ 151,014	$ 5,452,844
Average Annual Annuity	$ 9,269	$ 6,846	$ 4,576	$ 7,470

TRS' ability to fund TDA benefits also remained extremely strong, with $14.12 billion of net assets held in trust for TDA benefits as of June 30, 2006.

NET ASSETS AVAILABLE FOR BENEFITS—TDA PROGRAM

(In Billions)



Offering Investment Choices

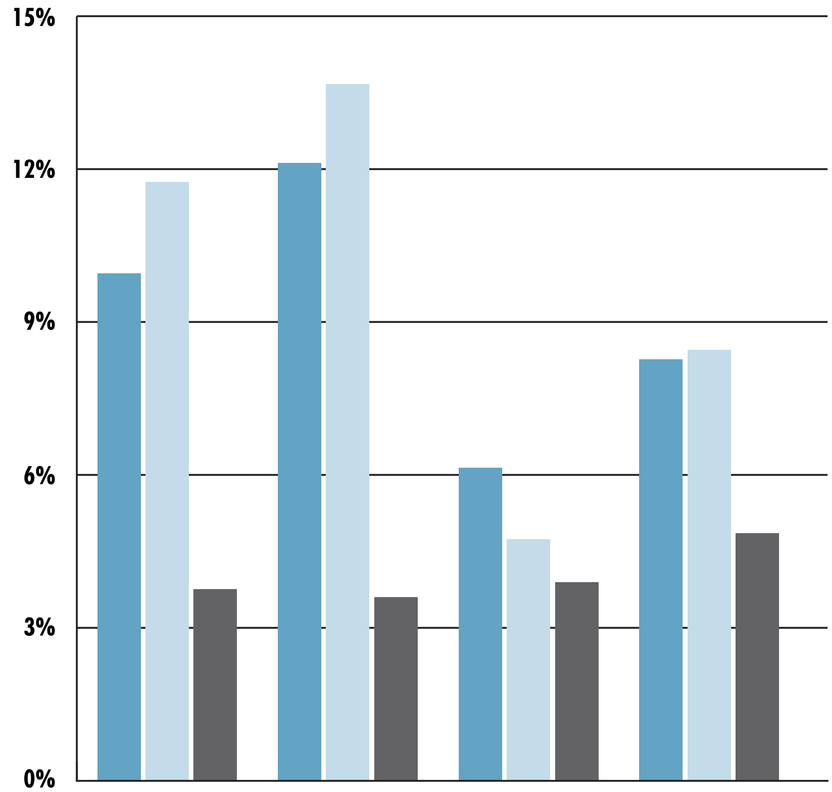
Through the Qualified Pension Plan (QPP), TRS provides retirement allowances to our members. Through the Tax-Deferred Annuity (TDA) Program, we enable members to build additional personal savings for retirement. Three investment options are available under these plans: the Fixed Annuity Program, Variable A Annuity Program, and Variable B Annuity Program.

The three portfolios are structured differently (see pages 15-18 for descriptions) to allow members to diversify and customize their investments.

PENSION FUND	VARIABLE A FUND	VARIABLE B FUND
(Member Contributions, Pension Reserve Funds & ITHP Contributions)	(Member Contributions & ITHP Contributions)	(Member Contributions & ITHP Contributions)
Tier I/II QPP funds in the Fixed Annuity Program + All Tier III/IV QPP funds	Tier I/II QPP funds in the Variable A Annuity Program	Tier I/II QPP funds in the Variable B Annuity Program
+	+	+
All Tiers' TDA funds in the Fixed Annuity Program	All Tiers' TDA funds in the Variable A Annuity Program	All Tiers' TDA funds in the Variable B Annuity Program

Note: *Members' QPP accounts receive additional contributions from their employer: "Pension Reserve" funds, which are invested in the Pension Fund, are provided to all members on a statutory basis consistent with generally accepted actuarial principles; actuarial variations are performed annually as of June 30. "Increased-Take-Home Pay" (ITHP) funds, provided by the City of New York to Tier I and Tier II members only, are invested according to member designation in any combination of the three investment programs.*

ANNUALIZED INVESTMENT PERFORMANCE



	1 YEAR 7/1/05 to 6/30/06	3 YEARS 7/1/03 to 6/30/06	5 YEARS 7/1/01 to 6/30/06	10 YEARS 7/1/96 to 6/30/06
Pension Fund	9.95%	12.12%	6.14%	8.27%
Variable A Fund	11.75%	13.67%	4.74%	8.45%
Variable B Fund	3.76%	3.60%	3.90%	4.89%

- The Pension Fund yielded a 9.95% return; participants in the Fixed Annuity Program continued to receive a guaranteed 8.25% return.
- The Variable A Fund yielded a 11.75% return, and Variable A's unit value increased from \$59.684 in July 2005 to \$64.128 in July 2006.
- The Variable B Fund yielded a 3.76% return, and Variable B's unit value decreased from \$19.478 in July 2005 to \$19.434 in July 2006.

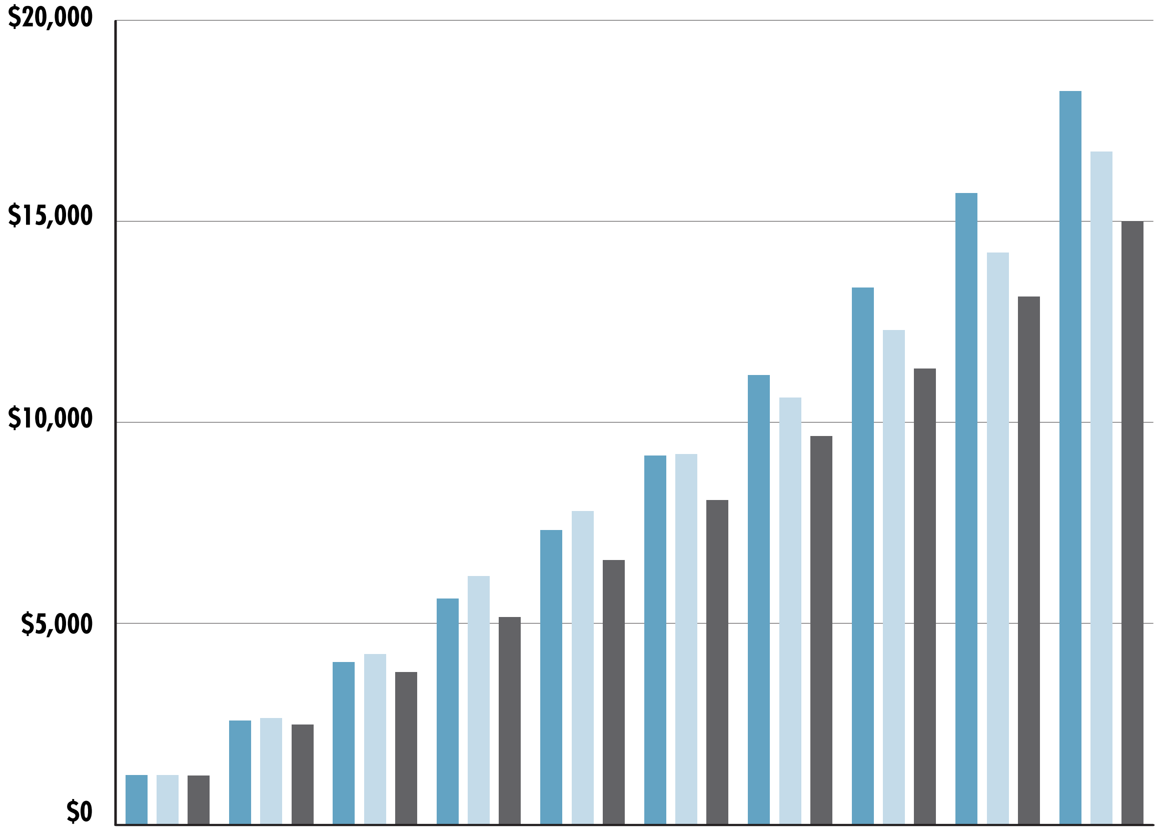
Note: The July unit values were based on the portfolios' returns as of June 30.

The table below compares accumulations as of June 30, 2006, based on an assumed contribution of $100.00 per month into each of the Fixed, Variable A, and Variable B Annuity Programs.

Accumulations in the Variable Annuity Programs are affected by the monthly fluctuation of the Programs' unit values. The Fixed Annuity Program currently guarantees an annual 8.25% return.

FIXED, VARIABLE A, AND VARIABLE B ANNUITY PROGRAM PERFORMANCE COMPARISON

As of June 30, 2006



MONTHS OF PARTICIPATION	12	24	36	48	60	72	84	96	108	120
Fixed	$ 1,245	$ 2,593	$ 4,052	$ 5,631	$ 7,341	$ 9,193	$ 11,195	$ 13,364	$ 15,713	$ 18,253
Variable A	$ 1,246	$ 2,659	$ 4,247	$ 6,191	$ 7,813	$ 9,222	$ 10,632	$ 12,311	$ 14,240	$ 16,746
Variable B	$ 1,225	$ 2,493	$ 3,807	$ 5,167	$ 6,584	$ 8,087	$ 9,676	$ 11,356	$ 13,137	$ 15,020

Pension Fund

Performance Highlights

Return: 9.95%

Total Investments: $39.535 Billion

During Fiscal Year 2006, the Pension Fund's portfolio, consisting primarily of equities and fixed-income instruments, yielded a return of 9.95% after fees and expenses. This was a decrease from the 10.63% return for Fiscal Year 2005.

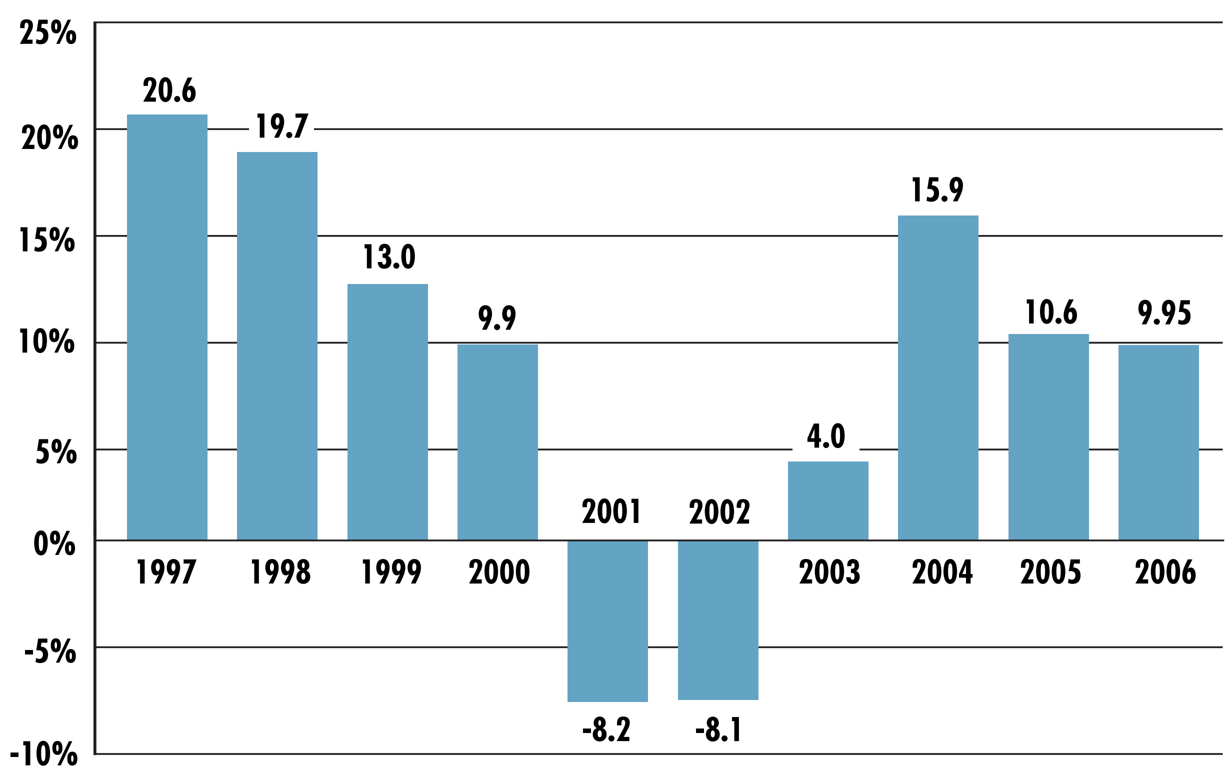
The Pension Fund includes all Fixed Annuity Program funds in the Qualified Pension Plan (QPP) and the Tax-Deferred Annuity (TDA) Program, and all Tiers III/IV QPP funds. The Fixed Annuity Program currently provides participants with an 8.25% return. This rate is guaranteed through June 30, 2009; the rate is guaranteed not to fall below 7%.

The Comptroller of the City of New York invests the Pension Fund's holdings in a diversified portfolio, as authorized by the Teachers' Retirement Board. This portfolio consists almost entirely of U.S. and international equities and bonds.

A percentage breakdown of the Pension Fund by asset class appears on page 19.

PENSION FUND ANNUAL RATE OF RETURN*

Year Ended June 30



** After expenses*

Variable A Fund

Performance Highlights

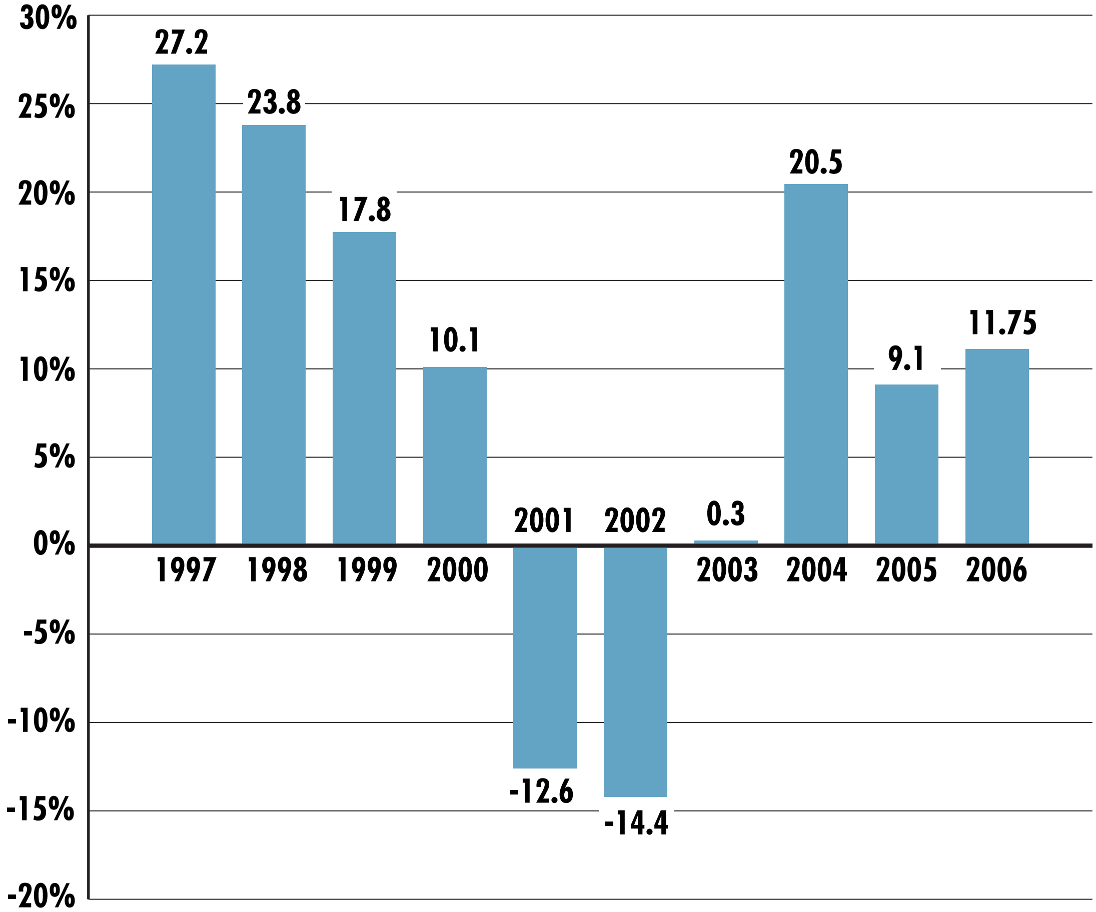
Return: 11.75%
Total Investments: $13.738 Billion

For the fiscal year ended June 30, 2006, Variable A returned 11.75% after fees and expenses. Variable A is invested in a diversified blend of investments that historically has made it less volatile than the overall U.S. equity market. Variable A slightly underperformed the composite benchmark's return of 11.85%. The composite benchmark, which includes no fees, provides a passive reflection of Variable A's actual asset allocation among domestic stocks, domestic fixed-income securities, and international equities.

As of June 30, 2006, approximately 84.9% of Variable A's portfolio was invested in the U.S. common stock market. Variable A's portfolio also contained approximately 14.9% in international stocks and approximately 0.2% in fixed-income securities, which contributed to portfolio diversification.

- The Passive Core sector returned 9.59%, slightly outperforming the Russell 3000 Index's return of 9.56%.
- The Active Domestic Equity sector returned 10.63%, outperforming the Russell 3000 Index by 107 basis points (1.07%). This sector is predominately allocated to the risk-controlled composite, which returned 11.07%. A smaller allocation to the eclectic composite returned 9.66%.
- The Tactical Asset Allocation sector earned 6.62%, significantly outperforming the sector's benchmark (60% S&P 500/40% Lehman Brothers Long Treasury Bond Index), which returned 3.25%.
- The International Equity sector returned 26.04%, underperforming its MSCI EAFE benchmark, which returned 27.07%. International equity is included in the portfolio to diversify the overall mix within Variable A. A percentage breakdown of the Variable A Fund by asset class appears on page 19.

VARIABLE A FUND ANNUAL RATE OF RETURN*
Year Ended June 30



** After expenses*

Variable B Fund

Performance Highlights

Return: 3.76%

Total Investments: $0.530 Billion

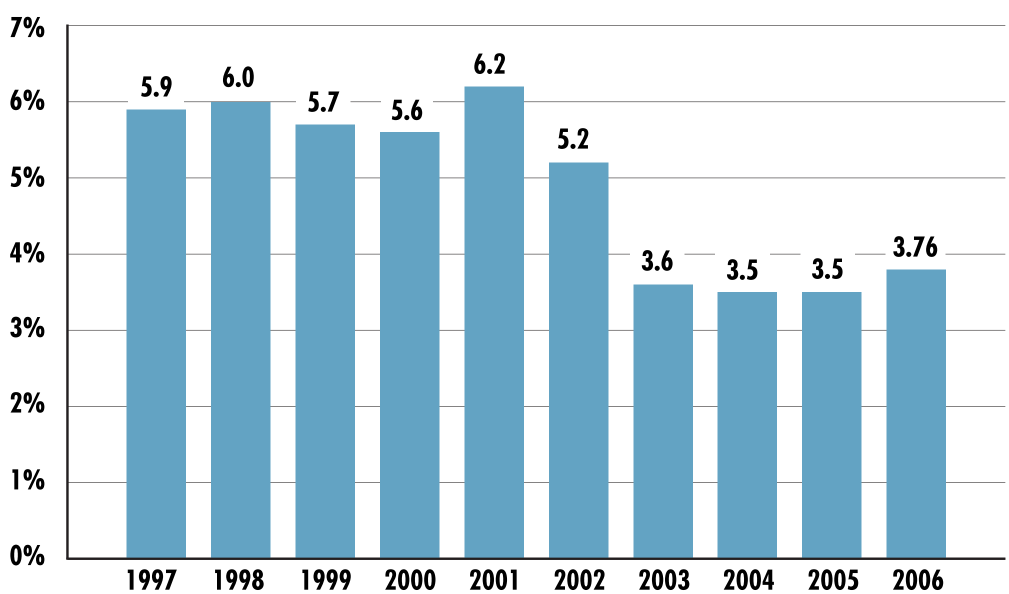
Variable B's portfolio earned 3.76% after fees and expenses for the fiscal year ended June 30, 2006. Variable B's return outperformed the Ryan Three-Year GIC Index, which yielded a return of 3.38%. This index measures the average of monthly yields for three-year Guaranteed Investment Contracts (GICs) issued by high-quality insurance companies. Variable B, which is valued at cost or book value, outperformed a market-valued benchmark, the Merrill Lynch 1-3 Year Treasury Index. This index had a 1.83% annual return.

Consistent with its objectives, Variable B's assets are invested in a well-diversified portfolio of stable-value investments, such as conventional and synthetic GICs. Conventional GICs are securities, issued by high-quality life insurance companies, which usually carry a fixed rate of interest for a stated time.

Synthetic GICs are also stable-value investments, but they consist of a single high-quality bond, or a portfolio of high-quality bonds, combined with a "wrapper." A wrapper is an insurance contract, issued by a high-quality financial institution, which ensures that participants can withdraw their money at book value (principal plus interest). A percentage breakdown of the Variable B Fund by asset class appears on page 19.

