

90th Annual Report

Fiscal Year Ended June 30, 2007

*Teachers' Retirement System
of the City of New York*





Teachers' Retirement System of the City of New York

55 Water Street
New York, NY 10041
1 (888) 8-NYC-TRS
www.trs.nyc.ny.us



Table of Contents

Introduction	1
Statistical Section	23
Financial Section: Qualified Pension Plan (QPP)	35
Financial Section: Tax-Deferred Annuity (TDA) Program	67
Actuarial Section	85



Introduction

Transmittal Letter	3
Chief Accountant's Certification	5
Principal Advisors	6
Principal Officials	6
Financial Highlights	7
Providing Retirement Benefits	8
Offering Investment Choices	12
A Portrait of Our Members	20



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

December 31, 2007

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

TRS celebrated 90 years of service during Fiscal Year 2007. We are proud to report that our founding principle remains solid today: to provide a secure, defined-benefit pension to our members through the Qualified Pension Plan (QPP). The financial stability of our Plan this fiscal year served to further assure our members of a guaranteed retirement benefit. In addition, the Tax-Deferred Annuity (TDA) Program, our supplemental defined-contribution plan, also remained strong, continuing to attract nearly two-thirds of TRS' in-service membership.

Now in our tenth decade of serving the educators of New York City, we remain committed to providing exceptional levels of service to our 178,000 in-service members, retirees, and beneficiaries, as well as to their employers and our stakeholders. Below is an overview of the financial performance of our QPP and TDA Program during Fiscal Year 2007, followed by a summary of significant developments that affected TRS and our members during the year.

Financial and Investment Overview

TRS' investment returns reflect the upswing in U.S. market conditions during Fiscal Year 2007. As a result, total assets in the QPP increased from \$40.02 billion in Fiscal Year 2006 to \$46.09 billion this fiscal year. Total assets in the TDA Program grew from \$15.46 billion in the previous year to \$18.48 billion in Fiscal Year 2007. The Pension Fund and Variable A Annuity Program yielded annual returns of 17.46% and 20.16%, respectively, an increase over the previous year's returns of 9.95% and 11.75%. The Variable B Annuity Program continued strong with a 4.12% return, compared with the previous year's yield of 3.76%.

Major Initiatives and Objectives

During Fiscal Year 2007, we undertook several major initiatives and made significant strides toward achieving our strategic planning objectives. One of these was the completion of the first phase of our service credit automation initiative, which enabled us to be more responsive to members' requests for service or transferred credit.

A City-wide initiative introduced a new payroll system this fiscal year that provided retirees with benefits such as quicker activation of Electronic Fund Transfer (EFT) for their monthly payments and more detailed payment information. In addition, TRS improved EFT for new retirees, allowing them to immediately receive all retirement benefit payments, including advance payments, electronically.

Introduction

Also during Fiscal Year 2007, we completed the development of a web- and phone-based member satisfaction survey (released in early Fiscal Year 2008), the first stage of an ongoing and multilayered effort to gauge member satisfaction and improve the products and services we offer our members.

In addition, thanks to legislation that became effective during Fiscal Year 2007, our members now have additional benefits: Participants in TRS' TDA Program will now see their TDA contributions processed more quickly, and members' non-spouse beneficiaries may now direct eligible distributions from qualified plans such as TRS' QPP and TDA Program to Inherited Individual Retirement Accounts (IRAs) or eligible Section 403(b) Programs.

We anticipate that member satisfaction and service levels will be further enhanced as we complete several large-scale initiatives currently underway. We are happy to report significant progress on these long-term projects and look forward to seeing their implementation in the near future. These include a major expansion of the investment choices we offer members, the increased automation of service credit processing, and an upgrade of our system. This last initiative will not only address our internal goals of a simplified and more flexible processing system, but will also benefit members by enabling us to more quickly and efficiently respond to and process member information.

A discussion of our major initiatives and objectives would not be complete without mentioning data security. TRS continues to view the security of our members' personal information as a top priority. During Fiscal Year 2007, we engaged an industry-leading data security firm to assess our data security measures. During Fiscal Year 2008, we continue to monitor the status of our security precautions to ensure that we are employing the strictest possible policies and practices.

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 and diligence. 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 pleased to present you with this 90th *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
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, 2006 to June 30, 2007, and that on June 30, 2007, 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

MARTHA E. STARK, CHAIRPERSON
MELVYN AARONSON
KATHLEEN GRIMM
JOSEPH HASLIP
SANDRA MARCH
MONA ROMAIN

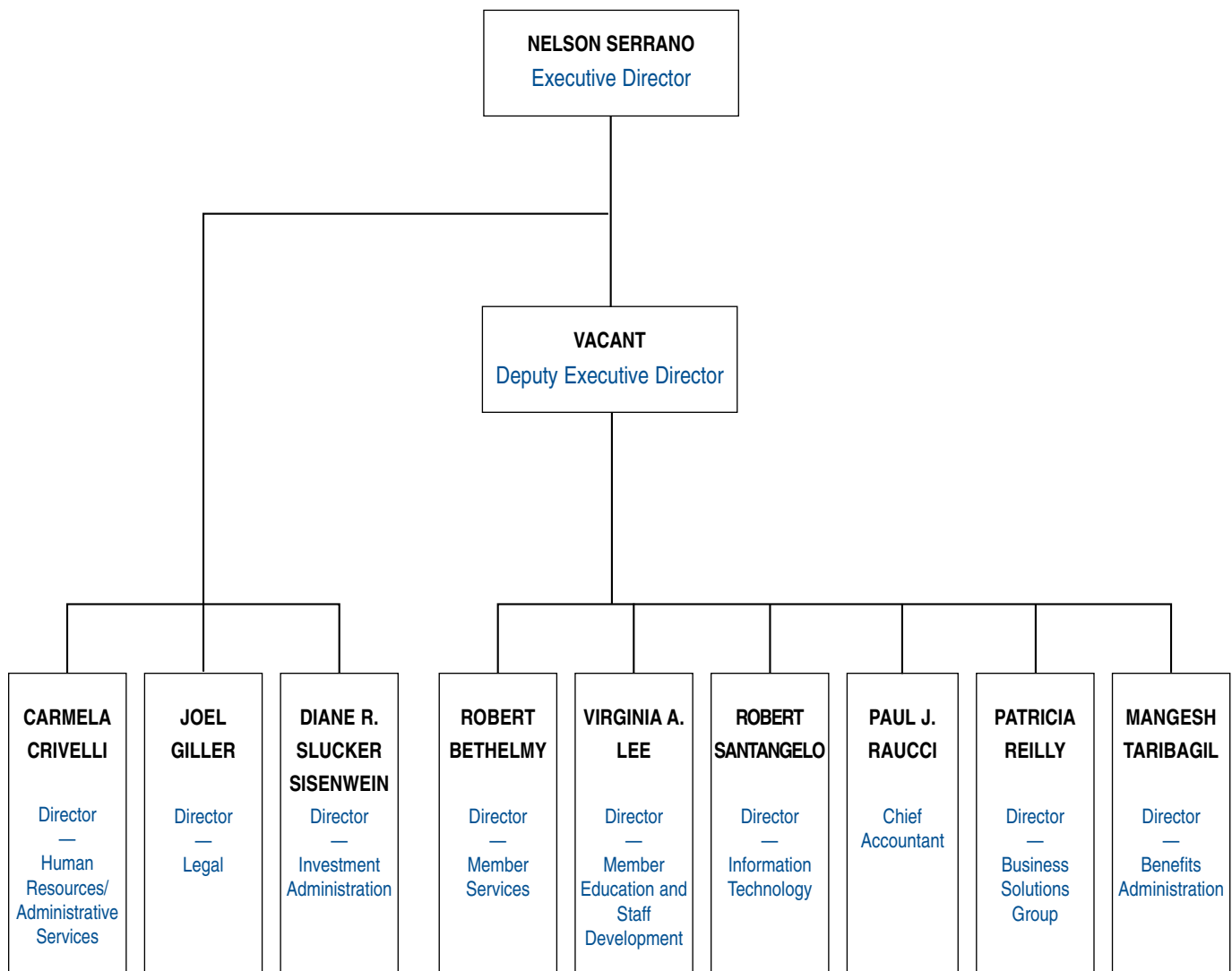
MEDICAL BOARD

LAURA BRUMBERG, M.D.
ALAN DAVID, M.D.
WALTER F. PIZZI, M.D.

CHIEF ACTUARY

ROBERT C. NORTH, JR.

PRINCIPAL OFFICIALS



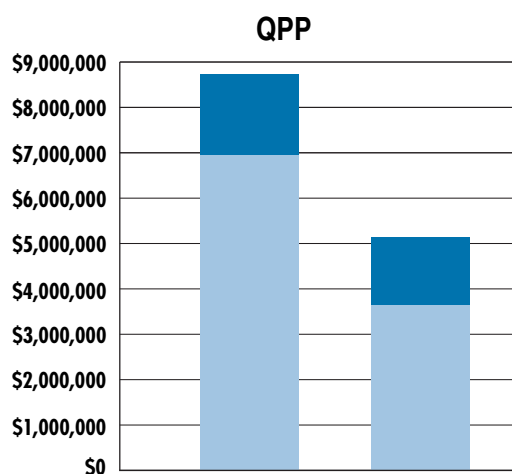
FINANCIAL HIGHLIGHTS

(In Thousands)

	2007	2006
QUALIFIED PENSION PLAN (QPP)		
Total Assets (As of June 30)	\$ 46,088,856	\$ 40,022,193
Total Investments	\$ 44,671,784	\$ 38,573,430
Total Receivables, Cash, and Other Assets	\$ 1,417,072	\$ 1,448,763
Total Liabilities (As of June 30)	\$ 8,946,065	\$ 7,815,476
Net Assets Held in Trust for Pension Benefits (As of June 30)	\$ 37,142,791	\$ 32,206,717
Total Revenue (For the Fiscal Year)	\$ 8,618,452	\$ 5,130,686
TAX-DEFERRED ANNUITY (TDA) PROGRAM		
Total Assets (As of June 30)	\$ 18,475,528	\$ 15,460,617
Total Investments	\$ 18,132,081	\$ 15,217,609
Total Receivables and Cash	\$ 343,448	\$ 243,007
Total Liabilities (As of June 30)	\$ 2,095,531	\$ 1,340,379
Net Assets Held in Trust for Benefits (As of June 30)	\$ 16,379,997	\$ 14,120,238
Total Revenue (For the Fiscal Year)	\$ 2,640,847	\$ 1,867,867

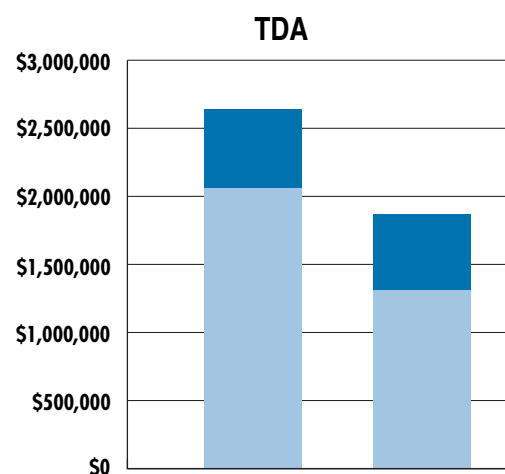
TOTAL REVENUE

(In Thousands)



As of June 30 2007 2006

INVESTMENT INCOME	\$ 6,851,923	\$ 3,651,292
TOTAL CONTRIBUTIONS	\$ 1,766,529	\$ 1,479,394
TOTAL REVENUE	\$ 8,618,452	\$ 5,130,686



As of June 30 2007 2006

INVESTMENT INCOME	\$ 2,061,466	\$ 1,311,054
TOTAL CONTRIBUTIONS	\$ 579,381	\$ 556,813
TOTAL REVENUE	\$ 2,640,847	\$ 1,867,867

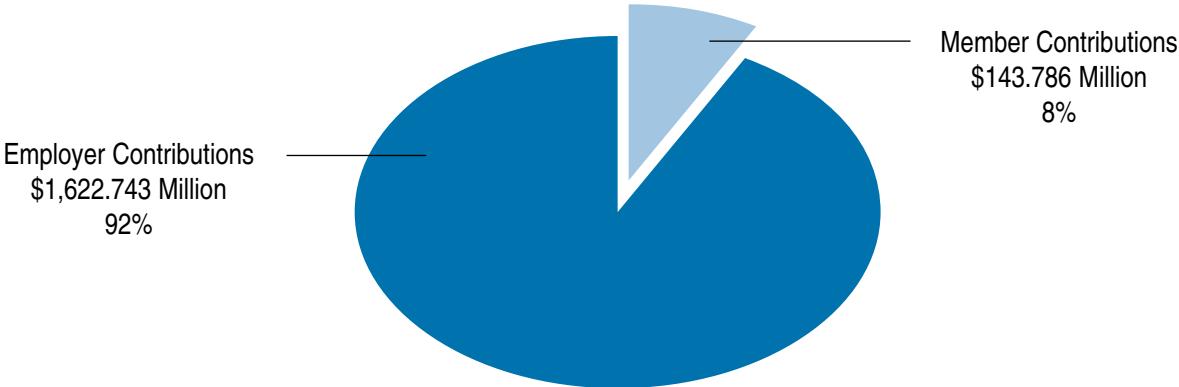
Providing Retirement Benefits

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 178,000 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 \$1,766.529 million during the 2007 Fiscal Year. Employer contributions represented \$1,622.743 million, while the remaining \$143.786 million came from member contributions. As of the end of the fiscal year, 109,868 members were on payroll. Accordingly, the average employer contribution was \$14,770 per member and the average member contribution was \$1,309.

TOTAL CONTRIBUTIONS—QPP 2007 Fiscal Year—\$1,766.529 Million



At the end of the 2007 Fiscal Year, 68,492 members and beneficiaries were receiving QPP retirement allowances totaling \$2.93 billion. The chart below organizes this information by members' type of retirement.