VARIABLE B FUND ANNUAL RATE OF RETURN*

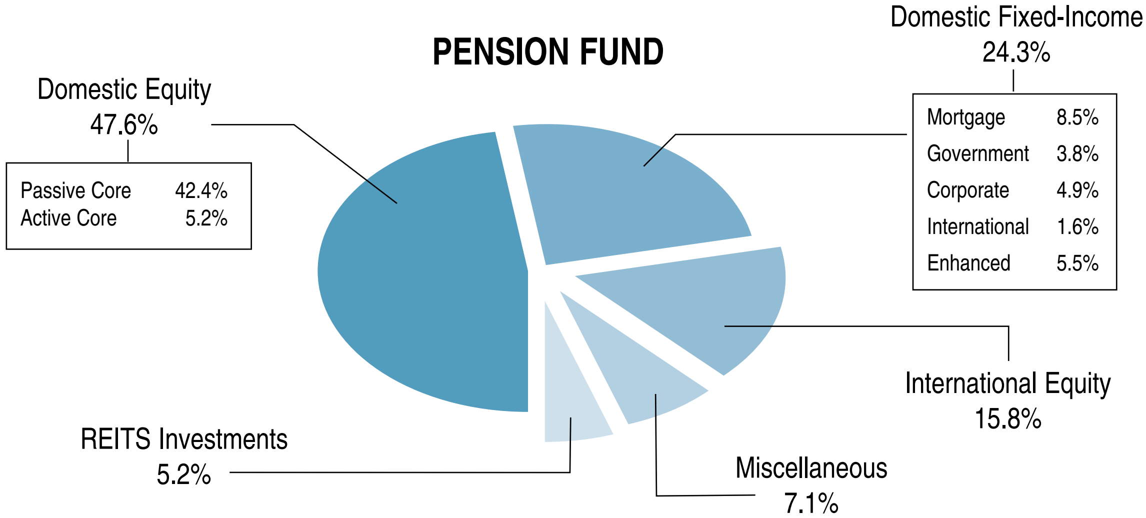
Year Ended June 30



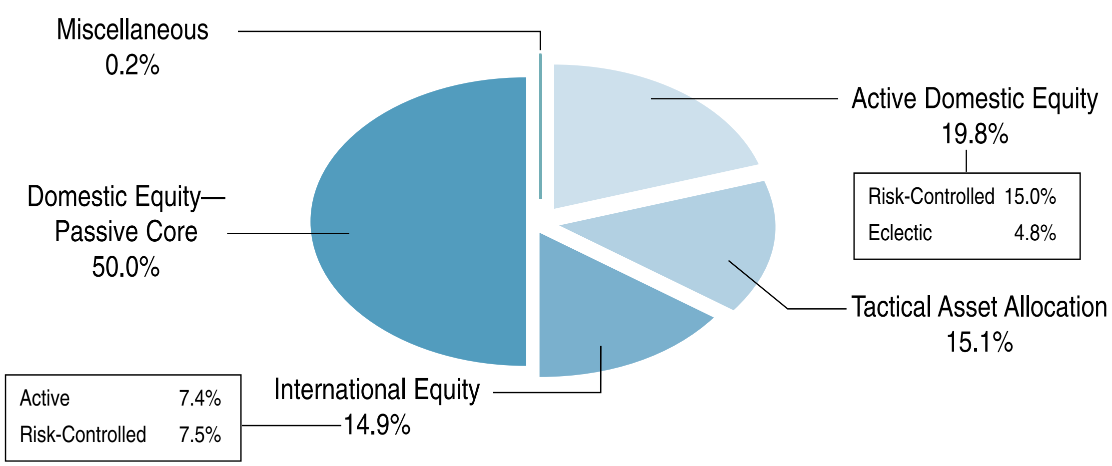
** After expenses*

FUND ALLOCATION BY ASSET CLASS
As of June 30, 2006

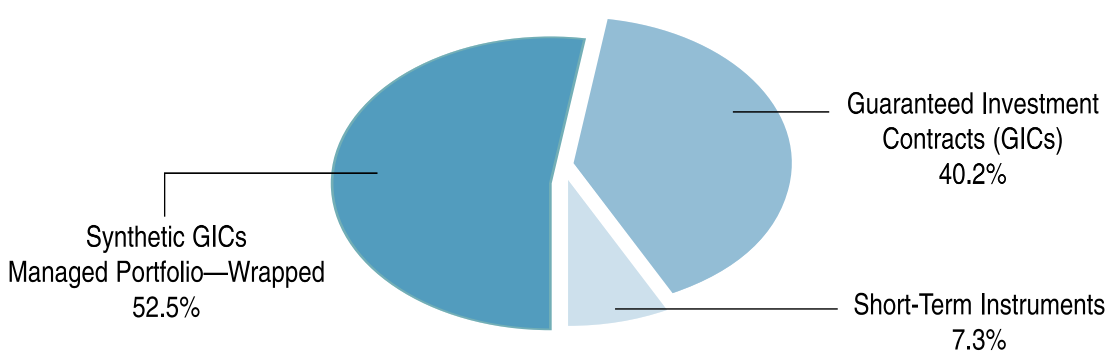
PENSION FUND



VARIABLE A FUND



VARIABLE B FUND



A Portrait of Our Members

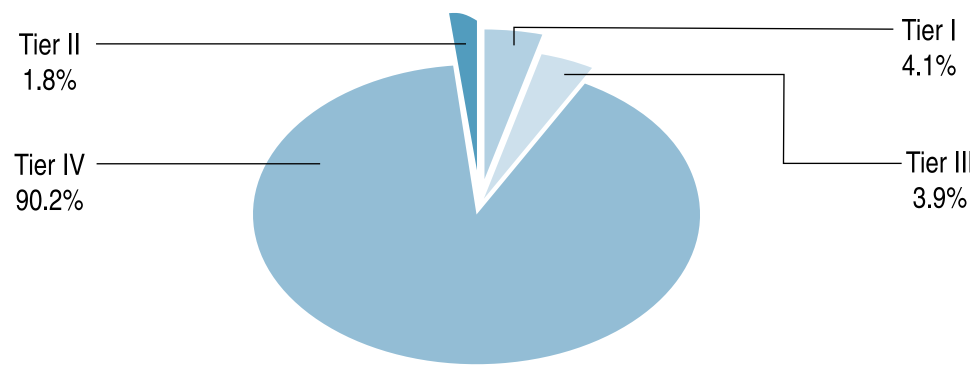
Our membership includes individuals of varying ages, tiers, and employment status. And although many TRS members are currently in active service, approximately one-third of them are retired. The following demographic data provide a snapshot of our membership as of June 30, 2006.

In-Service Members

As of June 30, 2006, there were 109,992 in-service members. Following is some basic information about these active members receiving salaries.

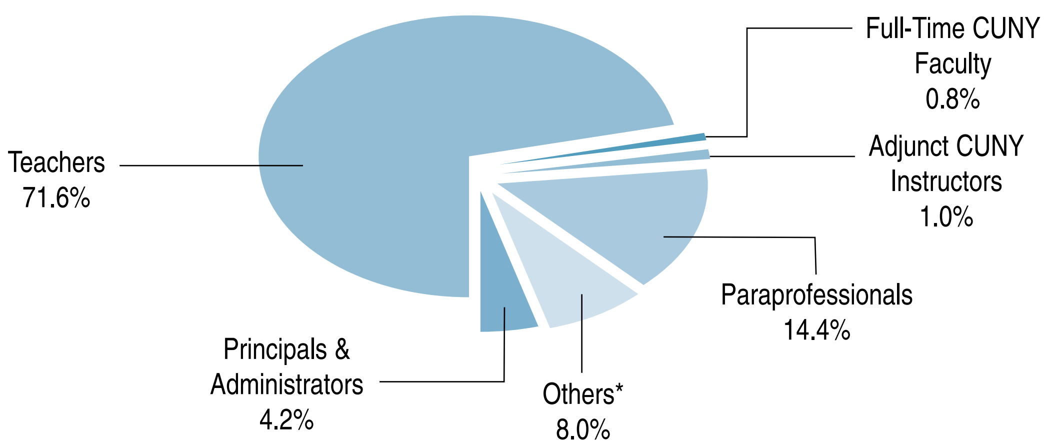
Average Age of In-Service Members:	**36.3 years**

IN-SERVICE MEMBERSHIP BY TIER*



**Tiers are classifications that determine the benefits for which members may be eligible. Tier status generally depends on when an individual last became a TRS member.*

IN-SERVICE MEMBERSHIP BY TITLE



**This category primarily consists of positions such as secretaries, guidance counselors, and social workers.*

Retired Members

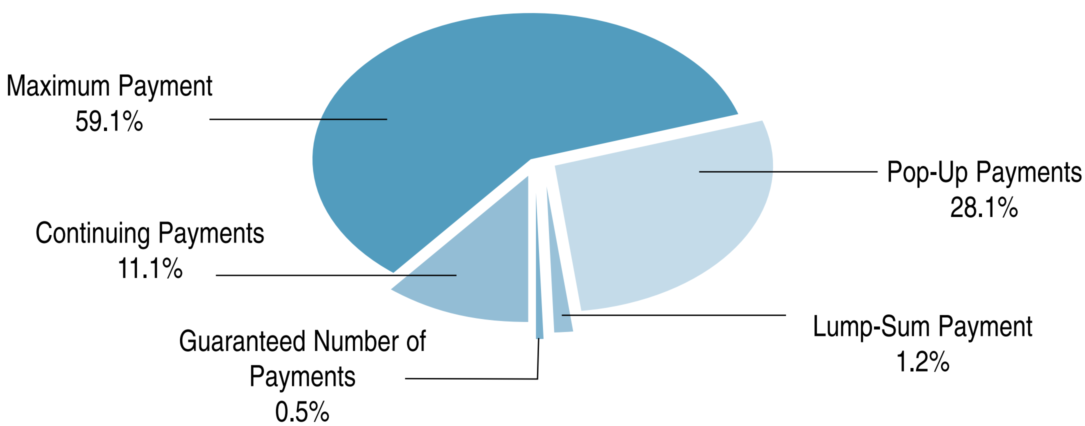
As of June 30, 2006, there were 63,961 retired TRS members. Some statistics related to these members are below.

Average Age of Members at Retirement Date:	**60.3 years**

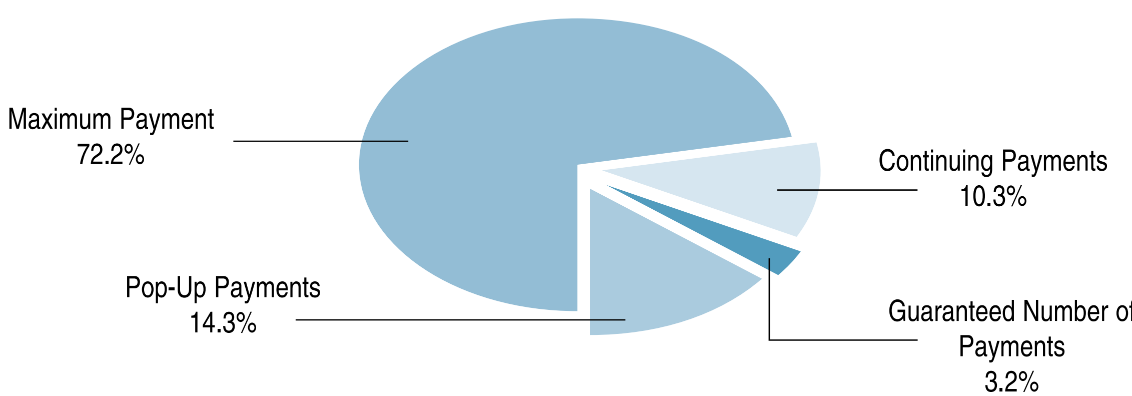
Retirement Payment Options Chosen by TRS Retirees

When TRS members retire, they receive a lifetime allowance under the QPP. Members may choose to receive a reduced allowance in order to provide for one or more beneficiaries. TRS offers a variety of retirement payment options to meet our members' needs. The categories of retirement payment options are displayed below, and a brief description follows.

OPTIONS CHOSEN BY TIERS I/II MEMBERS



OPTIONS CHOSEN BY TIERS III/IV MEMBERS



Categories of Retirement Payment Options

Maximum Payment—Member receives highest monthly payments, but does not provide for beneficiary.

Lump-Sum Payment (Tiers I/II only)—Member's beneficiary receives payment in a lump sum.

Guaranteed Number of Payments—A specific number of retirement allowance payments is assured.

Continuing Payments—Lifetime monthly payments are made to beneficiary.

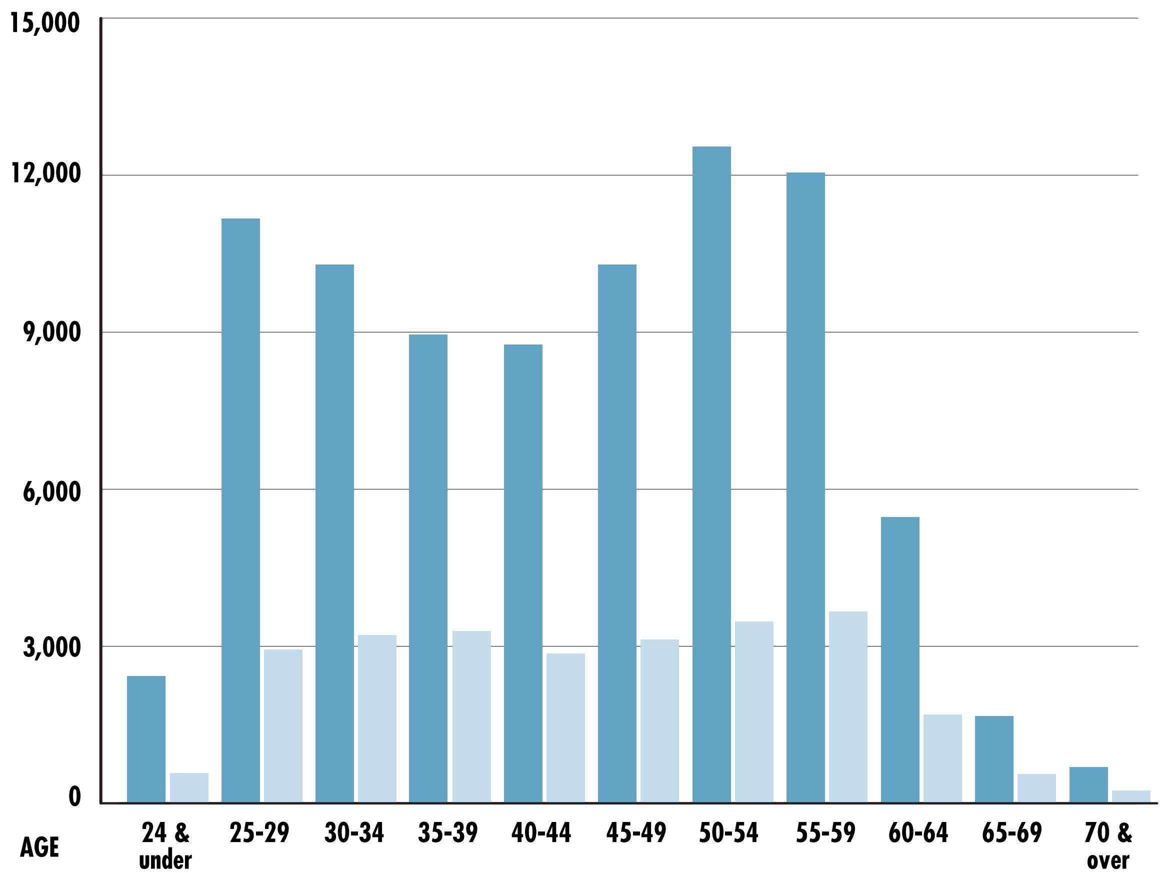
Pop-Up Payments—Member's payments increase to maximum allowed if beneficiary predeceases member.

Statistical Section

In the Introduction to this Annual Report, we highlighted some of TRS' key membership and investment information for Fiscal Year 2006. This Statistical Section supplements that information and provides more detailed data not presented as part of the financial statements.

IN-SERVICE MEMBERS ON PAYROLL—DISTRIBUTION BY AGE

As of June 30, 2006



AGE	24 & under	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70 & over
WOMEN	2,427	11,172	10,293	8,958	8,760	10,289	12,545	12,046	5,467	1,670	695
MEN	594	2,936	3,214	3,293	2,859	3,133	3,474	3,661	1,698	560	248

IN-SERVICE MEMBERSHIP

In-Service Membership as of June 30, 2005	104,850
Contributors Registered in Fiscal Year 2006	13,034
Contributors Withdrawn in Fiscal Year 2006	(7,892)
IN-SERVICE MEMBERSHIP AS OF JUNE 30, 2006	**109,992**

Note: These figures include only current in-service members receiving salaries as of each June 30.

RETIRED MEMBERSHIP

Retired Membership as of June 30, 2005	61,630
Members Registered in Fiscal Year 2006 for Retirement	3,907
Members Withdrawn in Fiscal Year 2006 from Retirement	(1,576)
RETIRED MEMBERSHIP AS OF JUNE 30, 2006	**63,961**

Note: These figures do not include the following: 3,615 beneficiaries who are receiving retirement allowances as of June 30, 2006; and retirees who are no longer receiving benefits, but have not yet been canceled from the retirement registers.

SERVICE RETIREMENT ALLOWANCES

As of June 30, 2006

	MEN			WOMEN	
Age	Number of Retirees	Average Annual Allowance	Age	Number of Retirees	Average Annual Allowance
under 30	0	—	under 30	0	—
30–34	0	—	30–34	0	—
35–39	0	—	35–39	0	—
40–44	0	—	40–44	0	—
45–49	0	—	45–49	0	—
50–54	0	—	50–54	1	$ 41,888
55–59	2,599	$ 62,627	55–59	4,355	55,175
60–64	5,173	58,845	60–64	7,822	48,078
65–69	3,463	50,776	65–69	7,260	38,305
70–74	2,983	47,944	70–74	6,334	33,643
75–79	2,643	45,058	75–79	5,896	32,163
80–84	1,949	41,763	80–84	4,534	30,445
85–89	887	39,420	85–89	2,749	27,125
90 & over	539	41,118	90 & over	2,270	28,979
TOTAL	**20,236**	**$ 51,573**	**TOTAL**	**41,221**	**$ 38,223**
TOTAL ANNUAL ALLOWANCES PAID		**$ 1,043,636,703**	**TOTAL ANNUAL ALLOWANCES PAID**		**$ 1,575,600,992**

ORDINARY DISABILITY RETIREMENT ALLOWANCES

As of June 30, 2006

	MEN			WOMEN	
Age	Number of Retirees	Average Annual Allowance	Age	Number of Retirees	Average Annual Allowance
under 30	0	—	under 30	0	—
30–34	0	—	30–34	0	—
35–39	1	$ 19,454	35–39	4	$ 15,928
40–44	5	15,011	40–44	19	16,973
45–49	20	16,298	45–49	60	15,378
50–54	41	19,167	50–54	128	17,748
55–59	128	24,586	55–59	331	21,200
60–64	109	22,846	60–64	291	18,125
65–69	53	18,354	65–69	199	14,574
70–74	38	20,058	70–74	105	14,650
75–79	32	19,355	75–79	81	14,286
80–84	21	22,915	80–84	77	17,048
85–89	32	29,003	85–89	100	19,764
90 & over	12	36,518	90 & over	101	19,940
TOTAL	**492**	**$ 22,450**	**TOTAL**	**1,496**	**$ 17,895**
TOTAL ANNUAL ALLOWANCES PAID		**$ 11,045,334**	**TOTAL ANNUAL ALLOWANCES PAID**		**$ 26,770,924**

ACCIDENT DISABILITY RETIREMENT ALLOWANCES
As of June 30, 2006

	MEN			WOMEN	
Age	Number of Retirees	Average Annual Allowance	Age	Number of Retirees	Average Annual Allowance
under 30	0	—	under 30	0	—
30–34	0	—	30–34	1	$ 26,178
35–39	0	—	35–39	0	—
40–44	1	$ 43,777	40–44	6	32,948
45–49	3	10,986	45–49	8	21,138
50–54	6	30,920	50–54	15	30,392
55–59	42	37,196	55–59	72	35,949
60–64	52	41,712	60–64	80	35,598
65–69	21	40,885	65–69	43	36,985
70–74	16	39,032	70–74	40	27,820
75–79	14	37,732	75–79	31	33,659
80–84	8	37,688	80–84	25	34,691
85–89	4	35,870	85–89	21	35,819
90 & over	2	35,844	90 & over	5	30,379
TOTAL	**169**	**$ 38,588**	**TOTAL**	**347**	**$ 34,014**
TOTAL ANNUAL ALLOWANCES PAID		**$ 6,521,411**	**TOTAL ANNUAL ALLOWANCES PAID**		**$ 11,803,011**

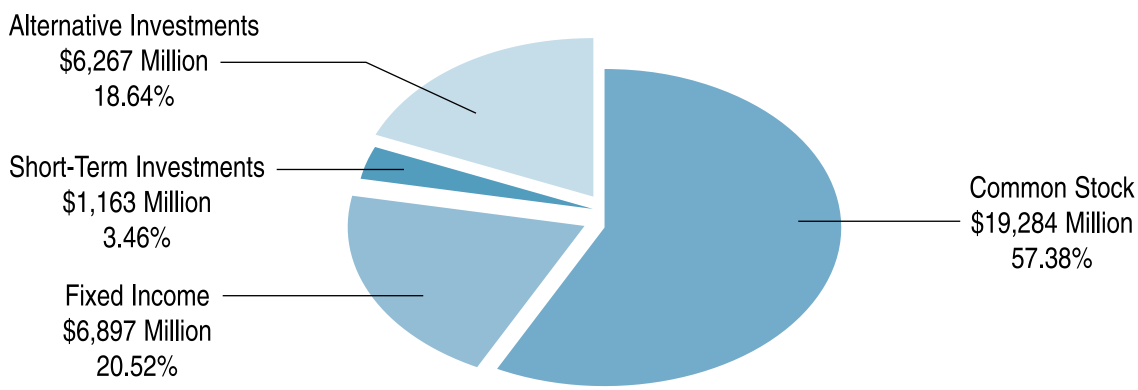
DEATH BENEFITS—QPP
As of June 30, 2006

	MEN			WOMEN	
Age	Number of Beneficiaries	Average Annual Benefit	Age	Number of Beneficiaries	Average Annual Benefit
under 30	7	$ 26,326	under 30	9	$ 31,608
30–34	4	9,811	30–34	5	11,165
35–39	4	8,794	35–39	9	23,623
40–44	14	9,411	40–44	24	15,459
45–49	16	13,743	45–49	33	15,317
50–54	24	12,675	50–54	30	17,969
55–59	52	15,123	55–59	91	30,493
60–64	68	30,028	60–64	198	31,983
65–69	73	23,024	65–69	197	32,980
70–74	96	21,252	70–74	264	31,266
75–79	126	22,579	75–79	384	26,832
80–84	167	21,161	80–84	480	24,839
85–89	145	19,294	85–89	447	23,165
90 & over	147	15,751	90 & over	501	21,988
TOTAL	**943**	**$ 20,101**	**TOTAL**	**2,672**	**$ 25,982**
TOTAL ANNUAL BENEFITS PAID		**$ 18,955,617**	**TOTAL ANNUAL BENEFITS PAID**		**$ 69,424,258**

INVESTMENT SUMMARY—QPP
As of June 30, 2006

Type of Investment	Market Value *In Thousands*	Percent of Total Market Value
Fixed Income:		
Government Bonds	$ 3,429,728	10.21%
Corporate Bonds	3,301,849	9.82
Foreign Bonds	165,058	0.49
TOTAL FIXED INCOME	**$ 6,896,635**	**20.52%**
Common Stock:		
Financial & Utility	$ 6,344,083	18.88%
Basic Industry	7,630,765	22.70
Consumer & Service	3,323,689	9.89
Technological	1,985,940	5.91
TOTAL COMMON STOCK	**$ 19,284,477**	**57.38%**
Alternative Investments:		
Guaranteed Investment Contracts (GICs)	$46,918	0.14%
Managed Investment Contracts	104,297	0.31
International	4,319,529	12.85
Mutual Fund	1,796,409	5.34
TOTAL ALTERNATIVE INVESTMENTS	**$ 6,267,153**	**18.64%**
Short-Term Investments:		
Short-Term Investment	$ 1,001,506	2.98%
Commercial Paper	161,097	0.48
TOTAL SHORT-TERM INVESTMENTS	**$ 1,162,603**	**3.46%**
TOTAL*	**$ 33,610,868**	**100.00%**

TOTAL ASSET ALLOCATION*—QPP
As of June 30, 2006—$33.611 Billion

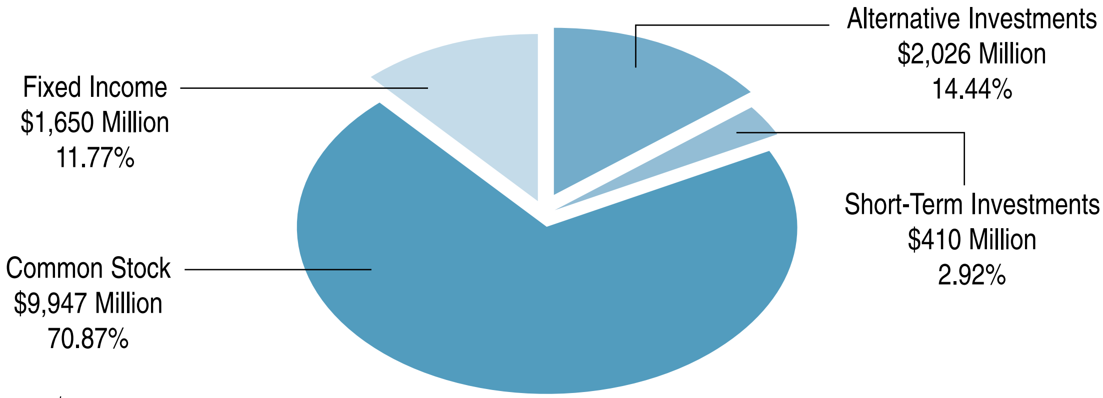


** Excludes $4,962,562 in securities lending.*

INVESTMENT SUMMARY—TDA PROGRAM
As of June 30, 2006

Type of Investment	Market Value *In Thousands*	Percent of Total Market Value
Fixed Income:		
Government Bonds	$ 778,196	5.56%
Corporate Bonds	853,459	6.08
Foreign Bonds	18,497	0.13
TOTAL FIXED INCOME	**$ 1,650,152**	**11.77%**
Common Stock:		
Financial & Utility	$ 1,998,757	14.24%
Basic Industry	6,100,288	43.47
Consumer & Service	1,210,328	8.62
Technological	637,778	4.54
TOTAL COMMON STOCK	**$ 9,947,151**	**70.87%**
Alternative Investments:		
Guaranteed Investment Contracts (GICs)	$ 54,748	0.39%
Managed Investment Contracts	121,703	0.87
International	1,142,291	8.14
Mutual Fund	707,609	5.04
TOTAL ALTERNATIVE INVESTMENTS	**$ 2,026,351**	**14.44%**
Short-Term Investments:		
Short-Term Investments	$ 373,303	2.66%
Commercial Paper	36,552	0.26
TOTAL SHORT-TERM INVESTMENTS	**$ 409,855**	**2.92%**
TOTAL*	**$ 14,033,509**	**100.00%**

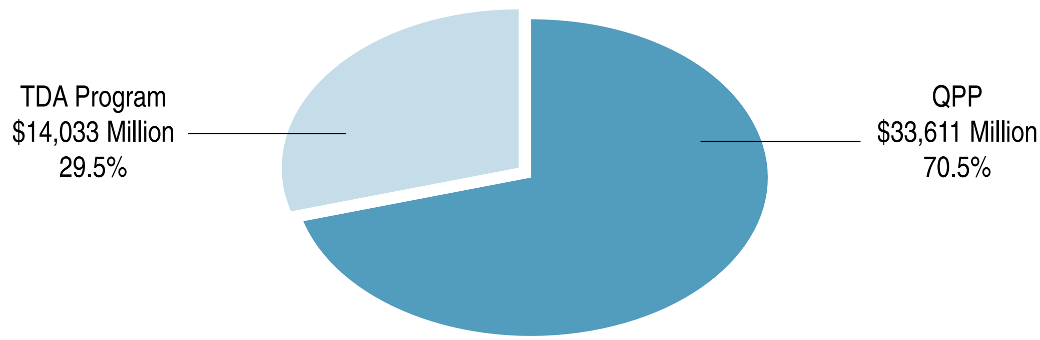
TOTAL ASSET ALLOCATION*—TDA PROGRAM
As of June 30, 2006—$14.034 Billion



** Excludes $1,184,100 in securities lending.*

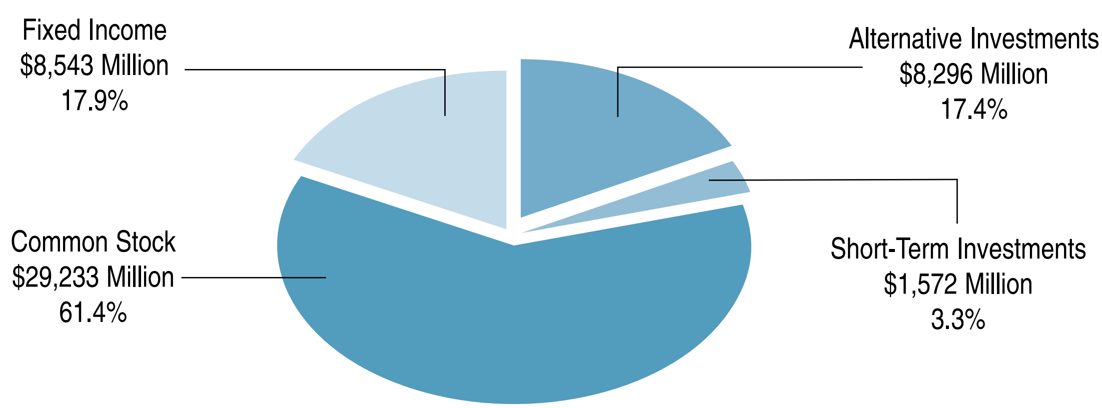
TRS' TOTAL INVESTMENTS* (BY PLAN)

As of June 30, 2006—$47.644 Billion



TRS' TOTAL INVESTMENTS* (BY ASSET ALLOCATION)

As of June 30, 2006—$47.644 Billion



** Excludes $6,146,662 in securities lending.*

LIST OF LARGEST BOND ASSETS HELD (BY MARKET VALUE)

As of June 30, 2006

Par Value		Interest Rate	Due Date	Market Value
$ 317,565,000	Federal Nat Mtg Assn #T/B/A	5.500%	07/01/34	$ 304,961,639
109,470,000	Federal Nat Mtg Assn #T/B/A	6.000	07/01/34	107,725,322
107,995,000	Federal Home Ln Mtg Corp Gold SFM #T/B/A	5.500	07/01/34	103,708,948
89,425,000	Federal Home Ln Mtg Corp Gold SFM #T/B/A	5.000	07/01/35	83,500,594
84,210,000	Federal Nat Mtg Assn #T/B/A	5.000	07/01/34	78,710,034
169,880,000	U.S. Treasury Stripped	0.000	11/15/21	75,022,406
71,140,000	Federal Nat Mtg Assn #T/B/A	6.500	07/01/34	71,495,700
72,245,000	United States Treasury Notes	4.250	11/15/14	67,944,165
68,000,000	United States Treasury Notes	3.750	03/31/07	67,235,000
41,410,000	U.S. Treasury Bonds	8.125	08/15/21	53,383,287

LIST OF LARGEST EQUITY ASSETS HELD (BY MARKET VALUE)

As of June 30, 2006

Shares	Equity	Market Value
1,148,341	Bank of America Corp.	$ 55,235,202
682,100	Procter & Gamble Co.	37,924,760
1,552,040	Pfizer Inc.	36,426,379
1,080,959	General Electric Co.	35,628,409
541,384	Exxon Mobil Corp.	33,213,908
787,178	JP Morgan Chase & Co.	33,061,476
393,492	Boeing Co.	32,230,930
920,411	Hewlett-Packard Co.	29,158,620
61,780	Google Inc.	25,906,207
521,712	Citigroup Inc.	25,172,604
1,448,050	Time Warner Inc.	25,051,265
1,251,989	Cisco Systems Inc.	24,451,345
342,442	Merrill Lynch & Co. Inc.	23,820,266
307,600	Wells Fargo & Co.	20,633,808
244,100	Monsanto & Co.	20,550,779
677,261	Disney Walt Hldg Co.	20,317,830
309,225	Schlumberger Ltd.	20,133,640
314,902	American International Group, Inc.	18,594,963
776,687	Microsoft Corp.	18,096,807
301,200	TXU Corp.	18,008,748

Note: The above tables reflect assets of both the Qualified Pension Plan (QPP) and Tax-Deferred Annuity (TDA) Program. The complete list of the assets held by TRS' three investment programs is included in the Investment Portfolios *publication.*

SUMMARY OF INVESTMENT MANAGERS

PENSION FUND INVESTMENT MANAGERS

Equity
Aeltus Investment Mgmt., Inc
Ariel Capital Management, Inc.
Bank of Ireland Asset Management (U.S.) Limited
Barclays Global Investors, N.A.
Capital Guardian Trust Company
Chicago Equity Partners, L.L.C.
Delaware International Advisors, Ltd.
GE Asset Management, Inc.
INVESCO Institutional N.A., Inc.
Mellon Capital Management Corporation
Putnam Advisory Company, L.L.C.
Relational Investors X, L.P.
Schroder Investment Management N.A., Inc.
Sprucegrove Investment Management, Ltd.
Westpeak Investment Advisors, L.P.

Fixed Income
BlackRock Financial Management, Inc.
Citigroup Asset Management
Fisher, Francis, Trees, & Watts, Inc.
Lehman Brothers
Morgan Stanley Investment Partners, L.P.
Pacific Investment Management Company (PIMCO)
Security Capital
Seix Advisors
Shenkman Capital
T. Rowe Price Associates, Inc.
Taplin, Canida, & Habacht
Targeted Investment

REITS
Lend Lease Rosen Real Estate Sec., L.L.C.
Morgan Stanley Investment Partners, L.P.
Oaktree Capital Management
Tishman Speyer

Enhanced Yield/ Alternative
AFL-CIO Housing Investment
Ailsing Capital Partners II, L.P.
Allegra Capital Partners IV, L.P.
Apollo Investment Fund
Ares Corp. Opp Fund
Aurora Equity Capital Partners III
BDCM Opp Fund
The Blackstone Group
Blackstone Mezzanine Partners
Bridgepoint Europe III, L.P.
Canyon-Johnson Realty Advisors
Carlyle Group
CD & R Fund VII, L.P.
Celtic Pharmaceutical Holdings, L.P.
Coller Investment Management, Ltd.
Cypress Mech BK Partners II
Erasmus NYC Growth Fund, L.P.
Ethos Private Equity Fund
Fairview Capital Partners
FdG Capital Partners, L.L.C.
Freeman Spogli & Co., Inc.
GI Partners Fund II, L.P.
GSC Recovery III
InterMedia Partners VII, L.P.
J.P. Morgan Investment Management, Inc.
Landmark Equity Partners
Leeds Wells Equity Partners IV
Lincolnshire Management, Inc.
Mackay Shields
Markstone Capital Partners
New Mountain Investments
Paladin Homeland Security
Palladium Equity Partners III
Prism Venture Partners
Quadrangle Capital Partners II
Ripplewood Holdings, L.L.C.
RRE Ventures
SCP Private Equity Partners
Silver Lake Partners II
Solera Capital, L.L.C.
Thomas McNerney & Partners, L.P.
U.S. Power Fund II, L.P.
VSS Communication Partners IV
W.R. Huff Asset Management Co., L.L.C.
Yucaipa American Alliance Fund

VARIABLE A INVESTMENT MANAGERS

Alliance Capital Management, L.P.
Amalgamated Bank
Bank of Ireland Asset Management (U.S.) Limited
Barclays Global Investors, N.A.
Capital Guardian Trust Company
Cardinal Capital Management, L.L.C.
Cramer Rosenthal McGlynn, L.L.C
Enhanced Investment Technologies, Inc. (INTECH)
Goldman Sachs Asset Management
Grantham, Mayo, Van Otterloo & Co.
High Pointe Capital Management, L.L.C.
Lynmar Capital Group, Inc.
Mellon Capital Management Corporation
Pacific Investment Management Company (PIMCO)
PanAgora Asset Management, Inc.
Profit Investment Management, Inc.
Rainier Investment Management, Inc.
Shapiro Capital Management Company, Inc.
UBS Global Asset Management Trust Co.
Wellington Management Company, L.L.P.

VARIABLE B INVESTMENT MANAGERS

NISA Investment Advisors, L.L.C.
Standish Mellon Asset Management, L.L.C.

trsnyc

Financial Section (QPP)

Deloitte.

Deloitte & Touche LLP
Two World Financial Center
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USA

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Independent Auditors' Report

To the Board of Trustees of the
Teachers' Retirement System of the City of New York
Qualified Pension Plan

We have audited the accompanying statements of Plan net assets of the Teachers' Retirement System of the City of New York Qualified Pension Plan (the Plan) as of June 30, 2006 and 2005, and the related statements of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets of the Plan as of June 30, 2006 and 2005, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules listed in the table of contents are required by GASB. The required supplemental information is the responsibility of the management of the Plan. Such 2006, 2005, 2004, 2003 and 2002 information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The required supplemental information for the years ended June 30, 2001 and 2000 was not subjected to auditing procedures applied in the audit of the basic 2001 financial statements by other auditors whose report dated October 30, 2001, stated that they expressed no opinion on it.

The supplemental information included in the Introductory, Investment, Actuarial, and Statistical sections is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Plan. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

As discussed in Note 4 to the financial statements, in 2006, the Plan changed the actuarial valuation methodology to be used in calculating employer contributions.

Deloitte + Touche LLP

October 26, 2006

Management's Discussion and Analysis (Unaudited)

This narrative discussion and analysis of the Teachers' Retirement System of the City of New York's (TRS or the Plan) financial performance provides an overview of the Plan's financial activities for the fiscal years ended June 30, 2006 and 2005. It is meant to assist the reader in understanding TRS' financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with prior years' activity and results. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements, which begin on page 43.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The basic financial statements are as follows:

- **The Statement of Plan Net Assets** presents the financial position of the Plan at fiscal year-end. It indicates the assets available for payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statement of Changes in Plan Net Assets** presents the results of activities during the fiscal year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in the fair value of investments.
- **The Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Required Supplementary Information, as required by the Governmental Accounting Standards Board (GASB), is presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GASB Pronouncements.

Financial Highlights

The assets of TRS exceeded its liabilities by $32.2 billion, $30.5 billion and $29.0 billion as of June 30, 2006, 2005 and 2004, respectively. These net assets are held in trust for the payment of future benefits to members and pensioners.

TRS' net assets held in trust increased by $1.7 billion from Fiscal Year 2005 and by $3.2 billion from Fiscal Year 2004. These represent respective increases of 5.7% and 11.3%.

Receivables for investment securities sold amounted to $1.2 billion at June 30, 2006, an increase of $38.2 million (3.4%) from June 30, 2005, and an increase of $278.0 million (31.3%) from June 30, 2004. This balance is principally composed of receivables for securities that have been sold but have not yet settled (*i.e.*, the cash has not been collected). This increase resulted primarily from timing differences in settlement dates. Trades typically do not settle until a few days after the trade date.

Receivables for accrued earnings amounted to $134.0 million as of June 30, 2006, an increase of $15.4 million (13%) from June 30, 2005, and an increase of $13.7 million (11.4%) from June 30, 2004.

At June 30, 2006 member loan receivables amounted to $130.8 million, a decrease of $4.3 million (3.2%) from the previous year, and a decrease of $19.8 million (13.2%) from June 30, 2004. The decrease in the outstanding loans is attributed to a decline in Qualified Pension Plan retirement loans.

Financial Analysis

STATEMENT OF PLAN NET ASSETS

(In Thousands)

	As of June 30		
	2006	**2005**	**2004**
Cash	$ 37	$ 65	$ 39
Receivables for investments sold	1,166,009	1,127,808	888,025
Receivables for accrued interest and dividends	133,991	118,584	120,270
Member loan receivables	130,782	135,065	150,612
Investments, at fair value	38,573,430	36,133,048	36,394,689
Other assets	17,944	49,264	27,241
TOTAL ASSETS	**$ 40,022,193**	**$ 37,563,834**	**$ 37,580,876**
Accounts payable	252,755	27,488	575,788
Payables for investments purchased	2,569,678	2,357,121	2,220,732
Accrued benefits payable	14,441	12,835	16,442
Payables for securities lending	4,978,602	4,674,220	5,792,510
TOTAL LIABILITIES	**$ 7,815,476**	**$ 7,071,664**	**$ 8,605,472**
NET ASSETS HELD IN TRUST FOR BENEFITS	**$ 32,206,717**	**$ 30,492,170**	**$ 28,975,404**

Investments at June 30, 2006 were $38.6 billion in comparison to $36.1 billion at June 30, 2005 and $36.4 billion at June 30, 2004. The investment asset balances represent increases of $2.5 billion (6.8%) from June 30, 2005 and $2.2 billion (6.0%) from June 30, 2004.

Accounts payable at June 30, 2006 amounted to $252.8 million, an increase of $225.3 million (819.5%) from June 30, 2005 and a decrease of $323.1 million (56.1%) from June 30, 2004. Accounts payable is principally composed of amounts owed to the Plan's banks for overdrawn bank balances. The Plan's practice is to fully invest the cash balances in most of its bank accounts on a daily basis. Overdrawn balances result primarily from outstanding benefit checks that are presented to the banks for payment on a daily basis, and these balances are routinely settled each day.

Payables for investments purchased at June 30, 2006 amounted to $2.6 billion, an increase of $212.6 million (9.0%) from the previous year ended June 30, 2005 and $348.9 million (15.7%) from June 30, 2004. Investments purchased are accounted for on a trade-date basis. This increase resulted from timing differences in settlement dates, similar to receivables for investments sold discussed earlier. Accrued benefits payable at June 30, 2006 amounted to $14.4 million, an increase of $1.6 million (12.5%) from June 30, 2005 and a decrease of $2.0 million (12.2%) from June 30, 2004.

Changes in Plan Net Assets

TRS received $141.1 million in member contributions during Fiscal Year 2006 and $124.5 million in Fiscal Year 2005. In 2004, TRS received $116.0 million in member contributions and initiated refunds, in conjunction with Chapter 126 legislation, of $18.2 million. The change in member contributions received amounts to 13.3% from Fiscal Year 2005 and 21.5% from Fiscal Year 2004. The change in contributions reflects increases due to the adoptions of the current Teachers' contract on October 3, 2005 as well as 11,640 new enrollees.

STATEMENT OF CHANGES IN PLAN NET ASSETS

(In Thousands)

	As of June 30 2006	2005	2004
Additions:			
Member contributions	$ 141,056	$ 124,539	$ 97,858
Employer contributions	1,338,338	1,248,704	940,588
Net receipts from (payments to) other retirement systems	(401)	3,215	(1,764)
Securities-lending income (loss)	21,786	17,166	8,066
Net investment income	3,587,983	3,294,136	4,503,869
TOTAL NET ADDITIONS	**$ 5,088,762**	**$ 4,687,760**	**$ 5,548,617**
Deductions:			
Administrative expenses	33,938	37,722	28,592
Benefits payments and withdrawals	3,340,277	3,133,272	2,622,611
TOTAL DEDUCTIONS	**$ 3,374,215**	**$ 3,170,994**	**$ 2,651,203**
NET INCREASE (DECREASE)	**$ 1,714,547**	**$ 1,516,766**	**$ 2,897,414**

Employer contributions for the Fiscal Year ended June 30, 2006 totaled $1.3 billion, an increase of 7.2% and 42.3% over Fiscal Years 2005 and 2004, respectively.

Net investment income increased by $293.8 million (8.9%) from Fiscal Year 2005 and decreased by $915.9 million (20.3%) from Fiscal Year 2004.

Benefits payments and withdrawals for the Fiscal Year ended June 30, 2006 totaled $3.3 billion, an increase of 6.6% from Fiscal Year 2005 and 27.4% from Fiscal Year 2004. Benefits payments and withdrawals include interest that is credited to TDA accounts and transferred to the TDA Program. TDA interest for Fiscal Year 2006 and Fiscal Year 2005 totaled $451.6 million and $375.1 million, respectively. Benefit payments and withdrawals, excluding the TDA interest payment, increased 4.7% from Fiscal Year 2005 and 10.1% from Fiscal Year 2004.

Administrative expenses for the Fiscal Year ended June 30, 2006 totaled $33.9 million, a decrease of 10.0% over Fiscal Year 2005 and an increase of 18.7% over Fiscal Year 2004.

Investments

TRS uses the S&P 500 and Russell 3000 indices to provide benchmarks for equity (domestic and private) investment returns and the MSCI EAFE index for international equity returns. The Citigroup BB & B Rated and NYC indices are used to provide benchmarks for debt securities. The Wilshire Real Estate and NCREIF NPI indices and Solomon's two-year US treasury fund are used to provide benchmarks for mortgage investments and investment contracts, respectively. TRS does not use benchmarks for short-term investments.

TRS earns additional investment income by lending its investment securities. The borrowers provide collateral to TRS that is valued in excess of the securities loaned. For the Fiscal Year ended June 30, 2006, net securities-lending income amounted to $21.8 million compared with $17.2 million for Fiscal Year 2005 and $8.1 million for Fiscal Year 2004.

Investments held by TRS, including collateral from securities-lending transactions, are listed according to their investment classification in the following table:

INVESTMENT SUMMARY
(In Thousands)

Type of Investment	2006	2005
Short-term investments	$ 1,157,263	$ 1,226,451
Debt securities	6,896,635	6,673,041
Equity securities - Domestic	19,769,374	18,706,731
Private equity	506,634	342,832
Mutual funds - International equity	4,160,727	3,912,499
Mutual funds - TIPS	918,320	356,248
Mortgages	45,360	46,751
Promissory notes	5,340	6,325
Managed investment contracts	104,297	129,196
Guaranteed investment contracts	46,918	76,244
Collateral from securities lending	4,962,562	4,656,730
Total	**$ 38,573,430**	**$ 36,133,048**

Contact information

This financial report is designed to provide a general overview of the Teachers' Retirement System's finances. Questions concerning any data provided in this report or requests for additional information should be directed to Paul J. Raucci, Chief Accountant, Teachers' Retirement System of the City of New York, 55 Water Street, New York, NY 10041.

STATEMENT OF PLAN NET ASSETS—QPP
(In Thousands)

	As of June 30 2006	2005
ASSETS		
Cash	$ 37	$ 65
Receivables:		
Investment securities sold	1,166,009	1,127,808
Accrued interest and dividends	133,991	118,584
Member loans (Note 5)	130,782	135,065
TOTAL RECEIVABLES	**$ 1,430,782**	**$ 1,381,457**
Investments, at fair value (Notes 2 and 3):		
Fixed funds:		
Short-term investment fund	1,002,186	1,089,912
Debt securities:		
U.S. government	3,429,728	3,458,760
Corporate	3,301,849	3,130,839
Foreign	81,522	83,442
Equity securities:		
Domestic	13,829,692	12,750,683
Private equity	506,634	342,832
Mutual funds:		
Domestic equity	32,374	—
International equity	4,160,727	3,912,499
Treasury inflation-protected securities	918,320	356,248
Mortgages	45,360	46,751
Promissory notes	5,340	6,325
Variable A funds:		
Short-term investments	97,394	95,860
Equity securities	5,907,308	5,956,048
Corporate bonds	83,536	—
Variable B funds:		
Short-term investments	57,683	40,679
Managed investment contracts	104,297	129,196
Guaranteed investment contracts	46,918	76,244
Collateral from securities lending	4,962,562	4,656,730
TOTAL INVESTMENTS	**$ 38,573,430**	**$ 36,133,048**
Other assets	17,944	49,264
TOTAL ASSETS	**$ 40,022,193**	**$ 37,563,834**
LIABILITIES		
Accounts payable	252,755	27,488
Payables for investment securities purchased	2,569,678	2,357,121
Accrued benefits payable	14,441	12,835
Securities lending (Note 2)	4,978,602	4,674,220
TOTAL LIABILITIES	**$ 7,815,476**	**$ 7,071,664**
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS*	**$ 32,206,717**	**$ 30,492,170**

**A schedule of funding progress for the Plan is presented in Schedule 1.*

(See accompanying "Notes to Financial Statements—Qualified Pension Plan.")