RETIREMENT ALLOWANCES UNDER THE QPP

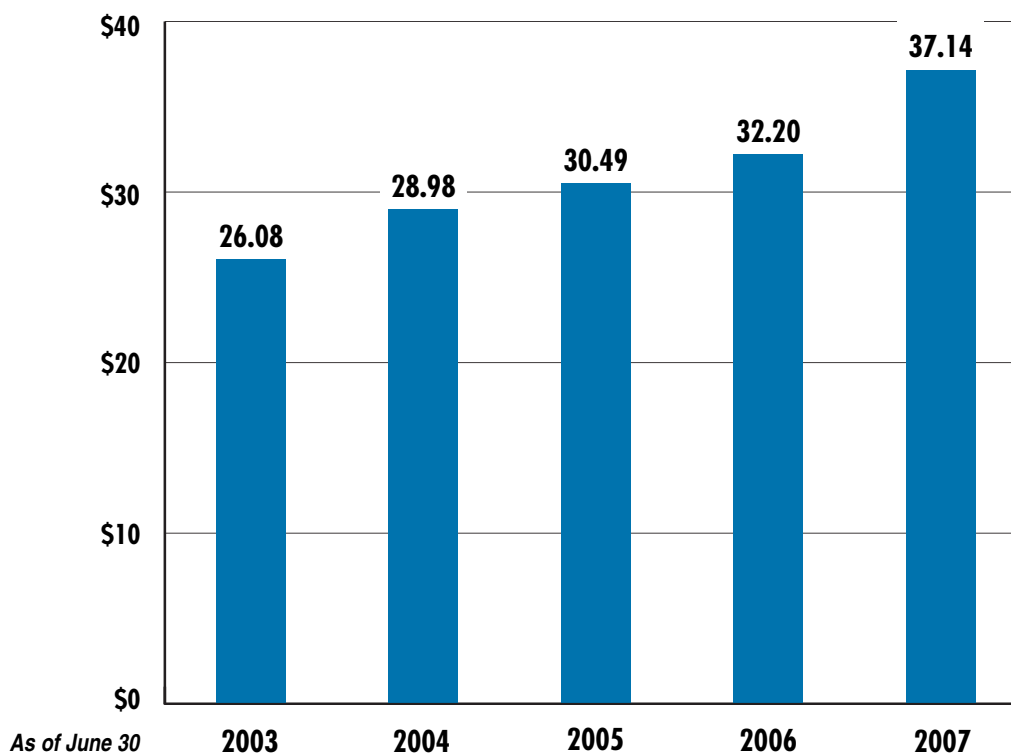
As of June 30, 2007

	Service	Ordinary Disability	Accident Disability	Beneficiary
Retirees and Beneficiaries Receiving QPP Allowances	62,235	1,993	545	3,719
Total Annual Allowances Paid	\$ 2,776,466,794	\$ 39,189,903	\$ 19,941,664	\$ 95,696,812
Average Annual Retirement Allowance	\$ 44,613	\$ 19,664	\$ 36,590	\$ 25,732

TRS' ability to fund QPP retirement benefits remained strong, with \$37.14 billion of net assets held in trust for pension benefits as of June 30, 2007.

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS—QPP

(In Billions)

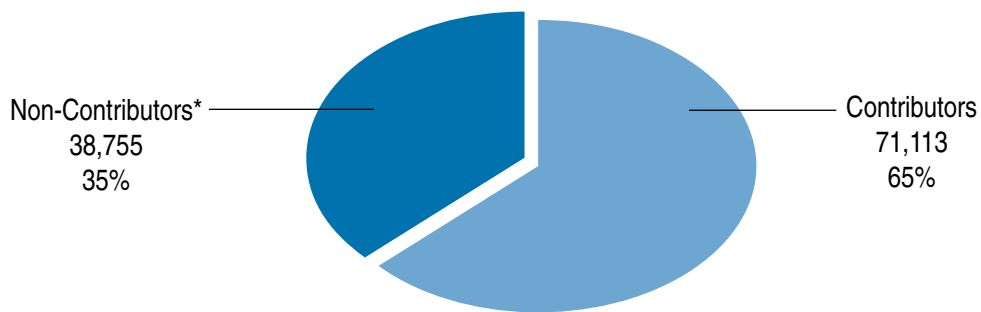


Introduction

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, 71,113 members were contributing to the TDA Program through salary deductions.

MEMBER PARTICIPATION IN THE TDA PROGRAM

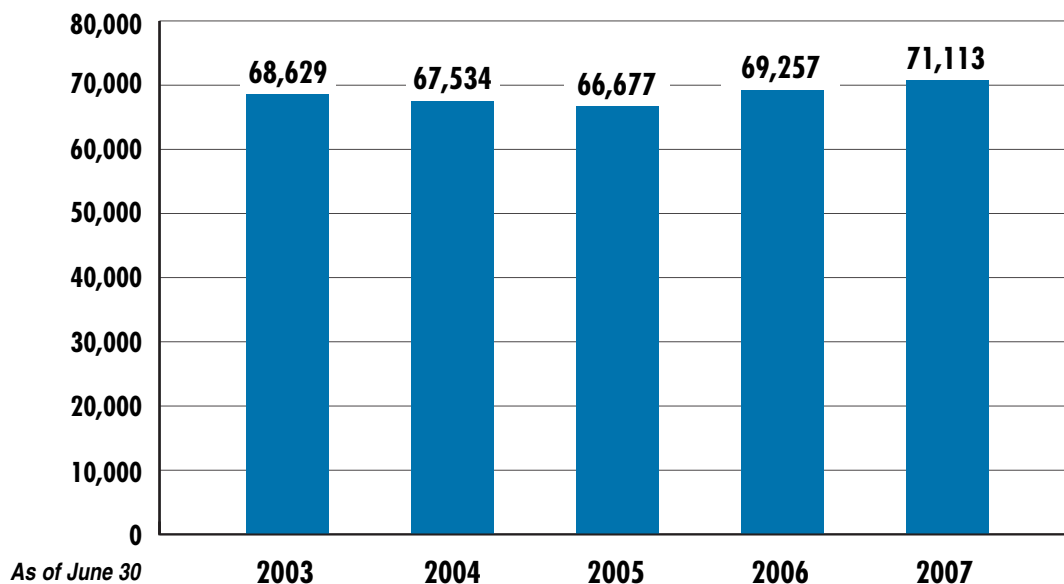
As of June 30, 2007



* This total includes members who have made TDA contributions but were not contributing as of June 30, 2007.

This year's figure, representing 65% 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 2007 Fiscal Year, 4,140 members and beneficiaries (or 6.04% of those receiving QPP allowances) were receiving TDA annuities; these annuities totaled \$42.3 million. The chart below organizes this TDA information by members' type of retirement under the QPP.

ANNUITIES UNDER THE TDA PROGRAM

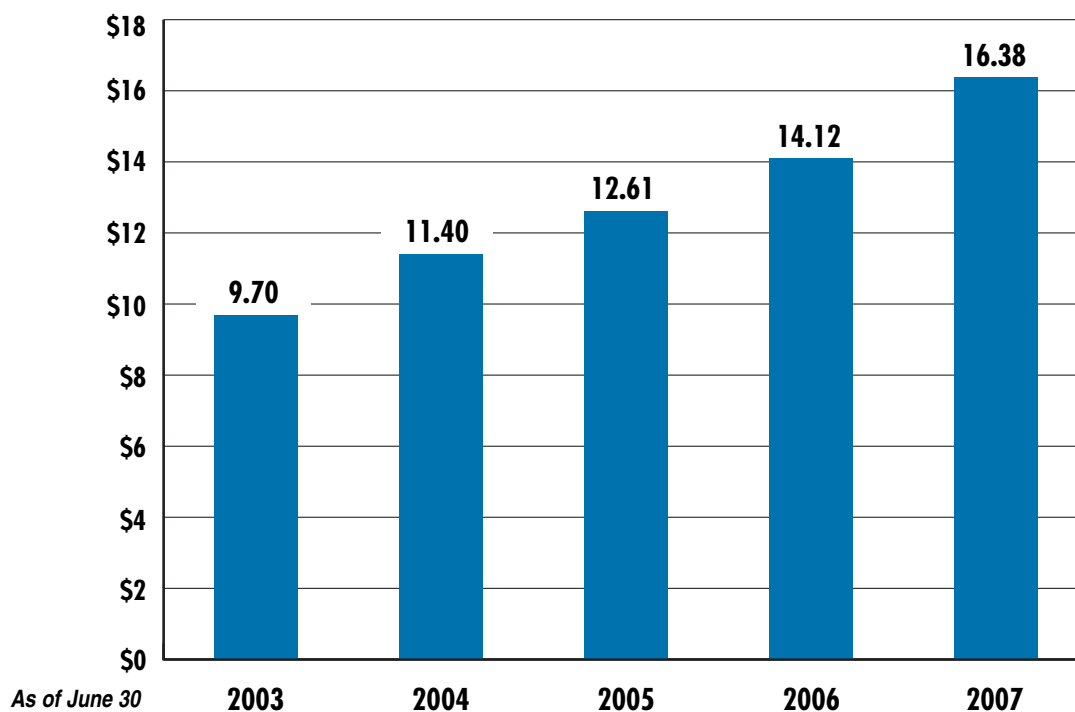
As of June 30, 2007

	Service	Ordinary Disability	Accident Disability	Beneficiary
Retirees and Beneficiaries Receiving TDA Annuities	3,123	249	32	736
Total Annual Annuities Paid	\$ 33,805,136	\$ 1,972,707	\$ 168,521	\$ 6,380,866
Average Annual Annuity	\$ 10,825	\$ 7,923	\$ 5,266	\$ 8,670

TRS' ability to fund TDA benefits also remained extremely strong, with \$16.38 billion of net assets held in trust for TDA benefits as of June 30, 2007.

NET ASSETS AVAILABLE FOR BENEFITS—TDA PROGRAM

(In Billions)



Offering Investment Choices

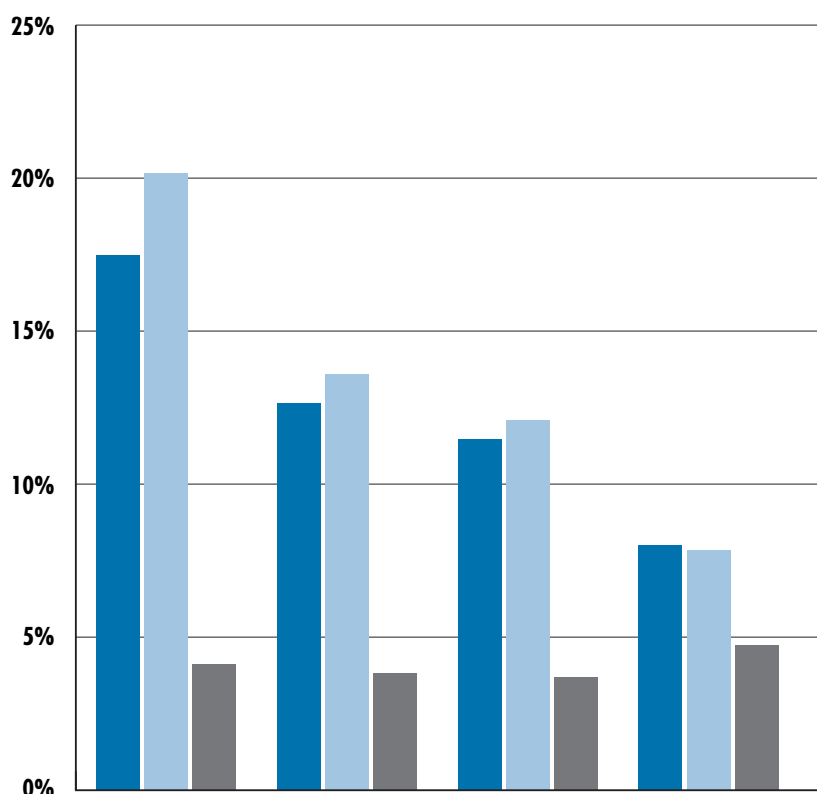
Through the Qualified Pension Plan (QPP), TRS provides retirement allowances to our members. Through the Tax-Deferred Annuity (TDA) Program, we enable members to build additional personal savings for retirement. Three investment options are available under these plans: the Fixed Annuity Program, Variable 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)
Tiers I/II QPP funds in the Fixed Annuity Program	Tiers I/II QPP funds in the Variable A Annuity Program	Tiers I/II QPP funds in the Variable B Annuity Program
+		
All Tiers III/IV QPP funds	+	+
+		
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 7/1/06 to 6/30/07	3 YEARS 7/1/04 to 6/30/07	5 YEARS 7/1/02 to 6/30/07	10 YEARS 7/1/97 to 6/30/07
Pension Fund	17.46%	12.63%	11.47%	8.00%
Variable A Fund	20.16%	13.58%	12.10%	7.83%
Variable B Fund	4.12%	3.81%	3.70%	4.72%

- The Pension Fund yielded a 17.46% return; participants in the Fixed Annuity Program continued to receive a guaranteed 8.25% return.
- The Variable A Fund yielded a 20.16% return, and Variable A's unit value increased from \$64.128 in July 2006 to \$74.093 in July 2007.
- The Variable B Fund yielded a 4.12% return, and Variable B's unit value increased from \$19.434 in July 2006 to \$19.456 in July 2007.