STATEMENT OF CHANGES IN PLAN NET ASSETS—QPP
(In Thousands)

	Year Ended June 30 2006	2005
ADDITIONS:		
CONTRIBUTIONS:		
Member contributions	$ 141,056	$ 124,539
Employer contributions (Note 4)	1,316,611	1,228,275
Other employer contributions	21,727	20,429
TOTAL CONTRIBUTIONS	**$ 1,479,394**	**$ 1,373,243**
INVESTMENT INCOME (Note 2):		
Interest income	625,541	438,525
Dividend income	412,535	413,003
Net appreciation in fair value of investments	2,613,216	2,502,792
TOTAL INVESTMENT INCOME	**$ 3,651,292**	**$ 3,354,320**
Less:		
Investment expenses	63,309	60,184
NET INCOME	**$ 3,587,983**	**$ 3,294,136**
SECURITIES-LENDING TRANSACTIONS:		
Securities-lending income	242,127	114,275
Securities-lending fees	(220,341)	(97,109)
Net securities-lending income	21,786	17,166
NET INVESTMENT INCOME	**$ 3,609,769**	**$ 3,311,302**
Net receipts from (payments to) other retirement systems	(401)	3,215
TOTAL ADDITIONS	**$ 5,088,762**	**$ 4,687,760**
DEDUCTIONS:		
Benefits payments and withdrawals (Notes 1 and 2)	3,340,277	3,133,272
Administrative expenses	33,938	37,722
TOTAL DEDUCTIONS	**$ 3,374,215**	**$ 3,170,994**
NET INCREASE IN PLAN ASSETS	1,714,547	1,516,766
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS AT BEGINNING OF YEAR	30,492,170	28,975,404
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS AT END OF YEAR	**$ 32,206,717**	**$ 30,492,170**

(See accompanying "Notes to Financial Statements—Qualified Pension Plan.")

Notes to Financial Statements—Qualified Pension Plan

1. Plan Description

The City of New York (the City) maintains a number of pension systems providing benefits for employees of its various agencies (as defined within New York State (State) statutes and City laws). The City's five major actuarially-funded pension systems are the Teachers' Retirement System of the City of New York-Qualified Pension Plan (the Plan), the New York City Employees' Retirement System (NYCERS), the New York City Board of Education Retirement System-Qualified Pension Plan (BERS), the New York City Police Pension Fund (POLICE) and the New York City Fire Pension Fund (FIRE). Each pension system is a separate Public Employee Retirement System (PERS) with a separate oversight body and is financially independent of the others.

The Plan is a cost-sharing, multiple-employer PERS. The Plan provides pension benefits for certain City public school teachers and certain other school and college teachers. The primary employers, in addition to the City, are the City University of New York and certain other specific schools (collectively, the Employer). Substantially, all teachers in the public schools of the City become members of the Plan and certain other specified school and college personnel may become members on the first day of permanent employment.

The Plan functions in accordance with existing State statutes and certain City laws. It combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the Employer and the members.

In June 1991, the Governmental Accounting Standards Board (GASB) issued Statement No. 14, *The Financial Reporting Entity*. The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Plan considered whether its officials appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or if there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Plan. The Plan also considered whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the Plan.

The Plan is included in the Pension and Other Employee Benefit Trust Funds section of the City's Comprehensive Annual Financial Report (CAFR).

Members of the Plan have the option to participate in a Tax-Deferred Annuity (TDA) Program, which provides members a means of deferring income tax payments on their voluntary tax-deferred contributions until the period after retirement or upon withdrawal of contributions. The TDA Program was created pursuant to Internal Revenue Code Section 403(b). Contributions to the TDA Program are made by the members only. The TDA Program is maintained as a separate plan and is not included in these financial statements

At June 30, 2005 and June 30, 2004, the Plan's membership consisted of:

PLAN MEMBERSHIP

	As of June 30	
	2004 (Lag)	**2004**
Retirees and beneficiaries receiving benefits	62,728	62,728
Terminated vested members not yet receiving benefits	4,754	4,754
Active members receiving salaries	105,391	105,391
TOTAL	**172,873**	**172,873**

The State Constitution provides that the pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976 and 1983, amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments. As such, benefits under the Plan fall into various categories based on the year when an employee joined the Plan. The service retirement benefits under the Plan are as follows:

- Members who joined prior to July 1, 1973 (Tier I) are entitled to service retirement benefits of 50% of "final salary" (as defined within State statutes and City laws) after 20 years of service; a portion is provided from member contributions, plus additional benefits equal to specified percentages (as defined within State statutes and City laws) per year of service of "final salary" for years in excess of the 20-year minimum. These additional benefits are increased, where applicable, by an annuity attributable to accumulated member contributions in excess of the minimum required balance and by any benefits attributable to the Increased-Take-Home Pay (ITHP) contributions accumulated after the twentieth year of member qualifying service. ITHP represents amounts contributed by the City in lieu of members' own contributions. These amounts reduce the contributions that members would have to make to the Plan during their service and thereby increase their take-home pay. Members have the choice of waiving their ITHP reduction, which would reduce their take-home pay, but provide them with greater benefits upon retirement.

  In addition, these same members could elect a service retirement benefit with no minimum service requirement that provides an annual benefit for each year of service equal to a specified percentage (as described within State statutes and City laws) of "final salary" payable on attainment of age 55. This benefit is increased, where applicable, by an annuity attributable to the member's contributions and by any benefits attributable to the Employer's contributions with respect to such service under the ITHP contributions.

- Members who joined the Plan after June 30, 1973 and before July 27, 1976 (Tier II) have provisions similar to Tier I, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

- Members who joined the Plan on or after September 1, 1983 (Tier IV) were required to make contributions of 3% of salary until termination of service. Effective October 1, 2000, these members are not required to make contributions after the tenth anniversary of their membership date or completion of ten years of credited service, whichever is earlier. The annual benefit is 1.67% of "final average salary" per year of service for members with less than 20 years of service and 2% of "final average salary" per year of service for members with 20 to 30 years of service, plus a 1.5% addition of "final average salary" per year of service for service in excess of 30 years of service.

- Members who joined the Plan on or after July 27, 1976 and prior to September 1, 1983 (Tier III) were mandated into Tier IV. However, these members could elect to remain in Tier III which requires member contributions of 3.0% of salary for a period not to exceed thirty years, reduces benefits by one-half of the primary Social Security benefit attributable to service with the Employer and provides an annual cost of living escalator in pension benefits of not more than 3.0%. Effective October 1, 2000, these members are not required to make contributions after the tenth anniversary of their membership date or completion of ten years of credited service, whichever is earlier.

For members enrolled in the Plan prior to July 27, 1976, ITHP contributions made on their behalf, as well as their own contributions, are invested, at their election, in either the Fixed or Variable Annuity Programs. Members can elect to invest in multiples of 5% and change their elections once a year. The Employer guaranteed a 7.5% return on member contributions to the Fixed Annuity Program until June 30, 1982, increased the guaranteed return to 8.0% as of July 1, 1982 and to 8.25% as of July 1, 1988 for members who enrolled in the Plan prior to July 27, 1976. (Members enrolled on or after July 27, 1976 receive a guaranteed return of 5.0% on member contributions.) The Variable Annuity Programs include only member contributions and ITHP contributions made on their behalf, as described above, and are expressed in terms of units that are valued monthly based on investment experience.

At retirement, monthly annuities attributable to member contributions and ITHP contributions can be paid in both fixed and variable amounts, based on the member's election, which can be changed once a year. Other benefits are paid only in fixed amounts. Variable annuities are not fixed in amount, but are based on investment experience through the preceding month.

Under all service retirement categories, annuities attributable to member contributions are reduced on an actuarial basis for any loans with unpaid balances outstanding at the date of retirement.

Subject to certain conditions, members become fully vested and eligible for benefits upon the completion of five years of service.

In addition, the Plan provides death benefits and retirement benefits on the occurrence of accidental or ordinary disability.

During the Spring 2000 session, the State Legislature approved and the State Governor (Governor) signed laws that provide automatic Cost-of-Living Adjustments (COLA) for certain retirees and beneficiaries (Chapter 125 of the Laws of 2000), additional service credit for certain Tier I and Tier II members, and reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000).

2. Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The Plan uses the accrual basis of accounting where the measurement focus is on the flow of economic resources. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Contributions from members are recognized when the Employer makes payroll deductions from Plan members' salary. Employer contributions are recognized when due and the Employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) Investment Valuation

Investments are reported at fair value. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Fair value is defined as the quoted market value on the last trading day of the period, except for the Short-Term Investment Fund (STIF) (a money market fund), International Investment Fund (IIF) and Private Equity (PE). The IIF and PE are private funds, which are managed by various investment managers on behalf of the Plan. Fair value is determined by Plan management based on information provided by the various investment managers.

Purchases and sales of securities are reflected on the trade date.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

No investment in any one organization represents 5% or more of the Plan net assets held in trust for pension benefits.

(c) Investment Programs

The Plan's investments are composed of the assets of three investment programs. These are the Fixed Annuity Program and two Variable Annuity Programs: Variable A, which consists primarily of equity securities and Variable B, which consists primarily of guaranteed investment contracts.

Assets of the Fixed Annuity Program of the Plan are co-invested with certain assets of the TDA Program. The TDA Program is funded by voluntary member contributions. Assets of the Variable Annuity Programs of the Plan are co-invested with certain assets of the TDA Program and BERS. These financial statements reflect the Plan's proportionate share of the investments and the related activity of each of these programs.

(d) Income Taxes

Income earned by the Plan is not subject to Federal income tax.

(e) Accounts Payable

Accounts payable is principally comprised of amounts owed to the Plan's banks for overdrawn bank balances. The Plan's practice is to fully invest cash balances in most bank accounts on a daily basis. Overdrawn balances result primarily from outstanding benefit checks that are presented to the banks for payment on a daily basis and these balances are routinely settled each day.

(f) Benefit Payments and Withdrawals

Plan deductions are primarily due to benefit payments and withdrawals. Included in withdrawals is the interest fixed income (8.25% APR) owed and transferred to the TDA Program. TDA interest payments of $452 million and $375 million were classified as part of the benefit payments and withdrawals for Fiscal Year 2006 and Fiscal Year 2005.

(g) Securities-Lending Transactions

State statutes and Board policies permit the Plan to lend its investments to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Plan's custodian lends the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agency bonds, asset-backed securities and international equities and bonds held in collective investment funds. In return, it receives collateral in the form of cash and U.S. Treasury and U.S. Government agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. Management believes the Plan has limited credit risk exposure to borrowers because the amounts the Plan owed the borrowers equaled or exceeded the amounts the borrowers owed the Plan. In addition, the contracts with the Plan's custodian require borrowers to indemnify the Plan if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand within a period specified in each agreement by either the Plan or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted average maturity of 90 days. The underlying fixed-income securities have an average maturity of ten years.

During Fiscal Year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amount of the collateral reported in the Plan's statements of Plan net assets for Fiscal Year 2003 was reduced by $25 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities-lending transactions. In May 2004, the Plan received $1.8 million from a distribution in bankruptcy proceeds from the defaulted issuer. In August 2004 and June 2006, the Plan received $5.7 million and $1.5 million as partial settlements from parties involved in the initial purchase of the impaired security.

The securities-lending program in which the Plan participates only allows pledging or selling securities in the case of borrower default.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities-Lending Transactions*, requires that securities loaned as assets and related liabilities be reported in the statement of Plan net assets. Cash received as collateral on securities-lending transactions and investments made with that cash are reported as assets. Securities received as collateral are also reported as assets if the government entity has the ability to pledge or sell them with a borrower default. Accordingly, the Plan recorded the investments purchased with the cash collateral from securities lending with a corresponding liability for securities lending.

(h) New Accounting Standards Adopted

In Fiscal Year 2006, the City adopted three new statements issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other than Pension Plans.*
- Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions.* The liability required by this standard is reflected in the City's June 30, 2006 financial statements and has no impact on the Plan's financial statements.
- Statement No. 47, *Accounting for Termination Benefits.*

Statement No. 43 prescribes uniform financial reporting standards for Other Postemployment Benefits (OPEB) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes: (i) postemployment healthcare benefits and (ii) other types of postemployment benefits (*e.g.*, life insurance) if provided separately from a pension plan. 'Plans' refer to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they become due. The Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of Statement No. 43 apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system or other entity that administers the plan. The Plan will not be required to create an OPEB trust.

Statement No. 45 establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (*e.g.*, life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by:

(i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. All OPEB liabilities for the Plan are part of the New York City OPEB liability which can be found in The New York City Comprehensive Annual Financial report, a copy of which can be obtained from the New York City Comptroller's Office, Bureau of Accountancy, 1 Centre Street, Room 808, New York, New York 10007.

Statement No. 47 provides guidance for measuring, recognizing, and reporting liabilities and expense related to all termination benefits, including voluntary termination benefits (*e.g.*, early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (*e.g.*, severance benefits). Statement No. 47 excludes postemployment benefits (pensions and other postemployment benefits (OPEB) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. Accounting and reporting requirements for pensions and OPEB are addressed in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. The Statement requires the Plan to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the Plan becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. Current teacher demographics and collective bargaining agreements prohibit the Plan from offering involuntary termination benefits. Regarding voluntary termination benefits, legislation is often considered which if enacted would create early retirement incentives due to a reduction in the required years of service without pension penalty. Early retirement incentives can require a new measurement of benefits costs under GASB 27 and are annually disclosed both in Note 8, Contingent Liabilities and Other Matters, and in the actuarial section of The New York City Comprehensive Annual Financial report, a copy of which can be obtained from the New York City Comptroller's Office, Bureau of Accountancy, 1 Centre Street, Room 808, New York, New York 10007.

3. Investments and Deposits

The Comptroller of the City of New York (the Comptroller) acts as an investment advisor to the Plan. In addition, the Plan employs an independent investment consultant as an investment advisor. The Plan utilizes several investment managers to manage the long-term debt and equity portfolios. The managers are regularly reviewed, with regard to both their investment performance and their adherence to investment guidelines.

(a) Concentration of Credit Risk

The Plan does not have any investments in any one entity that represent 5% or more of Plan net assets.

The legal requirements for Plan investments are as follows:

(i) Fixed income, equity and other investments may be made as permitted by New York State RSSL §§ 176-178(a) and Banking Law § 235, the New York City Administrative Code, and the Legal Investments for New York Savings Banks list as published by The New York State Banking Department, subject to Note 3(b).

(ii) Investments up to 15% of total pension fund assets may be made in instruments not expressly permitted by the State RSSL.

Mellon Global Securities Services was the primary custodian for significantly all of the Variable A and B securities for the years ended June 30, 2006 and 2005. Bank of New York (BONY) was the primary custodian for substantially all of the other securities of the Plan.

Cash deposits are insured by the Federal Deposit Insurance Corporation for up to $100,000 per Plan member and are, therefore, fully insured.

The information reflected in the Credit Ratings and in the Years to Maturity is derived from the Custodian's Risk and Performance Analytics Reporting System.

(b) Credit Risk

Portfolios other than U.S. Government and related portfolios have credit rating limitations. Investment Grade portfolios are limited to mostly ratings of BBB and above except that they are also permitted a 10% maximum exposure to BB & B rated securities. While Non-Investment grade managers are primarily invested in BB & B rated securities, they can also invest up to 7% of their portfolio in securities rated CCC. Non-rated securities are considered to be non-investment grade. The quality ratings of investments, by percentage of the rated portfolio, as described by nationally recognized statistical rating organizations, are as follows:

Investment Type*	**S&P Quality Ratings**									
June 30, 2006	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC & Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	19.41%	–	–	–	–	–	–	–	–	19.41%
Corporate Bonds	9.62%	3.87%	13.18%	10.20%	8.51%	15.84%	1.84%	0.00%	0.99%	64.05%
Yankee Bonds	0.02%	0.08%	0.49%	0.81%	0.05%	0.05%	–	–	–	1.50%
Short Term	0.24%	–	–	–	–	–	–	5.95%	8.85%	15.04%
Percent of Rated Portfolio	29.29%	3.95%	13.67%	11.01%	8.56%	15.89%	1.84%	5.95%	9.84%	100.00%

June 30, 2005	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC & Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	12.30%	–	–	–	–	–	–	–	–	12.30%
Corporate Bonds	22.80%	3.23%	11.23%	10.65%	9.00%	14.78%	2.00%	0.04%	1.10%	74.83%
Yankee Bonds	0.28%	1.17%	3.31%	2.82%	0.89%	1.30%	0.07%	–	–	9.84%
Short Term	0.49%	–	–	–	–	–	–	2.36%	0.18%	3.03%
Percent of Rated Portfolio	35.87%	4.40%	14.54%	13.47%	9.89%	16.08%	2.07%	2.40%	1.28%	100.00%

*U.S. Treasury bonds, notes, and Treasury inflation-protected securities are obligations of the U.S. government or explicitly guaranteed by the U.S. government and therefore not considered to have credit risk and are not included above.

(c) Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name.

Consistent with the Plan's investment policy, the investments are held by the Plan's custodian and registered in the Plan's name.

All of the Plan's deposits are insured and/or collateralized by securities held by a financial institution separate from the Plan's depository financial institution.

All of the Plan's securities are held by the Plan's custodial bank in the Plan's name.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments could be adversely affected by the change in interest rates. Duration limits, in relation to a relevant benchmark, are used to control the portfolios exposure to interest rate changes. Duration is limited to a range of -1 to .75 years. The lengths of investment maturities (in years), as shown by the percent of the rated portfolio, are as follows:

Years to Maturity
Investment Type

June 30, 2006			Investment Maturities		
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S Government	43.72%	1.37%	2.70%	5.04%	34.61%
Corporate Bonds	42.49%	1.03%	17.75%	14.06%	9.65%
Yankee Bonds	1.05%	0.07%	0.35%	0.20%	0.43%
Short Term	12.74%	12.74%	–	–	–
Percent of Rated Portfolio	100.00%	15.21%	20.80%	19.30%	44.69%

June 30, 2005			Investment Maturities		
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S. Government	44.39%	0.69%	6.04%	12.48%	25.18%
Corporate Bonds	40.50%	0.25%	9.36%	8.91%	21.98%
Yankee Bonds	1.07%	0.11%	0.48%	0.26%	0.22%
Short Term	14.04%	14.04%	–	–	–
Percent of Rated Portfolio	100.00%	15.09%	15.88%	21.65%	47.38%

(e) Securities-Lending Transactions

Credit Risk—The quality ratings of investments held as collateral for Securities Lending are as follows:

Investment Type and Fair Value of Securities-Lending Transactions

(In Thousands)

S&P Quality Ratings

June 30, 2006

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 4,092	$ 15,477	$ 19,569
Corporate Bonds	353,348	257,594	682,516	–	–	–	–	163,487	27,976	1,484,921
Yankee Bonds	–	–	–	–	–	–	–	37,524	–	37,524
Short Term	620,566	984,261	450,929	–	–	–	–	514,143	850,649	3,420,548
Total	$ 973,914	$ 1,241,855	$ 1,133,445	$ –	$ –	$ –	$ –	$ 719,246	$ 894,102	$ 4,962,562
Percent of Securities-Lending Portfolio	19.63%	25.02%	22.84%	0.00%	0.00%	0.00%	0.00%	14.49%	18.02%	100.00%

June 30, 2005

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,975	$ –	$ 2,975
Corporate Bonds	167,562	440,680	499,362	–	–	–	–	473,078	–	1,580,682
Yankee Bonds	–	–	–	–	–	–	–	100,491	–	100,491
Short Term	901,088	503,479	68,327	152,216	–	–	–	513,498	833,974	2,972,582
Total	$ 1,068,650	$ 944,159	$ 567,689	$ 152,216	$ –	$ –	$ –	$ 1,090,042	$ 833,974	$ 4,656,730
Percent of Securities-Lending Portfolio	22.95%	20.28%	12.19%	3.27%	0.00%	0.00%	0.00%	23.41%	17.91%	100.00%

Interest Rate Risk—The lengths of investment maturities (in years) of the collateral for Securities Lending are as follows:

Years to Maturity
Investment Type
(In Thousands)

June 30, 2006		Investment Maturities			
	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ 4,092	$ 4,092	$ –	$ –	$ –
Corporate Bonds	1,484,920	216,859	1,268,061	–	–
Yankee Bonds	37,524	15,082	22,442	–	–
Short Term	3,436,026	1,996,816	1,439,210	–	–
Total	$ 4,962,562	$ 2,232,849	$ 2,729,713	$ –	$ –
Percent of Securities-Lending Portfolio	100.00%	44.99%	55.01%	0.00%	0.00%

June 30, 2005		Investment Maturities			
	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ 2,975	$ 2,975	$ –	$ –	$ –
Corporate Bonds	1,580,682	559,094	1,021,588	–	–
Yankee Bonds	100,491	76,139	24,352	–	–
Short Term	2,972,582	1,719,984	1,252,598	–	–
Total	$ 4,656,730	$ 2,358,192	$ 2,298,538	$ –	$ –
Percent of Securities-Lending Portfolio	100.00%	50.64%	49.36%	0.00%	0.00%

4. Contributions and Actuarial Assumptions

The financial objective of the Plan is to fund members' retirement benefits during their active service and to establish Employer contribution rates which, expressed as a percentage of annualized covered payroll, will remain approximately level from year to year. Under current law, the Employer contributes statutorily-required contributions (Statutory Contributions) that together with Member Contributions and investment income would ultimately be sufficient to accumulate assets to pay benefits when due.

(a) Actuarial Change

The changes in actuarial assumptions and methods effective Fiscal Year 2006 resulted in approximately a $159 million decrease in Employer Contributions for Fiscal Year 2006 and an increase in Employer Contributions for future Fiscal Years.

(b) Member Contributions

Members who joined prior to July 27, 1976 contribute by salary deductions on the basis of a normal rate of contribution that is assigned by the Plan at membership. This member normal rate, which is dependent upon age, years of prior service, and actuarial tables in effect at the time of membership, is determined so as to provide approximately one-third of the service retirement allowance at the earliest age for service retirement. For age at membership equal to 20 and with no prior service, the member normal rate is equal to 4.6%. For age at membership equal to 40 with no prior service, the member normal rate is equal to 3.6%.

Members who joined on or after July 27, 1976 are mandated to contribute 3% of salary. Effective October 1, 2000, these members are not required to make contributions after the tenth anniversary of their membership date or completion of ten years of credited service, whichever is earlier.

(c) Employer Contributions

Statutory Contributions to the Plan, determined by the Plan's Chief Actuary of the Office of the Actuary (the Actuary) in accordance with the State statutes and City laws, are generally funded by the Employer within the appropriate fiscal year.

The June 30, 2004 (Lag) actuarial valuation was used to determine the Fiscal Year 2006 Employer Contribution based on revised actuarial assumptions and methods proposed by the Actuary. Where required, the Retirement Board of the Plan adopted those changes to the actuarial assumptions that required Board approval and the State Legislature and Governor enacted Chapter 152 of the Laws of 2006 (Chapter 152/06) to provide for those changes in actuarial assumptions and methods that required legislation, including the continuation of the Actuarial Interest Rate (AIR) assumption of 8.0% per annum.