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

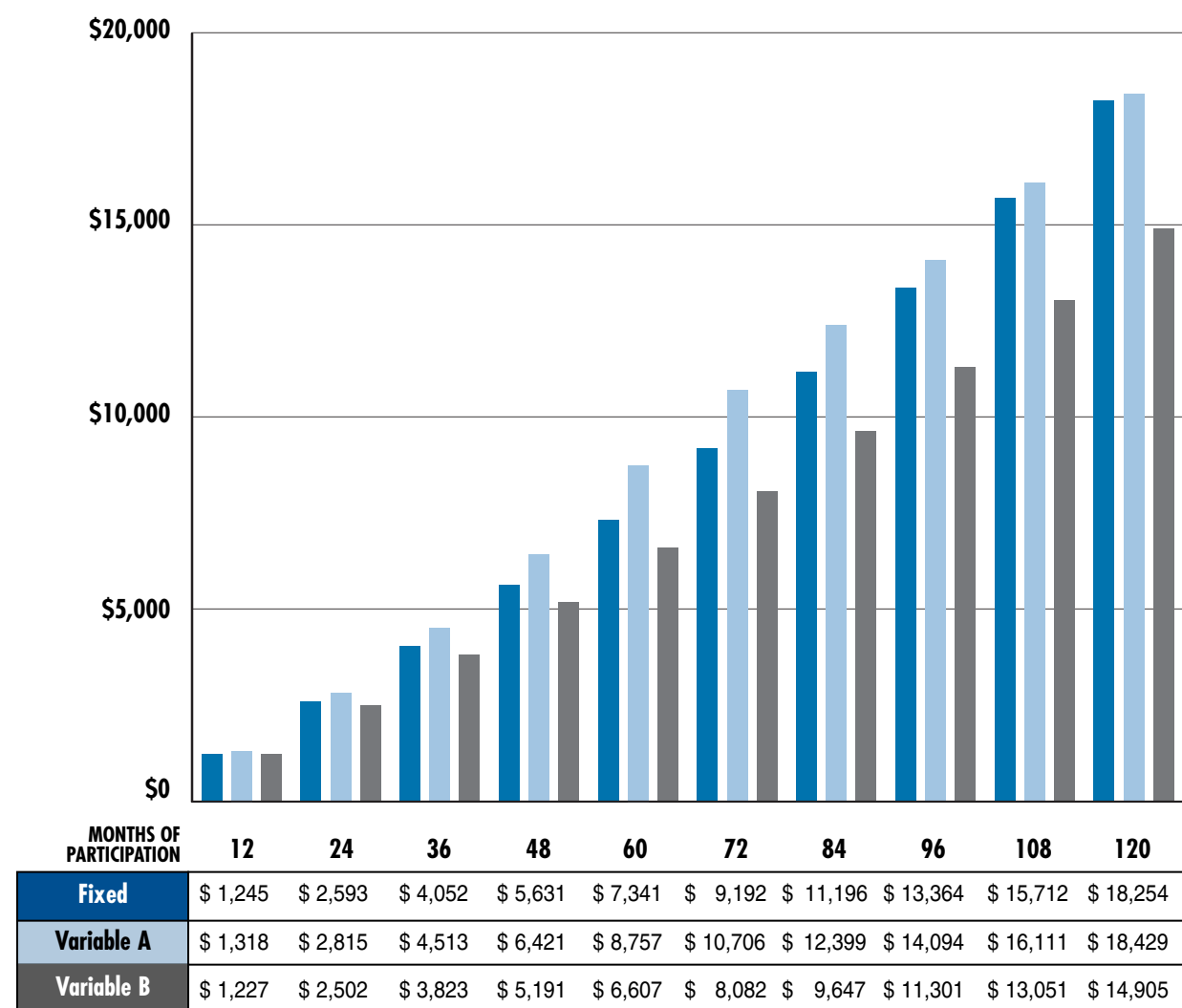
Introduction

The table below compares accumulations as of June 30, 2007, 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, 2007



Pension Fund

Performance Highlights

Return: 17.46%

Total Investments: \$39.288 Billion

During Fiscal Year 2007, the Pension Fund's portfolio, consisting primarily of equities and fixed-income instruments, yielded a return of 17.46% after fees and expenses. This was an increase from the 9.95% return for Fiscal Year 2006.

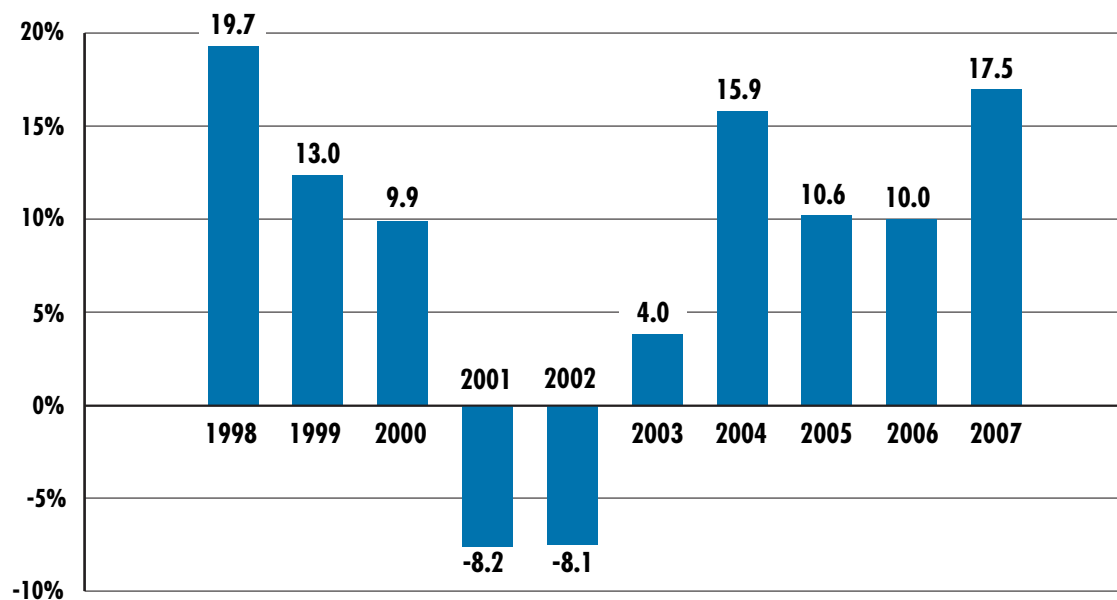
The Pension Fund includes all Fixed Annuity Program funds in the Qualified Pension Plan (QPP) and the Tax-Deferred Annuity (TDA) Program, and all Tiers III/IV QPP funds. The Fixed Annuity Program offers a guaranteed rate of return set by the New York State Legislature, in accordance with applicable laws. The current 8.25% annual rate is guaranteed through June 30, 2009.

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 of U.S. and international equities and fixed-income instruments with smaller allocations to private equity and real estate investments.

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: 20.16%

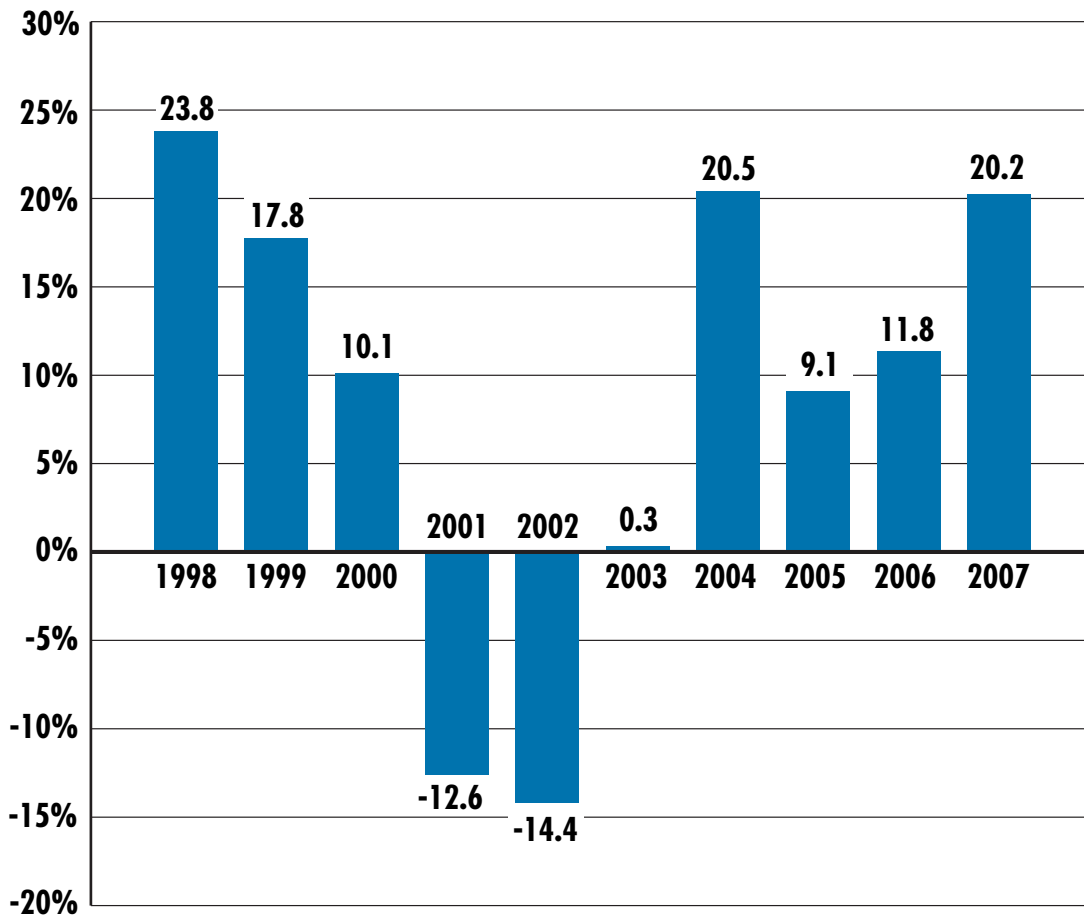
Total Investments: \$15.150 Billion

For the fiscal year ended June 30, 2007, Variable A returned 20.16% 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 20.63%. The composite benchmark, which includes no fees, provides a passive reflection (updated semi-annually) of Variable A's actual asset allocation among major asset categories, such as domestic stocks, domestic fixed-income securities, and international equities.

As of June 30, 2007, approximately 84.6% of Variable A's portfolio was invested in the U.S. common stock market. Variable A's portfolio also contained approximately 15.2% in international stocks and approximately 0.2% in fixed-income securities, which contributed to portfolio diversification.

- The Passive Core sector returned 20.17%, slightly overperforming the Russell 3000 Index's return of 20.07%.
- The Active Domestic Equity sector returned 18.74%, underperforming the Russell 3000 Index by 133 basis points (1.33%). This sector is predominately allocated to the risk-controlled composite, which returned 18.19%. A smaller allocation to the eclectic composite returned 20.39%.
- The Defensive Strategies sector earned 17.56%, significantly overperforming the sector's benchmark (60% S&P 500/40% Lehman Brothers Long Treasury Bond Index), which returned 14.65%.
- The International Equity sector earned 25.68%, underperforming its MSCI EAFE benchmark, which returned 27.54%. 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: 4.12%

Total Investments: \$0.422 Billion

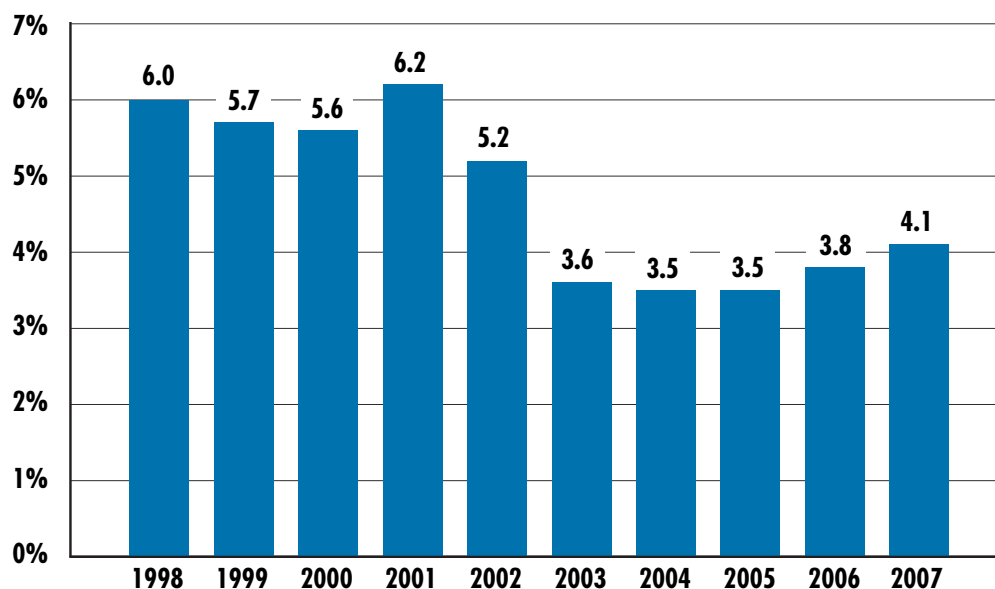
Variable B's portfolio earned 4.12% after fees and expenses for the fiscal year ended June 30, 2007. Variable B's return underperformed the Ryan Three-Year GIC Index, which yielded a return of 4.19%. This index measures the average of monthly yields for three-year Guaranteed Investment Contracts (GICs) issued by high-quality insurance companies. Variable B, which is valued at cost or book value, underperformed a market-valued benchmark, the Merrill Lynch 1-3 Year Treasury Index. This index had a 5.07% 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*