Chapter 152/06 established the One-Year Lag Methodology to determine the Fiscal Year 2006 Employer Contribution using a June 30, 2004 valuation date. This methodology requires technical adjustments to certain components used to determine the Fiscal Year 2006 Employer Contribution.

Chapter 152/06 also eliminates the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by the benefits provided by Chapter 125 of the Laws of 2000 (Chapter 125/00).

The June 30, 2004 actuarial valuation used to determine the Fiscal Year 2005 Employer Contribution was based on previous actuarial assumptions and methods proposed by the Actuary. Where required, the Retirement Board of the Plan adopted those changes to the actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 85 of the Laws of 2000 (Chapter 85/00) to provide for those changes to the actuarial assumptions and methods that required legislation, including the AIR assumption of 8.0% per annum.

The Frozen Initial Liability Actuarial Cost Method is utilized by the Actuary to calculate the contributions from the Employer. Under this actuarial cost method, the Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999, but with the Unfunded Actuarial Accrued Liability (UAAL) not less than zero. The excess of the Actuarial Present Value (APV) of projected benefits of members as of the valuation date, over the sum of the Actuarial Asset Value (AAV) plus UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. Actuarial gains and losses are reflected in the employer normal contribution rate.

Chapter 85/00 reestablished the UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The schedule of payments toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning Fiscal Year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 70 of the Laws of 1999 established the UAAL as of June 30, 2000, for an Early Retirement Incentive. This UAAL is being amortized on a level basis over a period of five years beginning Fiscal Year 2001.

Chapter 69 of the Laws of 2002 established the UAAL as of June 30, 2003, for an Early Retirement Incentive (Part A only). This UAAL is being amortized on a level basis over a period of five years beginning Fiscal Year 2004.

For the June 30, 2004 (Lag) actuarial valuation, the Actuarial Asset Valuation Method (AAVM) was changed to a method which reset the AAV to Market Value (*i.e.*, Market Value Restart) as of June 30, 1999. As of each June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM, any Unexpected Investment Returns (UIR) for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at a rate of 15%, 15%, 15%, 15%, 20% and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for Fiscal Years 2000 to 2004.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contribution in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions.

For Fiscal Years 2000 through 2005 inclusive, the AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan. This AAVM recognized expected investment returns immediately and phased in UIR.

Under this AAVM, any UIR for Fiscal Years 2000 through 2005 inclusive were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (*i.e.*, cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

For assets of the Variable Annuity Program, current market value is used.

Chapter 125/00 provided eligible retirees and eligible beneficiaries with increased Supplementation as of September 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September 2001. Chapter 125/00 also provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law. Chapter 278/02 required the Actuary to revise the methodology and timing for determining the Statutory Contributions on account of the additional actuarial liabilities attributable to the benefits provided under Chapter 125/00 by extending the phase-in period for funding these liabilities from five years to ten years.

Specifically, in accordance with Chapter 125/00 the Actuary, in calculating the statutory contributions for Fiscal Years 2001 and 2002, included the following percentages of the increase in actuarial liabilities attributable to Chapter 125/00 COLA benefits:

Fiscal Year	Phase-In Percent
2001	20%
2002	40%

Chapter 278/02 revised the phase-in schedule of Chapter 125/00 for Fiscal Years 2003 and later.

Chapter 278/02 provided that, for the June 30, 2000 actuarial valuation, the Actuary was required to recognize, on a theoretical basis, only 10% of the additional actuarial liabilities created by the benefits provided by Chapter 125/00 for determining the Fiscal Year 2001 Employer Contribution.

For each of the next eight June 30 actuarial valuations (*i.e.*, June 30, 2001 to June 30, 2008), the Actuary was required to recognize progressively increasing percentages (*i.e.*, 20% to 90%) of the additional actuarial liabilities attributable to Chapter 125/00 for determining the Fiscal Year 2002 to Fiscal Year 2009 Employer Contributions.

For the June 30, 2009 and later actuarial valuations, the Actuary is required to recognize the full amount of the additional actuarial liabilities attributable to Chapter 125/00 for determining Fiscal Years 2010 and later Employer Contributions.

Because the Fiscal Year 2002 and 2001 accounting periods were closed, Chapter 278/02 had a retroactive effect. The interest-adjusted difference between Employer Contributions actually paid for Fiscal Year 2002 and 2001 under Chapter 125/00 and the amounts that would have been payable under the ten-year phase-in schedule for such fiscal years was deducted from the otherwise required Employer Contribution for Fiscal Year 2003.

The impact of the ten-year phase-in of Chapter 278/02 was to postpone funding of the additional actuarial liabilities attributable to Chapter 125/00, resulting in greater Employer Contributions in later years.

Statutory Contributions for Fiscal Years 2006 and 2005 were equal to the amounts calculated by the Actuary. For Fiscal Year 2005, the Statutory Contribution reflects the impact of Chapter 125/00 and Chapter 278/02 and was less than the Annual Required Contribution computed in accordance with GASB Statement No. 25, due to the phase-in schedule for funding provided by Chapter 125/00 and Chapter 278/02.

5. Member Loans

Members are permitted to borrow up to 75% of their own contributions, including accumulated interest. The balance of member loans receivable at June 30, 2006 and 2005 is $130.8 million and $135.1 million, respectively. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding.

6. Related Parties

The Comptroller has been appointed by law as custodian for Fixed Annuity Program assets with discretionary authority. Securities are held by certain banks under custodial agreements with the Comptroller. The Comptroller, Financial Information Services Agency (FISA) and Office of Payroll Administration (OPA) provide cash receipt and cash disbursement services to the Plan. Actuarial services are provided to the Plan by the Office of the Actuary employed by the Boards of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the Plan. The City also provides other administrative services. The cost of providing such services amounted to $7.3 million and $3.6 million in Fiscal Years 2006 and 2005.

7. Administrative and Investment Expenses

Chapter 593 of the Laws of 1996, effective July 1, 1996, authorized the Board of Trustees to draw upon its assets to pay the administrative expenses incurred by the Plan. Prior to Fiscal Year 1997, the City and Variable A and Variable B Annuity Programs had paid all administrative expenses. In Fiscal Year 2006, total expenses attributed to the Plan were approximately $41.2 million; $33.9 million was paid from the assets of the Plan. The remaining $7.3 million were incurred on behalf of the Plan by other City agencies, primarily the Comptroller's office. In Fiscal Year 2005, total expenses attributed to the Plan were approximately $41.3 million. $4.1 million were attributed to a Variable A and Variable B provision for expenses. Of the $37.2 million, $33.6 million was paid from the assets of the Plan and the remaining $3.6 million was paid by other City agencies on behalf of the Plan. Investment Expenses charged to the investment earnings of the Plan amounted to $63.3 million in 2006 and $60.1 million in 2005.

8. Contingent Liabilities and Other Matters

Contingent Liabilities

In February 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board with regard to the Variable B Annuity Program. The plaintiff alleges that the Trustees of the Plan illegally maintained the Variable B Annuity Program as a fixed-income fund and ignored a requirement that a substantial amount of the Program's assets be invested in equity securities. The Plan and the individual Trustees are the defendants in the case. Plaintiff seeks damages on behalf of all Variable B Annuity Program participants in excess of $250 million. In May 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendant's motion for summary judgment. The discovery process has been completed and a motion for summary judgment is pending. Subsequently, during September 2005, this case was tried in New York Supreme Court. The plaintiff failed to meet his burden of proof that the Trustees of the Plan breached their fiduciary duty to the members. As such, the within complaint was dismissed, and judgment was entered for the defendants. The plaintiff filed a notice of appeal in June 2006.

In August 2002, a lawsuit was instituted on behalf of retired Plan members seeking service credit for work performed as "per session employment." Plaintiffs' request to proceed as a class action was granted by the lower court. Subsequently, the parties have developed an initial settlement agreement and negotiations continue. Final agreement, if consistent with the initial agreement, is expected to result in substantial costs to the Employer.

In March 2005, the President of the UFT and three retired teachers commenced two related lawsuits alleging miscalculation of the retirement formula applicable to TRS members who retire under the 20-Year Pension Plan. If the plaintiffs were to prevail in the action, it could result in substantial costs to the Employer. The City moved to dismiss one of the lawsuits in April 2006.

The Plan also has certain other contingent liabilities. Management of the Plan, on advice from legal counsel, believes that such proceedings and contingencies will not have a material effect on Plan net assets or cause changes in Plan net assets. Under the State statutes and City laws that govern the functioning of the Plan, increases in the obligation of the Plan to members and beneficiaries ordinarily result in increases in the obligations of the Employer to the Plan.

Other Matters

During Fiscal Years 2006 and 2005, certain events described below took place which, in the opinion of Plan management, could have the effect of increasing benefits to members and/or their beneficiaries and therefore would increase the obligations of the Plan. The effect of such events has not been fully quantified. However, it is the opinion of Plan management that such developments would not have a material effect on Plan net assets held in trust for pension benefits or cause changes in Plan net assets held in trust for pension benefits.

(a) Actuarial Audit

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (NYCRS) are conducted every two years. The most recent study was published by The Segal Company (Segal) dated May 2006 and analyzed experience for Fiscal Years 2002 through 2003. Segal intends to make recommendations to the actuarial assumptions and methods after the completion of the analysis of the experience for Fiscal Years 2004 and 2005 which should be completed in the Winter 2006.

(b) Revised Actuarial Assumptions and Methods

In accordance with the ACNY and with appropriate practice, the Boards of Trustees of the five actuarially-funded NYCRS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions.

Based upon a review of an October 2003 experience study by Gabriel, Roeder, Smith & Company (GRS), the Actuary issued an August 31, 2005 Report entitled "Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2005 for the New York City Teachers' Retirement System" (August 2005 Report). Where required, the Retirement Board of the Plan adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the AIR assumption of 8.0% per annum.

The changes in actuarial assumptions and methods effective Fiscal Year 2006 results in somewhat lesser Employer Contributions for Fiscal Years 2006 and 2007 and increased Employer Contributions for future Fiscal Years.

(c) New York State Legislation

Chapter 104 of the Laws of 2005, as amended by Chapter 93 of the Laws of 2005, creates a presumptive eligibility for accidental disability in connection with the World Trade Center attack on September 11, 2001.

Chapter 152/06 provides for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial (Accrued) Liability (UAL). In addition, Chapter 152/06 provides for elimination of the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 445 of the Laws of 2006 creates a presumptive eligibility for accidental death benefits in connection with the World Trade Center attack on September 11, 2001.

SCHEDULE 1: FUNDING PROGRESS (UNAUDITED)
(In Thousands)

Actuarial Valuation Date June 30	(1) Actuarial Asset Value (AAV) *(A)*	(2) Actuarial Accrued Liability (AAL)* *(A) & (B)*	(3) Unfunded AAL (UAAL) *(C) (2) - (1)*	(4) Funded Ratio *(1) ÷ (2)*	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll *(3) ÷ (5)*
2004 (Lag)	$ 33,149,251	$ 33,159,690	$ 10,439	100.0%	$ 6,175,940**	0.2%
2004	32,817,102	32,827,541	10,439	100.0	6,219,809	0.2
2003	33,169,210	33,182,652	13,442	100.0	5,828,757	0.2
2002	34,177,750	34,181,065	3,315	100.0	5,469,239	0.1
2001	35,410,230	35,414,490	4,260	100.0	5,015,449	0.1
2000	36,142,435	36,147,571	5,136	100.0	4,721,526	0.1

** Based on the Frozen Initial Liability Actuarial Cost Method.*

*** The annualized covered payroll under the One-Year Lag Methodology used for the Fiscal Year 2006 Employer Contribution differs from that as of June 30, 2004 to compute Fiscal Year 2005 Employer Contribution due to changes in actuarial assumptions and more recent information on labor contract settlements.*

NOTES

(A) *The AAVM in use for the June 30, 2004 (Lag) and later actuarial valuation resets the AAV to Market Value (i.e., "Market Value Restart") as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.*

Under this revised AAVM used for the Fiscal Year 2006 Employer Contribution, actual UIR for Fiscal Years 2000, 2001, etc., are phased into the AAV beginning June 30, 2000, 2001, etc., at rates of 15%, 15%, 15%, 15%, 20%, and 20% per year (i.e., cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for Fiscal Years 2000 to 2004.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contribution in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions in accordance with the August 2005 Report.

As of June 30, 1999, the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM used for the June 30, 1999 to June 30, 2004 actuarial valuations, any UIR for Fiscal Years 2000 and later were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (i.e., cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

(B) *To effectively assess the funding progress of the Plan, it is necessary to compare the AAV and the AAL calculated in a manner consistent with the Plan's funding method over a period of time. The AAL is the portion of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Employer normal costs and future Member Contributions.*

(C) *The UAAL is the excess of the AAL over the AAV. This is the same as the unfunded frozen AAL, which is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.*

SCHEDULE 2: EMPLOYER CONTRIBUTIONS (UNAUDITED)
(In Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2006	$ 1,316,611	100.0%
2005	1,304,033	94.2
2004	1,015,331	90.6
2003	805,782	79.4
2002	607,763	83.9
2001	571,956	77.8
2000	181,770	100.0

Under the requirements of Governmental Accounting Standards Board Statement Number 25 (GASB 25), the Annual Required Contribution (ARC) is determined through an actuarial valuation reflecting all liabilities of the Plan. The Employer Contribution to the Plan is determined in accordance with statute (i.e., Statutory Contribution). For Fiscal Years 2005, 2004 and 2003, the difference between the ARC and the Statutory Contribution is the consequence of Chapter 278/02 which phased-in over 10 years the additional actuarial liabilities attributable to the benefits provided by Chapter 125/00 (i.e., automatic COLA). For Fiscal Years 2002 and 2001, the difference between the ARC and the Statutory Contribution is the consequence of Chapter 125/00 which phased-in over 5 years the additional actuarial liabilities attributable to this law.

The Statutory Contribution of $1.2 billion, $920.3 million, $639.6 million, $509.9 million, and $445.0 million for Fiscal Years 2005, 2004, 2003, 2002 and 2001, respectively, were computed in accordance with Chapter 125/00, which provides for a five-year phase-in of the additional actuarial liabilities attributable to Chapter 125/00 and Chapter 278/02 which extended the phase-in period for funding these liabilities from five years to ten years.

Chapter 152/06 eliminates the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00. For Fiscal Year 2006, the Statutory Contribution equals the ARC.

SCHEDULE 3: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of June 30, 2004 (Lag) and June 30, 2004. These actuarial valuations were used to determine Employer Contributions for Fiscal Years 2006 and 2005, respectively. Additional information as of the last two actuarial valuations follows:

Valuation Date	June 30, 2004 (Lag)[1]	June 30, 2004
Actuarial cost method	Frozen Initial Liability[2]	Frozen Initial Liability[2]
Amortization method for Unfunded Actuarial Accrued Liabilities	Level dollar for UAAL attributable to 1999 and 2002 (Part A only) Early Retirement Incentive (ERI). All outstanding components of UAAL are being amortized over closed periods[3].	Level dollar for UAAL attributable to 1999 and 2002 (Part A only) Early Retirement Incentive (ERI). All outstanding components of UAAL are being amortized over closed periods[3].
Remaining amortization period	3 years for 2002 ERI (Part A only)	1 year for 1999 ERI and 4 years for 2002 ERI (Part A only)
Actuarial asset valuation method	Modified six-year moving average of market values with a "market value restart" as of June 30, 1999. For assets of Variable Annuity Programs, current market value.	Modified five-year moving average of market values with "market value restart" as of June 30,1999. For assets of Variable Annuity Programs, current market value.
Actuarial assumptions:		
Investment rate of return	8.0% per annum[4] (4.0% per annum for benefits payable under the Variable Annuity Programs).	8.0% per annum[4] (4.0% per annum for benefits payable under the Variable Annuity Programs).
Post-retirement mortality	Tables adopted by Retirement Board during Fiscal Year 2006.	Tables adopted by Retirement Board during Fiscal Year 2000.
Active service: withdrawal, death, disability, service retirement	Tables adopted by Retirement Board during Fiscal Year 2006.	Tables adopted by Retirement Board during Fiscal Year 2000.
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.0% per year[4].	In general, merit and promotion increases plus assumed general wage increases of 3.0% per year[4].
Cost-of-living adjustments	1.3% per annum[4]	1.3% per annum[4]

(1)—Under the One-Year Lag Methodology, the actuarial valuation determines the Employer Contribution for the second following Fiscal Year.

(2)—Under this Actuarial Cost Method, the Initial Liability was re-established as of June 30,1999 by the Entry Age Actuarial Cost Method, but with the UAAL not less than $0.

(3)—In conjunction with Chapter 85/00, there is an amortization method. However, the initial UAAL for the Plan as of June 30,1999 equaled $0 and no amortization period was required. There is an amortization period used if there is a UAAL.

(4)—Developed assuming a long-term Consumer Price Inflation of 2.5% per year.

SCHEDULE 4: INVESTMENT EXPENSES

Year Ended June 30, 2006 (Unaudited)

INVESTMENT EXPENSES Investment Agent	Service	TRS' Share of Fees and Commissions Paid
FIXED ANNUITY PROGRAM		
Aeltus Investment Management, Inc.	Investment Manager	$820,693
Aisling	Investment Manager	49,774
Allegra Capital Partners, L.P.	Investment Manager	31,556
Apollo Investment VI	Investment Manager	333,297
ARES Corp.	Investment Manager	151,795
ARES Corp. OPP II	Investment Manager	257,825
Ariel Capital Mgmt. Inc. - Mid. Cap. & Small Cap.	Investment Manager	1,125,743
Aurora Equity Capital Partners	Investment Manager	168,356
Bank of Ireland Asset Management (U.S.) Limited	Investment Manager	792,558
Barclays Global Investors N.A.	Investment Manager	274,150
BDCM OPP	Investment Manager	338,630
BlackRock TIPS MTA	Investment Manager	88,305
BlackRock Financial Management - Corp.	Investment Manager	253,115
BlackRock Financial Management - Mortgage	Investment Manager	325,511
Blackstone Capital	Investment Manager	18,079
Blackstone Capital V	Investment Manager	339,392
Blackstone Mezzanine Partners II	Investment Manager	296,667
Blackstone RE	Investment Manager	6,626
Bridgepoint Europe III	Investment Manager	193,136
Canyon Johnson	Investment Manager	620,115
Canyon Johnson URB	Investment Manager	121,136
Capital Guardian Trust Co. (Domestic Eq.)	Investment Manager	385,238
Capital Guardian Trust Co. (Int'l)	Investment Manager	4,335,598
Carlyle Partners	Investment Manager	24,621
CD & R Fund VII, L.P.	Investment Manager	697,250
Chicago Equity Partners	Investment Manager	550,718
Citi Invest	Investment Manager	1,500,000
Coller Capital	Investment Manager	285,284
Cony GTM	Investment Manager	131,969
Cypress Associates	Investment Manager	150,963
Delaware International Advisors, Ltd.	Investment Manager	2,944,041
Erasmus NYC Growth Fund, L.P.	Investment Manager	474,405
Ethos Private Equity Fund	Investment Manager	285,045
Fairview Capital Partners	Investment Manager	228,093
FdG Capital Partners	Investment Manager	201,621
FdG Capital Partners II	Investment Manager	338,234
Fisher, Francis, Trees & Watts, Inc. - Gov't	Investment Manager	257,310
Fisher, Francis, Trees & Watts, Inc. - Int'l	Investment Manager	313,052
Freeman Spogli & Co., Inc.	Investment Manager	112,605
G I Partners	Investment Manager	244,108
G.E. Investment Management, Inc.	Investment Manager	1,893,222
GSC Recovery	Investment Manager	124,897
InterMedia Partners VII, L.P.	Investment Manager	273,087
J.P. Morgan	Investment Manager	43,843
Landmark Eq. XI	Investment Manager	120,832
Landmark Fund XIII	Investment Manager	74,435
Leeds Weld Equity Partners	Investment Manager	402,733
Lehman Brothers - (Alternative Inv.)	Investment Manager	532,094
Lehman Brothers - Gov't	Investment Manager	73,033
Lehman Brothers - Mortgage	Investment Manager	222,845
Lend Lease Rosen	Investment Manager	1,226,070
Lincolnshire Equity Fund III	Investment Manager	513,153
Lumina Ventures	Investment Manager	352,702
Mackay Shields	Investment Manager	1,456,218
Markstone Capital Partners	Investment Manager	789,068
Mellon Capital Management	Investment Manager	112,222
Morgan Stanley (Domestic Eq.)	Investment Manager	1,921,535
Morgan Stanley Mortgage	Investment Manager	628,863
New Mountain Partners	Investment Manager	65,073
New Mountain Partners II	Investment Manager	300,664
OCM Re Opp Fund	Investment Manager	179,922

Continued on page 63

SCHEDULE 4: INVESTMENT EXPENSES *(Continued)*
Year Ended June 30, 2006 (Unaudited)

Paladin Homeland Security	Investment Manager	951,173
Palladium Equity Partners	Investment Manager	489,578
PIMCO Advisor - Gov't	Investment Manager	181,422
PIMCO Advisor - Mortgage	Investment Manager	454,987
PIMCO TIPS MTA	Investment Manager	644,737
Prism Venture Partners V	Investment Manager	938,009
Quadrangle Capital Partners II	Investment Manager	575,776
Relational Investors X, L.P.	Investment Manager	440,148
Ripplewood Partners	Investment Manager	230,008
Rowe Price Fleming International Inc.	Investment Manager	1,265,702
RRE Ventures 111, L.P.	Investment Manager	563,775
SCP Private Equity Partners	Investment Manager	396,450
Security Capital	Investment Manager	1,298,920
Seix Advisors	Investment Manager	656,852
Shenkman Capital	Investment Manager	1,236,568
Silver Lake	Investment Manager	155,823
Solera Partners	Investment Manager	346,070
Sprucegrove Investment Management, Ltd.	Investment Manager	2,338,965
State Street TIPS MTA	Investment Manager	13,982
Stone Harbor	Investment Manager	777,271
T. Rowe Price - Corp.	Investment Manager	298,739
T. Rowe Price Associates, Inc.	Investment Manager	982,437
Taplin, Canida, Habacht	Investment Manager	462,147
Tishman Speyer	Investment Manager	261,956
U.S. Power Fund II	Investment Manager	1,356,892
VSS Comm	Investment Manager	143,493
Westpeak Investment Advisors, L.P.	Investment Manager	384,796
Yucaipa American Alliance Fund	Investment Manager	873,489
Custodial fees	Custodial Bank	1,041,758
Consultant fees		833,686
TOTAL FIXED ANNUITY PROGRAM		**$ 51,968,734**

VARIABLE A ANNUITY PROGRAM

Alliance Capital Management, L.P.	Investment Manager	$214,192
Amalgamated Bank of New York	Investment Manager	20,794
Barclays Global Investors, N.A. - Int'l. Alpha Tilts	Investment Manager	1,565,874
Barclays Global Investors, N.A. - Russell 3000	Investment Manager	52,693
Barclays Global Investors, N.A. - Tactical Asset	Investment Manager	284,497
Brinson Partners - Non U.S.	Investment Manager	791,148
Capital Guardian Trust Co.	Investment Manager	676,877
Cardinal Capital Management	Investment Manager	142,288
CRM - Mid. Value	Investment Manager	29,771
Enhanced Investment Technologies, Inc. (INTECH)	Investment Manager	681,847
Goldman Sachs Asset Management	Investment Manager	902,759
High Pointe Capital Management	Investment Manager	38,276
Lynmar Capital Group	Investment Manager	93,498
Mellon Capital Management Corp. - Russell 3000	Investment Manager	46,434
Mellon Capital Management Corp. - Enhanced Asset Allocation	Investment Manager	531,301
PanAgora Asset Managemnet	Investment Manager	190,601
Profit Investment Management	Investment Manager	92,197
Rainier - Small / Mid.	Investment Manager	32,477
Shapiro - Small Cap.	Investment Manager	47,936
Short Term A - QPP & TDA	Investment Manager	30,653
Sound Shore Management, Inc.	Investment Manager	247,175
Wellington - Lrg. Cap. Core	Investment Manager	550,618
Mellon Trust Co.	Custodial Bank	94,515
Interactive Data	Financial Information	24,399
Consultant Fees		163,767
TOTAL VARIABLE A ANNUITY PROGRAM		**$ 7,546,587**

Continued on page 64

SCHEDULE 4: INVESTMENT EXPENSES *(Continued)*
Year Ended June 30, 2006 (Unaudited)

VARIABLE B ANNUITY PROGRAM		
Standish Mellon Asset Mgmt./NISA Investment Advisors	Funding Advisor	$ 126,911
Mellon Global Securities Services	Custodial Bank	4,792
Consultant fees		50,213
TOTAL VARIABLE B ANNUITY PROGRAM		**$ 181,915**
TOTAL INVESTMENT EXPENSES**		**$ 59,697,236**

Total investment expenses does not include $3,611,496 Variable A and B provisions for expenses. See Notes to Financial Statements, No. 7, Administrative and Investment Expenses.

SCHEDULE 5: PROFESSIONAL FEES
Year Ended June 30, 2006 (Unaudited)

PROFESSIONAL	NATURE OF SERVICE	
Bank of New York	Custody Service	$ 575,678
Interactive Data	Investment Service	24,399
Mellon	Custody Services	101,184
Pacific Group	Consulting Services	730,868
Rocaton Investment Advisors	Investment Advisors	514,501
Townsend Real Estate	Consulting Services	266,500
TOTAL		**$ 2,213,130**

SCHEDULE 6: ADMINISTRATIVE EXPENSES

Year Ended June 30, 2006 (Unaudited)

PERSONNEL SERVICES		
Staff Salaries	$16,669,958	
Social Security	902,286	
Insurance (Health)	1,432,268	
Welfare Benefit Fund	675,474	
TOTAL PERSONNEL SERVICES		**$19,679,986**
PROFESSIONAL SERVICES		
Data Processing Support Services	$ 2,501,455	
Temporary and Consulting Services	1,785,423	
Professional Services	371,195	
TOTAL PROFESSIONAL SERVICES		**$ 4,658,073**
COMMUNICATION		
Telephone	$ 271,490	
Postage	542,060	
Local Traveling Expenses*	35,747	
Non-Local Traveling Expenses**	29,828	
TOTAL COMMUNICATION		**$ 879,125**
RENTALS		
Office Space	$ 3,984,454	
Equipment Leasing	339,359	
Relocation Expenses	3,105,884	
TOTAL RENTALS		**$ 7,429,697**
MISCELLANEOUS		
Utilities	$ 245,988	
Supplies and Materials	70,265	
Maintenance, Repairs, and Services	222,224	
Office Equipment and Furniture	16,659	
Advertising Expenses	75,053	
Storage	109,222	
Printing	369,321	
Training Program	177,854	
Books	4,478	
TOTAL MISCELLANEOUS		**$ 1,291,063**
TOTAL ADMINISTRATIVE EXPENSES* **		**$ 33,937,944**

* *Includes Local Travel Fare $19,140, Courier $8,614, and Meals & Refreshments $7,993.*

** *Includes Hotels & Meals $14,092, Travel Fare $7,413, and Seminars and Conferences $8,323.*

*** *Other administrative expenses of $7,263,778 were paid on TRS' behalf by other City agencies under Regulation 85 of the New York State Superintendent of Insurance Regulations.*

See Notes to Financial Statements, No. 7, Administrative and Investment Expenses.

Financial Section (TDA)

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Independent Auditors' Report

To the Board of Trustees
Teachers' Retirement System of the City of New York
Tax-Deferred Annuity Program

We have audited the accompanying statements of Plan net assets of the Teachers' Retirement System of the City of New York Tax-Deferred Annuity Program (the Plan or TDA Program) as of June 30, 2006 and 2005 and the related statements of changes in Plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the Plan net assets as of June 30, 2006 and 2005, and the changes in Plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Deloitte & Touche LLP

October 26, 2006

Management's Discussion and Analysis (Unaudited)

This narrative discussion and analysis of the Teachers' Retirement System of the City of New York Tax-Deferred Annuity Program's (the TDA Program or the Plan) financial performance provides an overview of the Plan's financial activities for the fiscal years ended June 30, 2006, 2005, and 2004. It is meant to assist the reader in understanding the TDA Program's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with prior years' activity and results. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements, which begin on page 76.

The Teachers' Retirement System of the City of New York (TRS) maintains the TDA Program and the TRS Qualified Pension Plan (QPP). The TDA Program became effective February 1, 1970 and was established pursuant to and is administered according to the rules and regulations of Internal Revenue Code Section 403(b).

Members of TRS QPP have the option to participate in the TDA Program, which provides a means of deferring income tax payments on members' voluntary contributions until the period after retirement or upon withdrawal of contributions.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Program's basic financial statements. The basic financial statements are as follows:

- **The Statement of Plan Net Assets** presents the financial position of the Plan at fiscal year-end. It indicates the assets available for payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statement of Changes in Plan Net Assets** presents the results of activities during the fiscal year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- **The Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the TDA Program's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Pronouncements.

Financial Highlights

The TDA Program's total assets exceeded its liabilities by \$14.1 billion, \$12.6 billion and \$11.4 billion as of June 30, 2006, 2005, and 2004, respectively. These net assets are held in trust for the payment of future benefits to members and pensioners.

The TDA Program's net assets held in trust, at June 30, 2006, increased by \$1.5 billion from June 30, 2005 and \$1.2 billion from June 30, 2004.

Receivables for investment securities sold at June 30, 2006 amounted to \$3.0 million, an increase of \$0.9 million (40.5%) from June 30, 2005 and a decrease of \$34.0 million (91.9%) from June 30, 2004. This balance is principally composed of receivables for securities that have been sold but have not yet settled (*i.e.*, the cash has not been collected). Securities sold typically do not settle until a few days after the trade date.

STATEMENT OF PLAN NET ASSETS

As of June 30

	2006	2005	2004
Cash	$ 40,445	$ 62,440	$ 33,287
Receivables for investment securities sold	3,013,855	2,144,954	36,985,917
Receivables for accrued interest and dividends	21,725,178	15,763,443	11,787,202
Receivables from TRS QPP	23,337,320	27,316,963	322,257,651
Member loan receivables	194,890,597	180,501,089	174,646,742
Investments, at fair value	15,217,609,401	14,148,825,064	13,149,040,896
TOTAL ASSETS	**$ 15,460,616,796**	**$ 14,374,613,953**	**$ 13,694,751,695**
Accounts payable	97,515,589	93,390,372	80,889,147
Payables for investment securities purchased	4,518,431	4,704,086	16,793,290
Accrued benefits payable	54,244,650	45,436,185	40,364,697
Payables for securities-lending transactions	1,184,099,879	1,620,904,840	2,156,783,932
TOTAL LIABILITIES	**$ 1,340,378,549**	**$ 1,764,435,483**	**$ 2,294,831,066**
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	**$ 14,120,238,247**	**$ 12,610,178,470**	**$ 11,399,920,629**

Receivables for accrued earnings at June 30, 2006 were $21.7 million, an increase of $5.9 million (37.3%) over June 30, 2005 and $9.9 million (83.9%) over June 30, 2004.

Receivables from QPP represent the TDA share of investment income and receivables for securities from Variable Funds. The $294.9 million decrease during Fiscal Year 2005 was a result of receiving the Tax-Deferred Annuity (TDA) Program interest ($307 million) due for Fiscal Year 2004.

Member loan receivables amounted to $194.9 million, an increase of $14.4 million (8.0%) from the prior June and $20.2 million (11.6%) from June 30, 2004.

Investments at June 30, 2006 were $15.2 billion, an increase of $1.1 billion (7.6%) from June 30, 2005 and $2.1 billion (15.7%) from June 30, 2004.

Accounts payable at June 30, 2006 amounted to $97.5 million, compared to $93.4 million at June 30, 2005 for an increase of 4.4%, and $80.9 million at June 30, 2004 for an increase of 20.6%. The TDA Program's accounts payable balance primarily funds the TDA Program's investment and administrative expense payments.

Payables for investment securities purchased at June 30, 2006 amounted to $4.5 million, decreasing $0.2 million (3.9%) from June 30, 2005 and $12.3 million (73.1%) from June 30, 2004. This balance is principally composed of payables for securities that have been purchased but have not yet settled (*i.e.,* the cash has not been disbursed). Securities sold typically do not settle until a few days after the trade date.

Accrued benefits payable at June 30, 2006 amounted to $54.2 million, an increase of $8.8 million (19.4%) from June 30, 2005 and $13.9 (34.4%) million from June 30, 2004.

Changes in Plan Net Assets

TRS received $556.8 million in member contributions during Fiscal Year 2006, an increase of $63.3 million (12.8%) from Fiscal Year 2005 and $77.4 million (16.1%) from Fiscal Year 2004.

STATEMENT OF CHANGES IN PLAN NET ASSETS

	As of June 30		
	2006	**2005**	**2004**
Additions:			
Member contributions	$ 556,812,734	$ 493,523,473	$ 479,421,330
Net investment income	1,294,161,402	1,004,892,433	1,521,307,056
TOTAL NET ADDITIONS	**$ 1,850,974,136**	**$ 1,498,415,906**	**$ 2,000,728,386**
Deductions:			
Administrative expenses	8,889,316	8,497,278	5,748,006
Benefit payments and withdrawals	332,025,043	279,660,786	290,770,082
TOTAL DEDUCTIONS	**$ 340,914,359**	**$ 288,158,064**	**$ 296,518,088**
NET INCREASE	**$ 1,510,059,777**	**$ 1,210,257,842**	**$ 1,704,210,298**

Net investment income increased by $289.3 million (28.8%) from Fiscal Year 2005 and decreased by $227.1 million (14.9%) from Fiscal Year 2004.

Administrative expenses for the Fiscal Year ended June 30, 2006 totaled $8.9 million, an increase of $0.4 million (4.6%) from Fiscal Year 2005 and $3.1 million (54.7%) from Fiscal Year 2004.

Benefit payments and withdrawals, consisting primarily of total and partial withdrawals, increased by $52.4 million (18.7%) from Fiscal Year 2005 and by $41.3 million (14.2%) from Fiscal Year 2004.

Investments

TRS uses the S&P 500 and Russell 3000 indices to provide benchmarks for equity (domestic and private) investment returns and the MSCI EAFE index for international equity returns. The Citigroup BB & B Rated and NYC indices are used to provide benchmarks for debt securities. The Wilshire Real Estate and NCREIF NPI indices and Solomon's two-year US treasury fund are used to provide benchmarks for mortgage investments and investment contracts, respectively. TRS does not use benchmarks for short-term investments.

Investments held by TRS are listed according to their investment classification in the following table:

INVESTMENT SUMMARY

Fair Value

Type of Investment	2006	2005
Short-term investments	$ 408,643,817	$ 374,444,798
U.S. debt security (Bonds)	1,650,152,415	1,333,225,707
U.S. equity securities	10,519,381,996	9,682,815,213
Private equity	114,953,963	68,495,347
Mutual funds — International equity	944,058,197	781,689,443
Treasury inflation-protected securities	208,364,439	71,175,763
Mortgage	10,292,097	9,340,605
Promissory notes	1,211,506	1,263,588
Managed investment contracts	121,702,788	129,214,277
Guaranteed investment contracts	54,748,304	76,255,483
Collateral from securities lending	1,184,099,879	1,620,904,840
TOTAL	**$ 15,217,609,401**	**$ 14,148,825,064**

Contact information

This financial report is designed to provide a general overview of the Teachers' Retirement System of the City of New York Tax-Deferred Annuity Program's finances. Questions concerning any data provided in this report or requests for additional information should be directed to Paul J. Raucci, Chief Accountant, Teachers' Retirement System of the City of New York, 55 Water Street, New York, NY 10041.

STATEMENT OF PLAN NET ASSETS—TDA

	As of June 30 2006	2005
ASSETS		
Cash	$ 40,445	$ 62,440
Receivables:		
Accrued interest and dividends receivable	21,725,178	15,763,443
Receivables for investment securities sold	3,013,855	2,144,954
Receivables from TRS QPP (Note 5)	23,337,320	27,316,963
Member loans	194,890,597	180,501,089
TOTAL RECEIVABLES	**$ 242,966,950**	**$ 225,726,449**
Investments, at fair value (Notes 2 and 3):		
Fixed funds:		
Short-term investment fund	227,393,449	217,756,608
Debt securities:		
U.S. Government	778,196,349	691,035,416
Corporate	749,180,890	625,519,207
Foreign	18,497,203	16,671,084
Equity securities:		
Domestic	3,145,266,593	2,547,495,351
Private equity	114,953,963	68,495,347
Mutual funds:		
International equity	944,058,197	781,689,443
Treasury inflation-protected securities	208,364,439	71,175,763
Mortgages	10,292,097	9,340,605
Promissory notes	1,211,506	1,263,588
Securities-lending collateral	1,117,017,096	791,085,733
Variable A funds:		
Short-term investments	112,028,532	113,591,585
Equity securities	7,374,115,403	7,135,319,862
Corporate bonds	104,277,973	—
Securities-lending collateral	33,857,596	696,479,839
Variable B funds:		
Short-term investments	69,221,836	43,096,605
Managed investment contracts	121,702,788	129,214,277
Guaranteed investment contracts	54,748,304	76,255,483
Securities-lending collateral	33,225,187	133,339,268
TOTAL INVESTMENTS	**$ 15,217,609,401**	**$ 14,148,825,064**
TOTAL ASSETS	**$ 15,460,616,796**	**$ 14,374,613,953**
LIABILITIES		
Accounts payable	97,515,589	93,390,372
Payables for investment securities purchased	4,518,431	4,704,086
Accrued benefits payable	54,244,650	45,436,185
Securities lending (Note 2)	1,184,099,879	1,620,904,840
TOTAL LIABILITIES	**$ 1,340,378,549**	**$ 1,764,435,483**
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	**$ 14,120,238,247**	**$ 12,610,178,470**

(The accompanying notes are an integral part of these financial statements.)

STATEMENT OF CHANGES IN PLAN NET ASSETS—TDA

	As of June 30 2006	2005
ADDITIONS		
CONTRIBUTIONS:		
Member contributions (Note 3)	$ 556,812,734	$ 493,523,473
INVESTMENT INCOME (Note 5):		
Interest income	471,515,823	387,090,758
Dividend income	23,986,039	25,575,405
Net appreciation in fair value of investments	815,552,286	605,479,775
TOTAL INVESTMENT GAIN	**$ 1,311,054,148**	**$ 1,018,145,938**
Less		
Investment expenses	17,061,552	13,253,505
SECURITY-LENDING TRANSACTIONS:		
Security-lending income	4,070,913	21,584,931
Security-lending fees	(3,902,107)	(21,584,931)
Net securities-lending income	168,806	—
NET INVESTMENT GAIN	**$ 1,294,161,402**	**$ 1,004,892,433**
TOTAL NET ADDITIONS	**$ 1,850,974,136**	**$ 1,498,415,906**
DEDUCTIONS:		
Benefit payments and withdrawals (Note 4)	332,025,043	279,660,786
Administrative expenses (Note 8)	8,889,316	8,497,278
TOTAL DEDUCTIONS	**$ 340,914,359**	**$ 288,158,064**
NET INCREASE	1,510,059,777	1,210,257,842
NET ASSETS HELD IN TRUST FOR BENEFITS AT BEGINNING OF YEAR	12,610,178,470	11,399,920,628
NET ASSETS HELD IN TRUST FOR BENEFITS AT END OF YEAR	**$ 14,120,238,247**	**$ 12,610,178,470**

(The accompanying notes are an integral part of these financial statements.)

Notes to Financial Statements—Tax-Deferred Annuity Program

1. TDA Program Description

The Teachers' Retirement System of the City of New York (TRS) maintains the TRS Tax-Deferred Annuity Program (the TDA Program or the Plan) and the TRS Qualified Pension Plan (QPP). The TDA Program was established pursuant to Internal Revenue Code Section 403(b) and became effective February 1, 1970. The TRS QPP is maintained as a separate plan and is not included in these financial statements.

Members of the TRS QPP have the option to participate in the TDA Program, which provides a means of deferring income tax payments on members' voluntary contributions until the periods after retirement or upon withdrawal of contributions. The TDA Program is administered according to the rules and regulations of Internal Revenue Code Section 403(b).

2. Summary of Significant Accounting Policies and Plan Net Asset Matters

(a) Basis of Accounting

The TDA Program is accounted for on an accrual basis of accounting in which the measurement focus is on a flow of economic resources. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

(b) Investment Valuation

Investments are reported at fair value. Trading securities are stated at the last reported sales price on a national exchange on the last business day of the fiscal year. Fair value is defined as the quoted market value on the last trading day of the period, except for the Short-Term Investment Fund (the STI) (a money market fund), International Investment Funds (the IIF), and Private Equity (the PE). The IIF and PE are privately held funds, which are managed by various investment managers on behalf of the TDA Program. The TDA Program's management determines fair value based on information provided by the various investment managers. Management records the STI at cost, which approximates fair value.

Purchases and sales of securities are reflected on the trade date. Gains and losses on sale of securities are based on the average cost of securities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

No investment in any one organization represents 5% or more of the Plan net assets held for benefits.

(c) Income Taxes

Income of the TDA Program is not subject to federal income tax.

(d) Securities-Lending Transactions

State statutes and Board policies permit the TDA Program to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The TDA Program's custodian lends the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities and international equities, and bonds held in collective investment funds. In return, it receives collateral in the form of cash and treasury and agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. Management believes the TDA Program has limited credit risk exposure to borrowers because the amounts the TDA Program owed the borrowers equaled or exceeded the amounts the borrowers owed the TDA Program. The contracts with the TDA Program's custodian require borrowers to indemnify the TDA Program if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or if there is a failure to pay the TDA Program for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand within a period specified in each agreement by either the TDA Program or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted average maturity of 90 days. The underlying fixed-income securities in these pools have an average maturity of ten years.

The securities-lending program in which the TDA Program participates only allows pledging or selling securities in the case of borrower default.

The Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires that securities loaned as assets and the related liabilities be reported in the statements of Plan net assets. Cash received as collateral on securities-lending transactions and investments made with that cash are reported as assets. Securities received as collateral are also reported as assets if the government entity has the ability to pledge or sell them with a borrower default. Liabilities resulting from these transactions are reported in the statements of Plan net assets. Accordingly, the TDA Program recorded the investments purchased with the cash collateral as collateral from securities lending with a corresponding liability as securities lending.

3. Funding and Contributions

Contributions to the TDA Program are made by the members only and are voluntary. Active members of the Plan are required to submit a salary-reduction agreement and enrollment request. Re-enrollment in the TDA Program is automatic, and members may choose to stop contributions at any time. A participant may elect to exclude an amount (within the maximum allowed by the IRS) of this compensation from current taxable income by contributing it to the TDA Program. This maximum amount is calculated based on various individual factors such as birth date, annual salary, years of employment with the New York City Department of Education or the City University of New York, accumulated contributions, Increased-Take-Home-Pay rate, and Annuity Savings Fund rate. Also, members can elect to invest their funds among the following investment programs: Fixed, Variable A, or Variable B Annuity Programs (see Note 5).

An expense charge is deducted from the TDA Program contributions to cover the expenses incurred in the operation of the TDA Program. This expense charge is determined by the Board of Trustees.

Benefits provided under the TDA Program are derived from members' accumulated contributions. No benefits are provided by employer contributions.

4. TDA Program Description and Benefits

A participant may withdraw all or part of the balance of his/her account prior to or at the time of retirement. As of January 1, 1989, the tax laws restrict withdrawals of tax-deferred annuity contributions and accumulated earnings thereon for reasons other than retirement or termination. Contributions made after December 31, 1988 and investment earnings credited after December 31, 1988 may only be withdrawn upon attainment of age 59½ or for reasons of hardship (as defined by IRS regulations). However, hardship withdrawals are limited to contributions only.

An in-service member may withdraw all or part of the contributions made before January 1, 1989 and the earnings credited to accounts before January 1, 1989. If the withdrawal is prior to retirement, the member may not contribute to the TDA Program for the rest of the calendar year.

If a member dies while an in-service employee, the full value of his/her TDA account at the date of death is paid to the member's beneficiary or estate.

When a member resigns before attaining vested rights under the TRS QPP, (s)he may withdraw the value of the account or may leave the account in the TDA Program for a period of up to seven school years after the date of resignation, provided (s)he does not withdraw his/her account from the TRS QPP. If a member resigns after attaining vested rights under the TRS QPP, (s)he may leave his/her account in the TDA Program, provided the member does not withdraw his/her QPP funds. Once a withdrawal is made from the TRS QPP, the member's participation in the TDA Program is automatically terminated, and the value of the account in the TDA Program will be refunded to the member.

At retirement, several payment options are available to those who annuitize their TDA funds. Generally, the same optional selection of benefits that is available through the TRS QPP is available under the TDA Program.

5. Investment Programs

The TDA Program's investments comprise the assets of three investment programs. These are the Fixed Annuity Program and two Variable Annuity Programs, one of which consists primarily of equity securities (Variable A) and the other that consists primarily of guaranteed investment contracts and other stable-value investment vehicles (Variable B).

Assets of the Fixed Annuity Program of the TDA Program are co-invested with certain assets of the TRS QPP. Assets of the Variable Annuity Programs of the TDA Program are co-invested with certain assets of the TRS QPP and the New York City Board of Education Retirement System. These financial statements reflect the TDA Program's proportionate share of the assets and investment activities of each of these programs.

Payments and receivables from the TRS QPP represent, principally, amounts due from/due to the TDA Program for net benefits paid by the TRS QPP on behalf of the TDA Program.

6. Investments and Deposits

The Comptroller of the City of New York (the Comptroller) acts as an investment advisor to the Plan. In addition, the Plan employs an independent investment consultant as an investment advisor. The Plan utilizes several investment managers to manage the long-term debt and equity portfolios. The managers are regularly reviewed, with regard to both their investment performance and their adherence to investment guidelines.

(a) Concentration of Credit Risk

The Plan does not have any investments in any one entity that represent 5% or more of Plan net assets. The legal requirements for Plan investments are as follows:

(i) Fixed income, equity, and other investments may be made as permitted by New York State RSSL §§ 176-178(a) and Banking Law § 235, the New York City Administrative Code, and the Legal Investments for New York Savings Banks list as published by The New York State Banking Department, subject to Note 3(b).