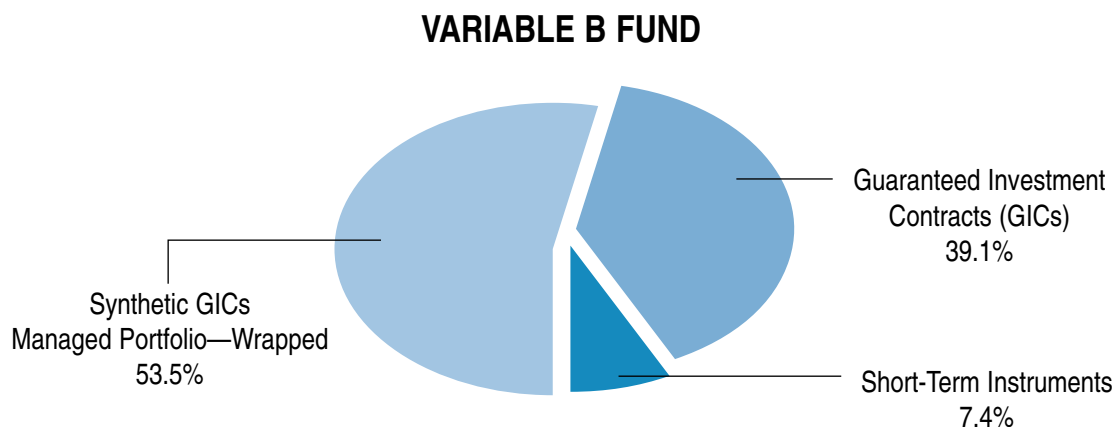
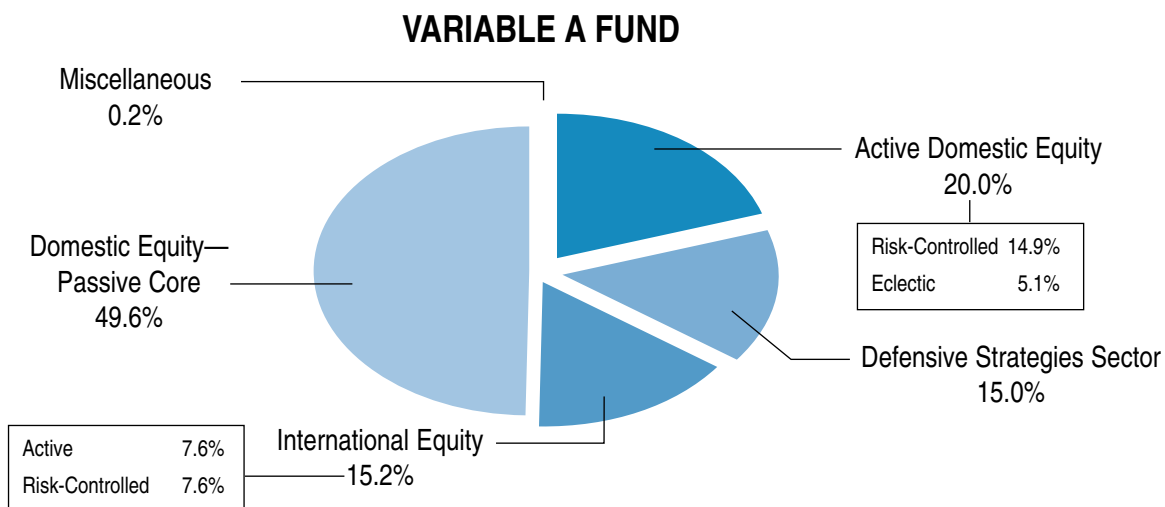
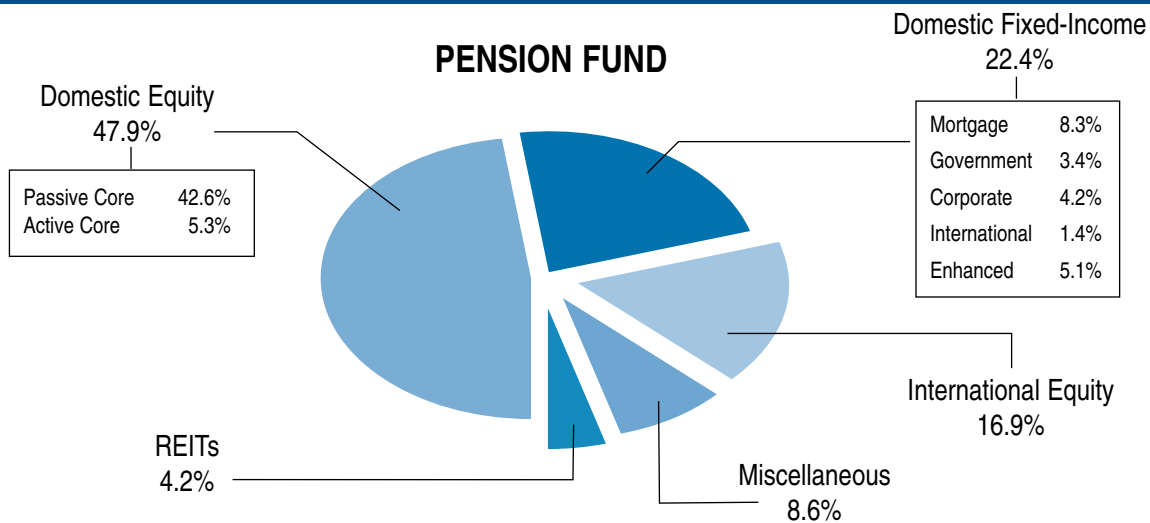
Year Ended June 30



* After expenses

FUND ALLOCATION BY ASSET CLASS

As of June 30, 2007



A Portrait of Our Members

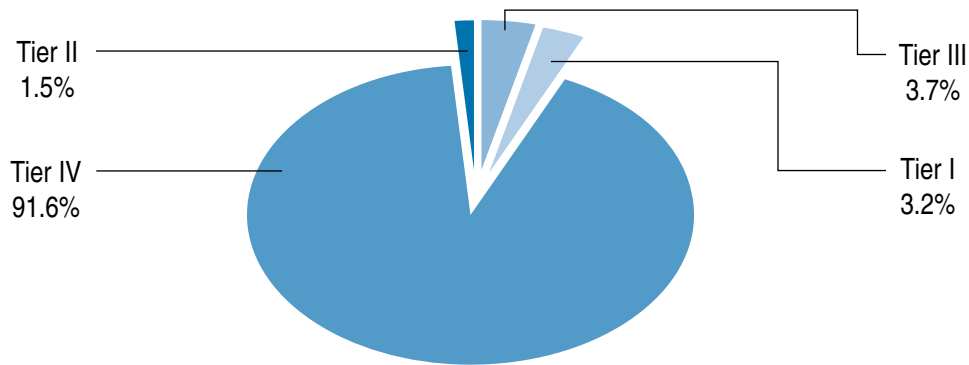
Our membership includes individuals of varying ages, tiers, and employment status. And although many TRS members are currently in active service, approximately one-third of them are retired. The following demographic data provide a snapshot of our membership as of June 30, 2007.

In-Service Members

As of June 30, 2007, there were 109,868 in-service members. Following is some basic information about these active members receiving salaries.

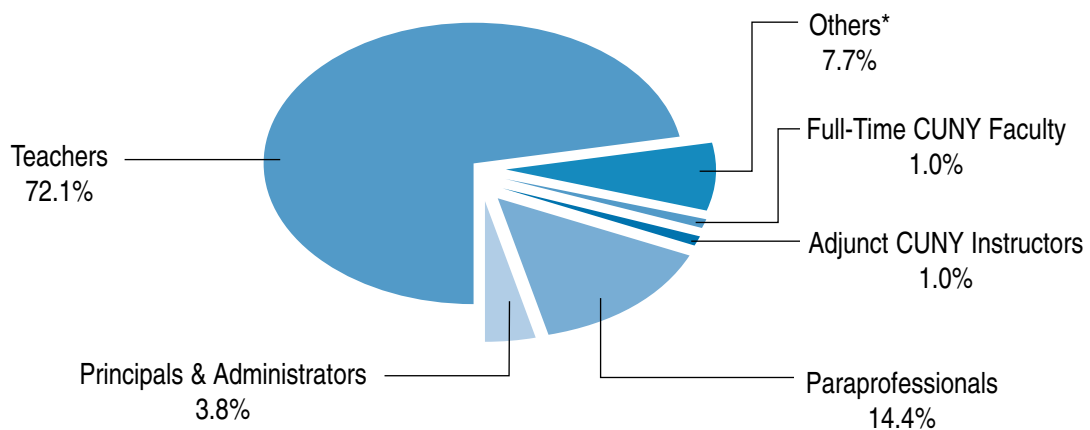
Average Age of In-Service Members: 44.6 years

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

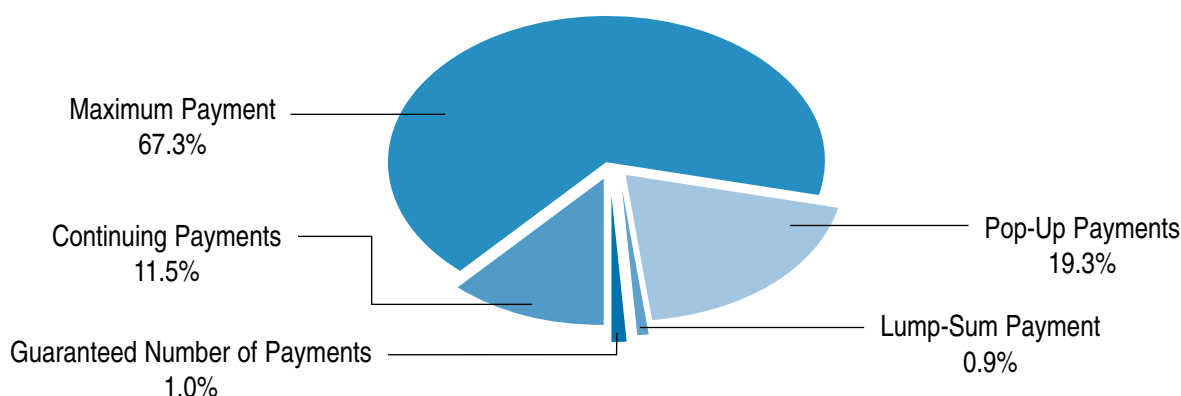
As of June 30, 2007, there were 64,773 retired TRS members. Some statistics related to these members are below.