(ii) Investments up to 15% of total pension fund assets may be made in instruments not expressly permitted by the State RSSL.

Mellon Global Securities Services was the primary custodian for significantly all of the Variable A and B securities for the years ended June 30, 2006 and 2005. Bank of New York (BONY) was the primary custodian for substantially all of the other securities of the Plan.

Cash deposits are insured by the Federal Deposit Insurance Corporation for up to $100,000 per Plan member and are, therefore, fully insured.

The information reflected in the Credit Ratings and in the Years to Maturity is derived from the Custodian's Risk and Performance Analytics Reporting System. Such information is prepared as a result of the Custodian's Risk Management Analysis.

(b) Credit Risk

Portfolios other than U.S. Government and related portfolios have credit rating limitations. Investment Grade portfolios are limited to mostly ratings of BBB and above except that they are also permitted a 10% maximum exposure to BB & B-rated securities. While non-investment grade managers are primarily invested in BB & B-rated securities, they can also invest up to 7% of their portfolio in securities rated CCC. Non-rated securities are considered to be non-investment grade. The quality ratings of investments, by percentage of the rated portfolio, as described by nationally recognized statistical rating organizations, are as follows:

Investment Type*	S&P Quality Ratings								
June 30, 2006	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	19.41%	–	–	–	–	–	–	–	–	19.41%
Corporate Bonds	9.62%	3.87%	13.18%	10.20%	8.51%	15.84%	1.84%	0.00%	0.99%	64.05%
Yankee Bonds	0.02%	0.08%	0.49%	0.81%	0.05%	0.05%	–	–	–	1.50%
Short Term	0.24%	–	–	–	–	–	–	5.95%	8.85%	15.04%
Percent of Rated Portfolio	29.29%	3.95%	13.67%	11.01%	8.56%	15.89%	1.84%	5.95%	9.84%	100.00%

June 30, 2005	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	12.30%	–	–	–	–	–	–	–	–	12.30%
Corporate Bonds	22.80%	3.23%	11.23%	10.65%	9.00%	14.78%	2.00%	0.04%	1.10%	74.83%
Yankee Bonds	0.28%	1.17%	3.31%	2.82%	0.89%	1.30%	0.07%	–	–	9.84%
Short Term	0.49%	–	–	–	–	–	–	2.36%	0.18%	3.03%
Percent of Rated Portfolio	35.87%	4.40%	14.54%	13.47%	9.89%	16.08%	2.07%	2.40%	1.28%	100.00%

*U.S. Treasury bonds, notes, and Treasury inflation-protected securities are obligations of the U.S. government or explicitly guaranteed by the U.S. government and, therefore, not considered to have credit risk and are not included above.

(c) Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

Consistent with the Plan's investment policy, the investments are held by the Plan's custodian and registered in the Plan's name.

All of the Plan's deposits are insured and/or collateralized by securities held by a financial institution separate from the Plan's depository financial institution.

All of the Plan's securities are held by the Plan's custodial bank in the Plan's name.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments could be adversely affected by the change in interest rates. Duration limits, in relation to a relevant benchmark, are used to control the portfolios exposure to interest rate changes. Duration is limited to a range of -1 to .75 years. The lengths of investment maturities (in years), as shown by the percent of the rated portfolio, are as follows:

Years to Maturity
Investment Type

June 30, 2006

		Investment Maturities			
	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	43.72%	1.37%	2.70%	5.04%	34.61%
Corporate Bonds	42.49%	1.03%	17.75%	14.06%	9.65%
Yankee Bonds	1.05%	0.07%	0.35%	0.20%	0.43%
Short Term	12.74%	12.74%	–	–	–
Percent of Rated Portfolio	100.00%	15.21%	20.80%	19.30%	44.69%

June 30, 2005

	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	15.72%	0.24%	2.14%	4.42%	8.92%
Corporate Bonds	75.31%	0.46%	17.40%	16.58%	40.87%
Yankee Bonds	6.86%	0.71%	3.04%	1.68%	1.43%
Short Term	2.11%	2.11%	–	–	–
Percent of Rated Portfolio	100.00%	3.52%	22.58%	22.68%	51.22%

(e) Securities-Lending Transactions

Credit Risk—The quality ratings of investments held as collateral for Securities Lending are as follows:

Investment Type and Fair Value of Securities-Lending Transactions

(In Thousands)

S&P Quality Ratings

June 30, 2006

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 921	$ 3,807	$ 4,728
Corporate Bonds	81,348	70,505	172,253	–	–	–	–	36,790	6,882	367,778
Yankee Bonds	–	–	–	–	–	–	–	8,444	–	8,444
Short Term	142,865	221,507	113,805	–	–	–	–	115,701	209,272	803,150
Total	$ 224,213	$ 292,012	$ 286,058	$ –	$ –	$ –	$ –	$ 161,856	$ 219,961	$ 1,184,100
Percent of Securities-Lending Portfolio	18.94%	24.66%	24.16%	0.00%	0.00%	0.00%	0.00%	13.67%	18.58%	100.00%

June 30, 2005

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 3,570	$ –	$ 3,570
Corporate Bonds	33,478	88,045	99,769	–	–	–	–	98,012	–	319,304
Yankee Bonds	–	–	–	–	–	–	–	20,077	–	20,077
Short Term	221,418	289,233	30,703	–	–	–	–	351,576	385,024	1,277,954
Total	$ 254,896	$ 377,278	$ 130,472	$ –	$ –	$ –	$ –	$ 473,235	$ 385,024	$ 1,620,905
Percent of Securities-Lending Portfolio	15.73%	23.28%	8.05%	0.00%	0.00%	0.00%	0.00%	29.20%	23.75%	100.00%

Interest Rate Risk—The lengths of investment maturities (in years) of the collateral for Securities Lending are as follows:

Years to Maturity
Investment Type
(In Thousands)

June 30, 2006

		Investment Maturities			
	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ 4,729	$ 4,729	$ –	$ –	$ –
Corporate Bonds	367,776	53,710	314,066	–	–
Yankee Bonds	8,444	3,394	5,050	–	–
Short Term	803,151	466,744	336,407	–	–
Total	$ 1,184,100	$ 528,577	$ 655,523	$ –	$ –
Percent of Securities-Lending Portfolio	100.00%	44.64%	55.36%	0.00%	0.00%

June 30, 2005

	Fair Value	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ 594	$ 594	$ –	$ –	$ –
Corporate Bonds	319,303	111,703	207,600	–	–
Yankee Bonds	20,078	15,212	4,866	–	–
Short Term	1,280,930	1,030,670	250,260	–	–
Total	$ 1,620,905	$ 1,158,179	$ 462,726	$ –	$ –
Percent of Securities-Lending Portfolio	100.00%	71.45%	28.55%	0.00%	0.00%

7. Member Loans and Change in Accounting

Members are permitted to borrow up to 75% of their own contributions, including accumulated interest. The balance of member loans receivable at June 30, 2006 and 2005 is $195 million and $181 million, respectively. Upon termination of employment before retirement, members are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding.

8. Related Parties

Administrative and investment-related expenses, except those related to the Variable Annuity Program, are paid by the City of New York (the City). The Comptroller is custodian of Plan assets. The Comptroller also provides administrative services to the TDA Program. Actuarial services are provided to the TDA Program by the Plan's Chief Actuary of the Office of the Actuary employed by the Boards of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the TDA Program. Other administrative services are also provided by the City.

As discussed in Note 5, the TDA Program's Fixed Annuity Program assets, other than City obligations, are co-invested with those of the TRS QPP. The TDA Program's Variable Annuity Program assets are co-invested with those of the TRS QPP and the Board of Education Retirement System's Tax-Deferred Annuity Program.

SCHEDULE 1: INVESTMENT EXPENSES

***Year Ended June 30, 2006* (Unaudited)**

INVESTMENT EXPENSES

Investment Agent	Service	TRS' Share of Expenses	
VARIABLE A ANNUITY PROGRAM			
Alliance Capital Management	Investment Manager	$ 233,161	
Amalgamated Bank L.P. of New York	Investment Manager	22,636	
Barclays Global Investors-International Alpha Tilts	Investment Manager	1,704,549	
Barclays Global Investors-Russell 3000	Investment Manager	57,360	
Barclays Global Investors-Tactical Asset	Investment Manager	309,692	
Capital Guardian Trust Company	Investment Manager	736,822	
Cardinal Small Cap Val	Investment Manager	154,889	
CRM-Md Value	Investment Manager	32,407	
Enhanced Investment Technologies, Inc. (INTECH)	Investment Manager	742,232	
Goldman Sachs Asset Management	Investment Manager	982,708	
High Pointe Large Cap Val	Investment Manager	41,665	
Lynmar Large Cap	Investment Manager	101,778	
Mellon Capital Management Corp.-Russell 3000	Investment Manager	50,546	
Mellon Capital Mgmt. Corp.-Enhanced Asset Allocation	Investment Manager	578,353	
PanAgora Asset Management, Inc.	Investment Manager	207,481	
Profit Large Cap Core	Investment Manager	100,362	
Rainier-Small/Mid	Investment Manager	35,353	
Shapiro-Small Cap	Investment Manager	52,182	
Short-Term A-QPP & TDA	Investment Manager	33,368	
Sound Shore Management Inc.	Investment Manager	269,065	
UBS Global Asset Management	Investment Manager	861,212	
Wellington-Large Cap	Investment Manager	599,382	
Mellon Trust Company	Custodial Bank	104,793	
Interactive Data	Investment Services	26,560	
TOTAL VARIABLE A ANNUITY PROGRAM			**$ 8,038,556**
VARIABLE B ANNUITY PROGRAM			
Certus Asset Advisors	Funding Advisor	$ 148,090	
Mellon Trust Company	Custodial Bank	9,203	
TOTAL VARIABLE B ANNUITY PROGRAM			**$ 157,293**
TOTAL INVESTMENT EXPENSES			**$ 8,195,849***

** Total investment expenses does not include $8,865,703 Variable A and B provisions for expenses.*
See pages 62-65 for corresponding schedule for the Qualified Pension Plan (QPP).

SCHEDULE 2: PROFESSIONAL FEES
As of June 30, 2006 (Unaudited)

Professional	Service		
VARIABLE A ANNUITY PROGRAM			
CRA RogersCasey	Consulting	$ 4,717	
Rocaton Investment Advisors	Consulting	86,277	
TOTAL VARIABLE A ANNUITY PROGRAM			**$ 90,994**
VARIABLE B ANNUITY PROGRAM			
CRA RogersCasey	Consulting	$ 5,330	
Rocaton Investment Advisors	Consulting	24,431	
TOTAL VARIABLE B ANNUITY PROGRAM			**$ 29,761**

See page 64 for corresponding schedule for the Qualified Pension Plan (QPP).

SCHEDULE 3: ADMINISTRATIVE EXPENSES
As of June 30, 2006 (Unaudited)

PERSONNEL SERVICES			
Staff Salaries	$ 4,366,338		
Social Security	236,335		
Insurance (Health)	375,152		
Welfare Benefit Fund	176,925		
TOTAL PERSONNEL SERVICES		**$ 5,154,750**	
PROFESSIONAL SERVICES			
Data Processing Support Services	$ 655,202		
Temporary and Consulting Services	467,653		
Professional Services	97,227		
TOTAL PROFESSIONAL SERVICES		**$ 1,220,082**	
COMMUNICATIONS			
Telephone	$ 71,111		
Postage	141,981		
Local Traveling Expenses	9,363		
Non-Local Traveling Expenses	7,813		
TOTAL COMMUNICATIONS		**$ 230,268**	
RENTALS			
Office Space	$ 1,043,642		
Equipment Leasing	88,888		
Relocation Expenses	813,520		
TOTAL RENTALS		**$ 1,946,050**	
MISCELLANEOUS			
Utilities	$ 64,431		
Supplies and Materials	18,404		
Maintenance, Repairs, and Services	58,207		
Office Equipment and Furniture	4,364		
Advertising Expenses	19,658		
Storage	28,608		
Printing	96,736		
Training Programs	46,585		
Books	1,173		
TOTAL MISCELLANEOUS		**$ 338,166**	
TOTAL ADMINISTRATIVE EXPENSES			**$ 8,889,316**

See page 65 for corresponding schedule for the Qualified Pension Plan (QPP).

Actuarial Section

OFFICE OF THE ACTUARY

75 PARK PLACE • 9TH FLOOR
NEW YORK, NY 10007
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY

December 14, 2006

Retirement Board
Teachers' Retirement System of the City of New York
55 Water Street
New York, NY 10041

Re: Actuarial Information for the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2006

Dear Members:

The financial objective of the Teachers' Retirement System of the City of New York - Qualified Pension Plan (the Plan) is to fund members' retirement benefits during their active service and to establish employer normal contribution rates that, expressed as a percentage of active member annualized covered payroll, would remain approximately level over the future working lifetimes of those active members and, together with member contributions and investment income, would ultimately be sufficient to accumulate assets to pay benefits when due.

An actuarial valuation of the Plan is performed annually as of the second June 30 preceding each fiscal year to determine the Employer Contributions to be paid for that fiscal year (*i.e.*, June 30, 2004 (Lag) actuarial valuation to determine Fiscal Year 2006 Employer Contributions).

Under current law, Employers are required to contribute statutorily-required contributions (Statutory Contributions) and these contributions are generally funded by Employers within the appropriate fiscal year.

Statutory Contributions for Fiscal Year 2006 were equal to the Annual Required Contributions as defined under Governmental Accounting Standards Board Statement Number 25 (GASB 25). This relationship occurs because Chapter 152 of the Laws of 2006 (Chapter 152/06) eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by the benefits provided by Chapter 125 of the Laws of 2000 (Chapter 125/00). Chapter 125/00 provided eligible retirees and eligible beneficiaries with Supplementation benefits effective September 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September 2001. Chapter 125/00 also provided for a phase-in schedule, later modified by Chapter 278/02, for funding the additional actuarial liabilities attributable to the benefits provided by Chapter 125/00.

The Annual Required Contributions were computed in accordance with GASB 25 and are consistent with generally accepted actuarial principles.

Actuarial Assumptions and Methods

Provided in this Actuarial Section of the CAFR is a "Summary of Actuarial Assumptions and Methods in Effect for the June 30, 2004 (Lag) Actuarial Valuation." These actuarial assumptions and methods were employed in the June 30, 2004 (Lag) actuarial valuation that was used to determine Fiscal Year 2006 Employer Contributions to the Plan.

These actuarial assumptions and methods differ from those employed in the June 30, 2004 actuarial valuation that was used to determine Fiscal Year 2005 Employer Contributions to the Plan.

After reviewing the results of an independent actuarial study dated October 2003 prepared by Gabriel, Roeder, Smith & Company (GRS) in accordance with Section 96 of the New York City Charter, the Actuary issued an August 31, 2005 Report entitled "Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2005 for the New York City Teachers' Retirement System" (August 2005 Report).

Where required, the Retirement Board of the Plan adopted those changes in actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the Actuarial Interest Rate (AIR) of 8.0% per annum.

Benefits And Census Data

A summary of the benefits available under the Plan is shown later in this Actuarial Section of the CAFR.

Census data are submitted by the Plan's administrative staff, by the employers' payroll facilities and by the Comptroller of the City of New York, and are reviewed by the Office of the Actuary (OA) for consistency and reasonability.

A summary of the census data used in the June 30, 2004 (Lag) actuarial valuation is included in this CAFR. A summary of the census data used in the June 30, 2004 actuarial valuation of the Plan is available in the June 30, 2005 CAFR.

Funded Status

The Funded Status of the Plan is usually expressed in various relationships of Assets to Liabilities.

With respect to the Funded Status of the Plan, included in the Financial Section of the CAFR is a Schedule of Funding Progress (Schedule 1).

Included in the Actuarial Section of the CAFR is a Solvency Test (*i.e.*, Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets) as prescribed by the Government Finance Officers Association (GFOA). This Solvency Test represents an alternative approach to describing progress toward funding objectives.

In addition to the Schedule of Funding Progress and the Solvency Test, included for informational purposes in the Actuarial Section of the CAFR (following the Solvency Test) is an Additional Discussion of Plan Funding and Other Measures of Funded Status that provides different comparisons between the Assets and Liabilities of the Plan.

Presentation Style and Sources of Information

The actuarial information herein is being presented in a manner believed to be consistent with the requirements of the GFOA and, where applicable, with GASB 25 which was adopted for financial reporting purposes beginning Fiscal Year 1995.

The Additional Discussion of Plan Funding and Other Measures of Funded Status represents additional information provided by the Actuary to assist those users who desire alternative analyses.

As prescribed by GASB 25, included in the Financial Section of the CAFR are the following schedules prepared by the OA:

- Schedule of Funding Progress.
- Schedule of Employer Contributions.
- Schedule of Actuarial Assumptions and Methods.

The following schedules in the Actuarial Section of the CAFR were prepared by the OA:

- Summary of Actuarial Assumptions and Methods in Effect for the June 30, 2004 (Lag) Actuarial Valuation.
- Active Member Valuation Data.
- Retirants and Beneficiaries Added to and Removed from Rolls.
- Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets - Solvency Test.
- Additional Discussion of Plan Funding and Other Measures of Funded Status.
- Statutory vs. Annual Required Contributions.
- Chronology of Plan.
- Summary of Plan Provisions.

The following information and schedules in other sections of the CAFR were prepared by the OA:

- Summary of Plan Membership.
- Schedule of Participating Employers.

If you have any questions about any of the information in this Actuarial Section or any of the actuarial information elsewhere in this CAFR, please do not hesitate to contact Mr. Martin A. Einhorn or me.

Respectfully submitted,

Robert C North Jr

Robert C. North, Jr., F.S.A.
Chief Actuary

RCN/bs

cc: Mr. M.A. Einhorn
Mr. J.R. Gibney
Mr. N. Serrano

Summary of Actuarial Assumptions and Methods in Effect as of June 30, 2004 (Lag) Actuarial Valuation—Qualified Pension Plan

1. Based upon a review of an October 2003 experience study by Gabriel, Roeder, Smith & Company (GRS), the Actuary issued an August 31, 2005 Report entitled *Proposed Changes in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2005 for the New York City Teachers' Retirement System* (August 2005 Report). Where required, the Retirement Board of the Plan adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152 of the Laws of 2006 (Chapter 152/06) to provide for those changes to the actuarial assumptions and methods that required legislation, including the Actuarial Interest Rate (AIR) assumption of 8.0% per annum.

   Chapter 152/06 provided for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial Accrued Liability (UAAL). In addition, Chapter 152/06 provided for elimination of the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by the benefits provided by Chapter 125 of the Laws of 2000 (Chapter 125/00).

2. The investment rate of return assumption is 8.0% per annum (4.0% per annum for benefits payable under the Variable Annuity Programs).

3. The mortality tables for service and disability pensioners were developed from an experience study of the Plan's pensioners. Sample probabilities are shown in Table 1.

4. Active service tables are used to estimate various withdrawals from active service. Sample probabilities are shown in Table 2 for members withdrawing from active service due to death or disability, in Table 3 for members withdrawing from active service without employer-provided benefits or with Vested Benefits, and in Table 4 for members withdrawing from active service after eligibility for Service Retirement.

5. A Salary Scale is used to estimate salaries at termination, retirement or death. Sample percentage increases are shown in Table 5. The Salary Scale includes a General Wage Increase (GWI) assumption of 3.0% per annum.

6. The economic assumptions (*i.e.*, the assumed investment return rate, GWI rate and Cost-of-Living Adjustments (COLA) rate) were developed assuming a long-term Consumer Price Inflation (CPI) assumption of 2.5% per annum. The COLA assumption is 1.3% per annum.

7. The valuation method assumes a closed group. Salaries of members on the valuation date are assumed to increase in accordance with the Salary Scale.

8. The Frozen Initial Liability Actuarial Cost Method is utilized by the Plan's Actuary to calculate the contribution from the employers. Under this Actuarial Cost Method, the Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the Unfunded Actuarial Accrued Liability (UAAL) not less than $0.

   Under this method, the excess of the Actuarial Present Value (APV) of projected benefits of members as of the valuation date, over the sum of the Actuarial Asset Value (AAV) plus UAAL, if any, and the APV of future employee contributions, is allocated on a level basis over the future earnings of members who are on payroll as of the valuation date. Actuarial gains and losses are reflected in the employer normal contribution rate.

   All outstanding components of the UAAL are being amortized over closed periods.

Chapter 85 of the Laws of 2000 (Chapter 85/00) reestablished the UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999.

The schedule of payments toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning Fiscal Year 2000, where each annual payment after the first annual payment equals 103% of its preceding annual payment.

However, the initial UAAL as of June 30, 1999 equaled $0 and no amortization period was required. There is an amortization period for the UAAL established after that date.

Chapter 70 of the Laws of 1999 established the UAAL as of June 30, 2000 for an Early Retirement Incentive. This UAAL is being amortized on a level basis over a period of five years beginning Fiscal Year 2001.

Chapter 69 of the Laws of 2002 established the UAAL as of June 30, 2003 for an Early Retirement Incentive (Part A only). This UAAL is being amortized on a level basis over a period of five years beginning Fiscal Year 2004.

9. One-Year Lag Methodology uses a June 30, 2004 (Lag) valuation date to determine Fiscal Year 2006 Employer Contributions.

   This methodology requires technical adjustments to certain components used to determine Fiscal Year 2006 Employer Contributions as follows:

   - Present Value of Future Salary (PVFS)

     The PVFS at June 30, 2004 is reduced by the value of salary projected to be paid during Fiscal Year 2005.

   - Salary for Determining Employer Contributions

     Salary used to determine the employer Normal Cost is the salary projected to be paid during Fiscal Year 2006 to members on payroll at June 30, 2004.

   - Present Value of Future Normal Costs (PVFNC)

     The PVFNC at June 30, 2004 is reduced by the discounted value of the Fiscal Year 2005 Employer Contribution.

10. For the June 30, 2004 (Lag) actuarial valuation, the Actuarial Asset Valuation Method (AAVM) was changed to a method that reset the AAV to Market Value (*i.e.*, Market Value Restart) as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

    Under this revised AAVM, any Unexpected Investment Returns (UIR) for Fiscal Years 2000 and later are phased into the AAV beginning the following June 30 at a rate of 15%, 15%, 15%, 15%, 20% and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

    These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for Fiscal Years 2000 to 2004.

    The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the Fiscal Year 2006 Employer Contribution in conjunction with the One-Year Lag Methodology and the revised economic and noneconomic assumptions.

11. Chapter 125/00 provided eligible retirees and eligible beneficiaries with increased Supplementation as of September 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September 2001.

Chapter 125/00 also provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law. Chapter 278/02 required the Actuary to revise the methodology and timing for determining the Statutory Contributions on account of the additional actuarial liabilities attributable to the benefits provided under Chapter 125/00 by extending the phase-in period for funding these liabilities from five years to ten years.

Specifically, in accordance with Chapter 125/00 the Actuary, in calculating the Statutory Contributions for Fiscal Years 2001 and 2002, included the following percentages of the increase in additional actuarial liabilities attributable to Chapter 125/00 COLA benefits:

Fiscal Year	Phase-In Percent
2001	20%
2002	40%

Chapter 278/02 revised the phase-in schedule for Fiscal Years 2003 and later.

Chapter 278/02 provided that, for the June 30, 2000 actuarial valuation, the Actuary was required to recognize, on a theoretical basis, only 10% of the additional actuarial liabilities created by the benefits provided by Chapter 125/00 for determining the Fiscal Year 2001 Employer Contribution.

For each of the next eight June 30 actuarial valuations (*i.e.*, June 30, 2001 to June 30, 2008), the Actuary was required to recognize progressively increasing percentages (*i.e.*, 20% to 90%) of the additional actuarial liabilities attributable to Chapter 125/00 for determining Fiscal Year 2002 to Fiscal Year 2009 Employer Contributions.

For the June 30, 2009 and later actuarial valuations, the Actuary was required to recognize the full amount of the additional actuarial liabilities attributable to Chapter 125/00 for determining Fiscal Years 2010 and later Employer Contributions.

Chapter 152/06 eliminated the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by Chapter 125/00.

TABLE 1
DEATHS AMONG SERVICE AND DISABILITY PENSIONERS

Percentage of Pensioners Dying within Next Year

	Service Pensioners			Disability Pensioners	
Age	**Males**	**Females**	**Age**	**Males**	**Females**
40	.1151%	.0645%	**40**	1.5101%	2.9247%
50	.2631	.1543	**50**	1.8462	2.5618
60	.6163	.3832	**60**	2.2326	1.4957
70	1.8461	1.0802	**70**	3.1342	1.9287
80	4.6919	3.0798	**80**	6.0619	4.8143
90	12.9028	10.3790	**90**	12.9554	11.4430
100	30.1977	28.6331	**100**	30.1977	28.6331
110	100.0000	100.0000	**110**	100.0000	100.0000

TABLE 2

WITHDRAWALS FROM ACTIVE SERVICE (DUE TO DEATH OR DISABILITY)

Percentage of Active Members Separating within Next Year

	Accidental Disability			Ordinary Disability			Death	
Age	Males	Females	Age	Males	Females	Age	Males	Females
20	.00%	.00%	**20**	.02%	.01%	**20**	.040%	.020%
25	.00	.00	**25**	.02	.01	**25**	.040	.020
30	.01	.00	**30**	.02	.01	**30**	.040	.020
35	.01	.01	**35**	.03	.02	**35**	.050	.025
40	.01	.01	**40**	.04	.06	**40**	.060	.030
45	.02	.01	**45**	.05	.09	**45**	.110	.055
50	.03	.02	**50**	.07	.10	**50**	.160	.080
55	.04	.02	**55**	.12	.13	**55**	.210	.105
60	.05	.03	**60**	.17	.15	**60**	.260	.130
65	.06	.04	**65**	.24	.17	**65**	.320	.160
70	NA	NA	**70**	NA	NA	NA	NA	NA

TABLE 3

WITHDRAWALS FROM ACTIVE SERVICE

Percentage of Active Members Withdrawing within Next Year

Years of Service	Probability of Withdrawal
0	7.50%
5	4.00
10	2.00
15	1.25
20	1.00

TABLE 4
WITHDRAWALS FROM ACTIVE SERVICE
(AFTER ELIGIBILITY FOR SERVICE RETIREMENT)

Percentage of Eligible Active Members Retiring within Next Year

Males

Age	With Reduced Benefits	With Unreduced Benefits Years of Service Since First Elig.		
		0-1	1-2	2+
50	0.00%	0.00%	0.00%	0.00%
55	2.00	12.00	0.00	0.00
60	5.00	12.00	10.00	10.00
65	0.00	30.00	30.00	30.00
70	NA	100.00	100.00	100.00

Females

Age	With Reduced Benefits	With Unreduced Benefits Years of Service Since First Elig.		
		0-1	1-2	2+
50	0.00%	0.00%	0.00%	0.00%
55	2.00	10.00	0.00	0.00
60	5.00	10.00	8.00	8.00
65	0.00	30.00	30.00	30.00
70	NA	100.00	100.00	100.00

TABLE 5
SALARY SCALE

Years of Service	Assumed Annual Percentage Increases Within Next Year*
0	11.00%
5	6.00
10	5.00
15	5.00
20	5.00
25	5.00
30	5.00
35	5.00
40	5.00

**Salary Scale includes a General Wage Increase assumption of 3.0% per annum.*

ACTIVE MEMBER VALUATION DATA

As of June 30	Number	Annual Payroll	Annual Average Salary	Percentage Increase (Decrease) in Average Salary
2000	91,494	$ 4,721,526,309	$ 51,605	6.1%
2001	95,381	5,015,449,141	52,583	1.9
2002	95,678	5,469,239,283	57,163	8.7
2003	97,986	5,828,756,503	59,486	4.1
2004	105,391	6,219,808,501	59,017	(0.8)
2004 (Lag)	105,391	6,175,939,608*	58,600	(1.5)**

** The annualized covered payroll under the One-Year Lag Methodology used for the Fiscal Year 2006 Employer Contributions differs from that as of June 30, 2004 to compute Fiscal Year 2005 Employer Contributions due to changes in actuarial assumptions and more recent information on labor contract settlements.*

*** Decrease from June 30, 2003.*

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

	Added to Rolls		Removed from Rolls		Rolls End of Year			
Fiscal Year Ended June 30	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
2000	1,989	$ 97,255,275	1,545	$ 41,436,595	50,969	$ 1,660,118,114	3.5%	$ 32,571
2001	2,723	171,487,630	1,712	83,599,498	51,980	1,748,006,246	5.3	33,628
2002	4,309	194,808,813	1,727	120,082,520	54,562	1,822,732,539	4.3	33,407
2003	5,014	258,523,666	1,443	50,572,541	58,133	2,030,683,664	11.4	34,932
2004*	6,264	415,127,840	1,669	53,234,112	62,728	2,392,577,392	17.8	38,142

**Same amounts apply for June 30, 2004 (Lag) actuarial valuation.*

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGES COVERED BY ACTUARIAL VALUE OF ASSETS SOLVENCY TEST

(in Thousands)

	AGGREGATE ACCRUED LIABILITIES FOR				Percentage of Actuarial Values Covered by Actuarial Value of Assets		
As of June 30	Accumulated Member Contributions (A)	Current Retirants and Beneficiaries (B)	Active Members' Employer-Financed Portion (C)	Actuarial Value of Assets (D)	(A)	(B)	(C)
2000	$ 3,354,746	$ 17,446,520	$ 14,340,434*	$ 36,142,435	100%	100%	100%
2001	3,077,510	17,254,058	14,114,923*	35,410,230	100	100	100
2002	2,931,464	18,189,124	13,623,528*	34,177,750	100	100	96
2003	2,752,562	20,489,777	12,561,516	33,169,210	100	100	79
2004	2,628,369	24,460,479	11,465,947	32,817,102	100	100	50
2004 (Lag)	2,628,369	24,636,479	11,682,625	33,149,251	100	100	50

** Revised*

Also see following "SOLVENCY TEST–NOTES."

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGES COVERED BY ACTUARIAL VALUE OF ASSETS

SOLVENCY TEST—NOTES

The ultimate test of financial soundness in a retirement system is its ability to pay all of its promised benefits when due. The retirement system's progress in accumulating assets to pay all promised benefits can be measured by comparing the Actuarial Value of Assets of the retirement system with the Aggregate Accrued Liabilities for:

(A) Accumulated Member Contributions;

(B) Current Retirants and Beneficiaries; and

(C) Active Members' Employer Financed Portion.

The Aggregate Accrued Liabilities are the APV of projected benefits produced by the projected benefit attribution approach prorated on service. The Aggregate Accrued Liabilities were calculated in accordance with Governmental Accounting Standards Board Statement No. 5 (GASB 5).

This comparative summary allocated assets as if they were priority groups, somewhat similar to (but not identical to) the priority categories of Section 4044 of the Employee Retirement Income Security Act of 1974 (ERISA).

The values in the table are dependent upon census data, benefit levels (which have changed on occasion over the past years), and the actuarial assumptions and methods employed at each valuation date. These underlying bases can be found within the Comprehensive Annual Financial Report for each respective year.

To fully evaluate trends in financial soundness, changes in assumptions need to be evaluated. The economic assumptions used in the actuarial calculations include the following:

Valuation Date June 30	Assumed Annual Rate of Return on Investments	Assumed General Wage Increase
1999	8.00%	3.0%
2000	8.00	3.0
2001	8.00	3.0
2002	8.00	3.0
2003	8.00	3.0
2004	8.00	3.0
2004 (Lag)	8.00	3.0

ADDITIONAL DISCUSSION OF PLAN FUNDING AND OTHER MEASURES OF FUNDED STATUS

On-Going Funding of the Plan

Under the basic equation of pension funding, Contributions plus Investment Earnings pay for Benefits plus Expenses.

There are three major sources for financing those Benefits and Expenses paid from the Plan.

First, Member Contributions are established by statute and paid as percentages of member salaries.

Second, Investment Earnings reflect the rates of return achieved on the amounts of assets held in different asset classes in the Trust.

Third, Employer Contributions are determined by actuarial methodology to finance the Benefits payable by the Plan that are not provided by either Member Contributions or Investment Earnings and for the Administrative and Investment Expenses of the Plan.

This actuarial methodology includes demographic and certain tabular assumptions recommended by the Actuary and adopted by the Retirement Board, and certain economic assumptions and financing methods recommended by the Actuary, supported by the Retirement Board and, where required, enacted into law by the New York State Legislature and Governor.

Employer Contributions are particularly responsive to Investment Earnings and increase (decrease) on a smoothed basis whenever Investment Earnings are less (more) than expected.

For example, during Fiscal Years 2001 to 2003, the Assets of the Plan decreased because they earned less than expected. Consequently, over the following several years, the actuarial methodology responds by increasing Employer Contributions in order to bring the overall financial status of the Plan back into balance.

Due to Investment Earnings between Fiscal Years 2001 and 2003 being substantially less than anticipated, the increases in Employer Contributions to the Plan over the following few Fiscal Years are significant.

The New York City Charter requires an independent actuary to conduct an experience review of the Plan every two years. The Actuary utilizes this information and regularly proposes changes in actuarial assumptions and methods, most recently during Fiscal Year 2006.

These most recent changes, approved by the Retirement Board and implemented during Fiscal Year 2006, include (1) updated demographic assumptions, (2) full recognition of all Obligations of the Plan (*i.e.*, removing the statutory phase-in of certain liabilities) and (3) revised methodologies for smoothing changes in Employer Contributions due to Plan experience. Together, these changes further enhance the long-term financial integrity of the Plan.

The ongoing process of actuarial rebalancing and periodic reviews of actuarial assumptions and methods by the Actuary and the Retirement Board, coupled with a financially responsible, long-duration employer like the City of New York (the City) and other participating Employers that can afford some variability of Employer Contributions, help provide financial security for the Plan and its participants and reasonable intergenerational budget equity for taxpayers.

With the City and other participating Employers that have always paid and are expected to continue to pay the statutorily-required Employer Contributions as calculated by the Actuary and approved by the Retirement Board, changes in Employer Contributions represent the source for rebalancing the basic equation of pension funding.

Other Measures of Funded Status

Measures of Funded Status of the Plan are determined at specific points in time and are usually expressed in various relationships of Assets to Obligations. Assets as percentages of Obligations are referred to as Funded Ratios.

Comparisons of Funded Ratios over time can provide insight into the long-term financial trend of the Plan.

The Other Measures of Funded Status presented herein provide somewhat different insights into the financial condition of the Plan and comparisons amongst these other Measures of Funded Status can provide even more.

As noted, there are multiple, possible definitions of the Plan's Assets and Obligations. Some of these definitions of and comments on Assets and Obligations are set forth immediately hereafter. Additional observations about the meanings and usefulness of and the relationships amongst certain of the Funded Ratios are provided following the table of Funded Ratios.

Definition of and Comments on Assets

With respect to Assets, both Market Value of Assets (MVA) and the Actuarial Value of Assets (or Actuarial Asset Value (AAV)) are used to determine Funded Ratios.

In the case of the Plan, the AAV currently in use provides for smoothing of the MVA by phasing any Unexpected Investment Returns (*i.e.*, Investment Earnings greater or less than those expected under the actuarial assumption of 8.0% of AAV each year) into the AAV over a period of six years.

The advantage of using MVA is that it represents the tradable value of the Assets of the Plan at any point in time.

The advantage of using AAV is that it is smoothed to remove the volatility of MVA. The disadvantage of AAV is that it is not the tradable value of Assets in the marketplace and, therefore, does not show the volatility of the Assets.

Definition of and Comments on Obligations

With respect to Obligations, the Actuarial Accrued Liability (AAL) under any particular Actuarial Cost Method (ACM) is that portion of the APV of projected benefits which is not provided by normal costs (employer and employee).

With respect to the Plan, where the ACM is the Frozen Initial Liability (FIL) ACM, the AAL mathematically can be recast as the Unfunded AAL (UAAL) plus the AAV. To the extent that the UAAL does not change much year to year, then the related AAL remains relatively consistent in value with the AAV each year.

With respect to the ongoing funding of the Plan, the use of the FIL ACM provides for amortizing actuarial gains and losses over the future working lifetimes of active employees. As used by the Plan, the FIL ACM generally results in funding that is more conservative (*i.e.*, greater Employer Contributions) than that of most other Public Pension Plans.

The Entry Age Accrued Liability (EAAL) is defined as the APV of projected benefits less the sum of the APV of future employee contributions and the APV of future employer entry age normal costs.

The EAAL is a required disclosure in accordance with Governmental Accounting Standards Board (GASB) Statement Number 43 (GASB 43) and GASB Statement Number 45 (GASB 45) for Other Post-Employment Benefits (OPEB) under certain ACM. EAAL also has been mentioned by GASB as a possible disclosure item for certain Public Pension Plans.

The Entry Age ACM is the most-commonly utilized ACM for funding Public Pension Plans.

The Projected Benefit Obligation (PBO) is defined as the APV of all benefits attributed by the Plan's benefit formula to employee service rendered prior to the valuation date. The PBO was required reporting under GASB 5 prior to its replacement by GASB 25 and GASB 27.

The Accumulated Benefit Obligation (ABO) is determined in the same manner as the PBO but without assuming future salary increases.

The Market Value Accumulated Benefit Obligation (MVABO) is determined in the same manner as an ABO using the same actuarial assumptions except that projected benefit payments are discounted using the expected yields on U.S. Treasury securities of like duration. The MVABO is sometimes described as a Mark-to-Market measure of Obligations.

Table of Asset and Obligation Values

The following table presents the values of Assets and Obligations used to calculate alternative Funded Ratios.

COMPONENT MEASURES OF FUNDED STATUS

(in Millions)

Valuation Date	Market Value of Assets (MVA)	Actuarial Asset Value (AAV)#	Actuarial Accrued Liability (AAL)*	Entry Age Accrued Liability (EAAL)**	Projected Benefit Obligation (PBO)**	Accumulated Benefit Obligation (ABO)**	Market Value Accumulated Benefit Obligation (MVABO)***
6/30/99	$ 34,626.1	$ 34,626.1	$ 34,626.1	$ 32,542.5	$ 31,307.3	$ 27,929.8	$ 31,828.0
6/30/00	36,751.2	36,142.4	36,147.6	36,743.6	35,141.7	31,150.1	35,581.1
6/30/01	31,593.0	35,410.2	35,414.5	36,140.1	34,446.5	30,721.5	36,393.4
6/30/02	27,025.9	34,177.8	34,181.1	36,531.2	34,744.1	30,677.2	36,575.1
6/30/03	26,078.0	33,169.2	33,182.7	37,622.9	35,776.9	31,945.0	42,682.0
6/30/04	28,975.4	32,817.1	32,827.5	40,486.9	38,554.8	35,175.5	43,053.6
6/30/04 (Lag)	28,975.4	33,149.3	33,159.7	40,872.0	38,947.5	35,277.6	43,223.1

 # The AAV used for the June 30,1999 to June 30, 2004 actuarial valuations assumes the AAV was reset to MVA as of June 30,1999. As of each June 30 thereafter, the AAV recognizes Investment Returns greater or less than expected over a period of five years (six years beginning with the June 30, 2004 (Lag) actuarial valuation).

** Calculated in accordance with the Actuarial Cost Method (i.e., Frozen Initial Liability) and actuarial assumptions used for determining Employer Contributions.*

*** Calculated based on actuarial assumptions used for determining Employer Contributions.*

**** Calculated based on actuarial assumptions used for determining Employer Contributions except that projected benefit payments are discounted using U.S. Treasury Spot Rates as published by the Department of the Treasury Office of Thrift Supervision in its Selected Asset and Liability Price Tables. The Obligations shown here are more precisely determined and differ modestly from the amounts shown in prior years. The average, annual discount yields as of June 30,1999, 2000, 2001, 2002, 2003, 2004 and 2004 (Lag) equal approximately 6.0%, 6.0%, 5.7%, 5.8%, 4.6%, 5.5% and 5.5%, respectively and the durations of the Obligations as of June 30, 1999, 2000, 2001, 2002, 2003, 2004 and 2004 (Lag) equal approximately 11.5 years, 11.8 years, 11.6 years, 10.9 years, 11.8 years, 11.1 years and 11.2 years, respectively.*

Table of Funded Ratios

The following table presents alternative Funded Ratios comparing Assets to Obligations, including: (1) AAV divided by AAL, (2) AAV divided by EAAL, (3) MVA divided by EAAL, (4) AAV divided by PBO, (5) MVA divided by PBO, (6) AAV divided by ABO, (7) MVA divided by ABO and (8) MVA divided by MVABO.

FUNDED RATIOS

Valuation Date	AAV/AAL	AAV/EAAL	MVA/EAAL	AAV/PBO	MVA/PBO	AAV/ABO	MVA/ABO	MVA/MVABO
6/30/99	100%	106%	106%	111%	111%	124%	124%	109%
6/30/00	100	98	100	103	105	116	118	103
6/30/01	100	98	87	103	92	115	103	87
6/30/02	100	94	74	98	78	111	88	74
6/30/03	100	88	69	93	73	104	82	61
6/30/04	100	81	72	85	75	93	82	67
6/30/04 (Lag)	100	81	71	85	74	94	82	67

Comments on Funded Ratios and Funding Methodology

With respect to the different Funded Ratios shown in the preceding table, the ratio of AAV/AAL is from the Schedule of Funding Progress (Schedule 1) presented in the Financial Section of this CAFR.

Due to the mathematics of the FIL ACM where AAL equals AAV plus UAAL, the AAV/AAL Funded Ratios tend to remain relatively constant from year to year and provide limited insight into the ongoing financial performance of the Plan.

The Other Measures of Funded Status shown in the preceding table provide different relationships between the Assets and Obligations of the Plan and are designed to offer additional insight into the Funded Status of the Plan that the Actuary believes useful to some users.

For example, on August 31, 2006, GASB announced a short-term project to Enhance Disclosure Requirements for Governmental Pension Plans. GASB indicated that it would likely suggest additional disclosure of Funded Status in certain situations in order to provide more transparency to users of Governmental Financial Statements.

The ratios of AAV/EAAL reflect information that GASB has indicated it may request from certain Public Pension Plans, as it currently does from certain OPEB plans under GASB 43 and GASB 45, once GASB finishes its short-term project.

The ratios of AAV/PBO present information that was previously required under GASB 5 and is a comparable but somewhat different representation of the information shown in the Solvency Test presented earlier in this Section of the CAFR.

The ratios of MVA/MVABO provide information on Funded Status that is (1) independent of the asset allocation of the Plan, (2) exclusive of any advance recognition of expected asset risk premia (*e.g.*, equity risk premium) and (3) absent any smoothing of asset values.

Inherent in its design, the MVA/MVABO Funded Ratio is expected to be volatile due to the impact of asset gains and losses without smoothing and the impact of changes in interest rates in the economy. Such volatility is a reflection of markets and can provide useful disclosure information. However, such volatility is not consistent with the needs of budgeting. Those budgeting needs are met by the actuarial assumptions and FIL ACM currently in use to determine Employer Contributions.

Comparing the MVA/EAAL to AAV/EAAL, MVA/PBO to AAV/PBO or MVA/ABO to AAV/ABO provides an opportunity to evaluate the degree of smoothing provided by the Actuarial Asset Valuation Method.

Comparing Funded Ratios based on the same Assets (*i.e.*, MVA or AAV) but different definitions of Obligations (*e.g.*, EAAL versus PBO versus ABO) provides an opportunity to evaluate the differences in those different definitions of Obligations.

Comparing MVA/ABO with MVA/MVABO provides an opportunity to compare the impact of alternative interest rates on discounting the ABO.

It should also be noted that Measures of Funded Status are best examined with more consideration of their trends over time than their values at any given point in time.

Finally, over time, it should be noted that as the City and other participating Employers pay into the Plan the actuarially-determined Employer Contributions, all Funded Ratios can be expected to increase from their current levels.

STATUTORY VS. ANNUAL REQUIRED CONTRIBUTIONS

Fiscal Year Ended June 30	Statutory Contribution*	Annual Required Contribution	Employer Rate of Contribution**
2001	$ 444,965,372(1)	$ 571,955,543	9.424%
2002	509,931,588(2)	607,762,939	10.167
2003	639,617,910(3)	805,782,222	11.695
2004	920,264,167(4)	1,015,331,185	15.788
2005	1,228,275,356(5)	1,304,032,623	19.748
2006***	1,316,610,517(6)	1,316,610,517	21.205

* *Represents total employer contributions accrued for fiscal year.*

** *The employer rates of contribution equal the Statutory Contributions as percentages of the salaries of members who were on payroll as of the preceding June 30th increased to reflect overtime earnings and adjusted, where applicable, to be consistent with collective bargaining agreements estimated to be achieved.*

*** *Based on June 30, 2004 (Lag) Actuarial Valuation.*

(1) *The Statutory Contribution of $444,965,372 for Fiscal Year 2001 was computed in accordance with Chapter 125/00 which provided for a five-year phase-in of the additional actuarial liabilities attributable to Chapter 125/00.*

(2) *The Statutory Contribution of $509,931,588 for Fiscal Year 2002 was computed in accordance with Chapter 125/00 which provided for a five-year phase-in of the additional actuarial liabilities attributable to Chapter 125/00.*

(3) *The Statutory Contribution of $639,617,910 for Fiscal Year 2003 was computed in accordance with Chapter 125/00 which provided for a five-year phase-in of the additional actuarial liabilities attributable to Chapter 125/00 and Chapter 278/02 which extended the phase-in period for funding these liabilities from five years to ten years.*

(4) *The Statutory Contribution of $920,264,167 for Fiscal Year 2004 was computed in accordance with Chapter 278/02 which provided for a ten-year phase-in of the additional actuarial liabilities attributable to Chapter 125/00.*

(5) *The Statutory Contribution of $1,228,275,356 for Fiscal Year 2005 was computed in accordance with Chapter 278/02 which provided for a ten-year phase-in of the additional actuarial liabilities attributed to Chapter 125/00.*

(6) *The Statutory Contribution of $1,316,610,517 for Fiscal Year 2006 was computed in accordance with Chapter 152/06 which eliminated the use of ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities attributed to Chapter 125/00.*

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