Average Age of Members at Retirement Date: 60.5 years

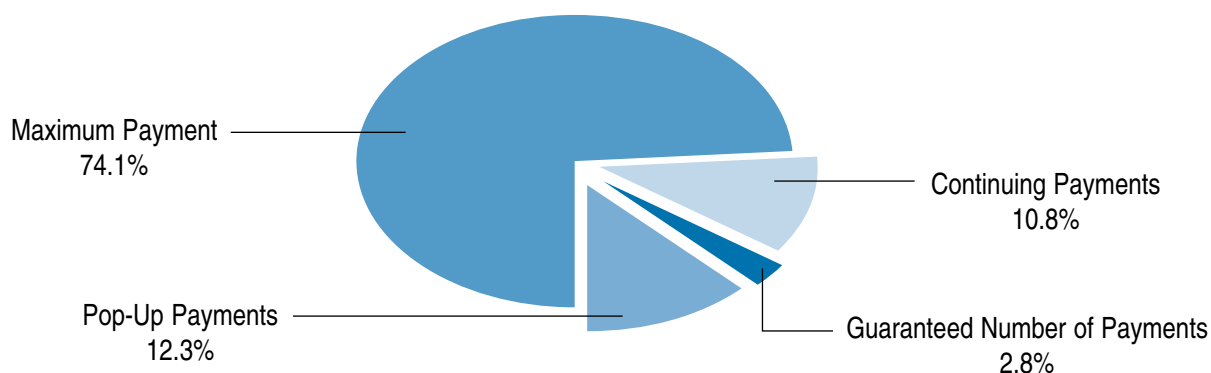
Retirement Payment Options Chosen by TRS Retirees

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 payment options chosen by TRS members retiring during Fiscal Year 2007 are displayed below, followed by a brief description.

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.

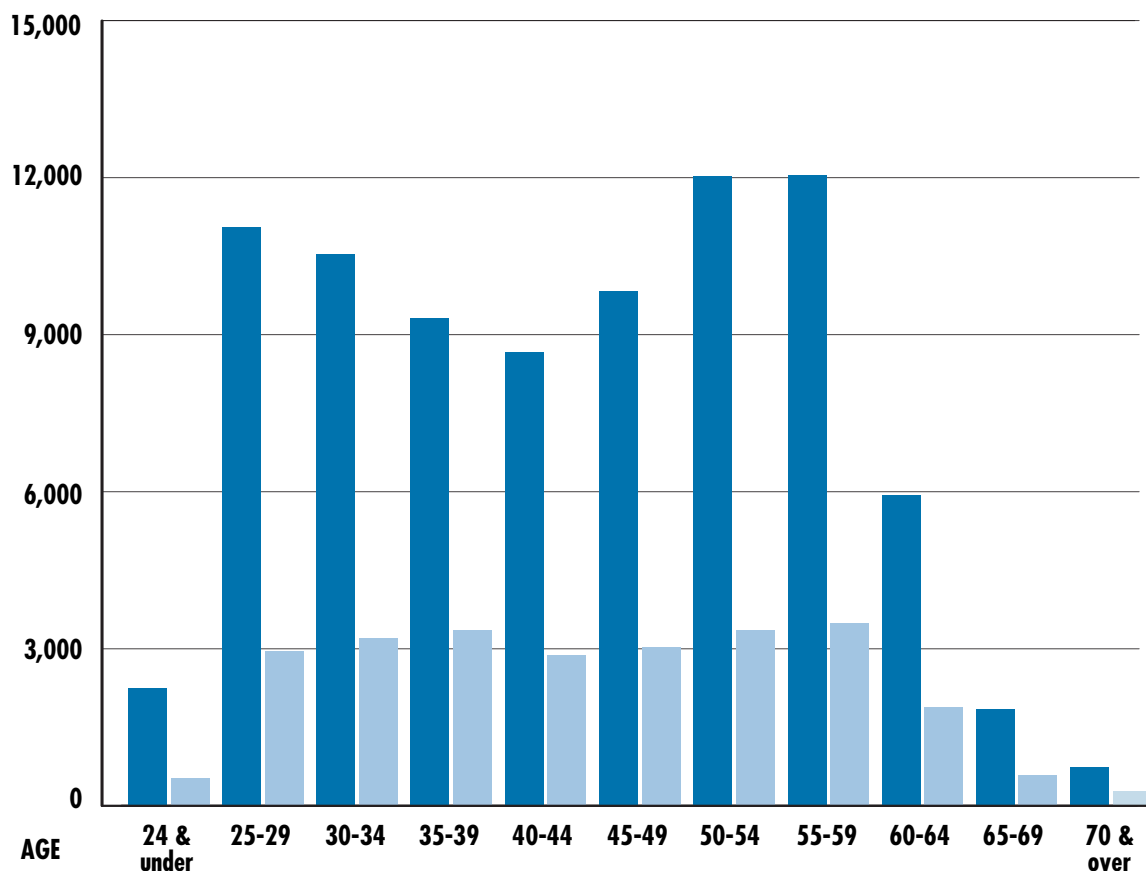


Statistical Section

Membership Information	25
Investment Information	29

In the Introduction to this Annual Report, we highlighted some of TRS' key membership and investment information for Fiscal Year 2007. 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, 2007



WOMEN	2,368	11,043	10,542	9,321	8,662	9,829	12,030	12,027	5,937	1,841	727
MEN	549	2,954	3,204	3,355	2,869	3,021	3,352	3,493	1,884	592	268

IN-SERVICE MEMBERSHIP

In-Service Membership as of June 30, 2006	109,992
Contributors Registered in Fiscal Year 2007	10,299
Contributors Withdrawn in Fiscal Year 2007	(10,423)

IN-SERVICE MEMBERSHIP AS OF JUNE 30, 2007	109,868
--	----------------

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

RETIRED MEMBERSHIP

Retired Membership as of June 30, 2006	63,961
Members Registered in Fiscal Year 2007 for Retirement	2,717
Members Withdrawn in Fiscal Year 2007 from Retirement	(1,905)

RETIRED MEMBERSHIP AS OF JUNE 30, 2007	64,773
---	---------------

Note: These figures do not include the following: 3,719 beneficiaries who are receiving retirement allowances as of June 30, 2007; 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, 2007*

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	0	—
55–59	1,615	\$ 64,007	55–59	3,494	\$ 56,170
60–64	5,656	62,029	60–64	8,360	51,800
65–69	3,737	54,099	65–69	7,970	40,622
70–74	3,019	50,619	70–74	6,442	35,421
75–79	2,725	47,550	75–79	5,825	33,815
80–84	1,968	44,792	80–84	4,781	32,270
85–89	996	42,403	85–89	2,850	29,231
90 & over	538	43,048	90 & over	2,259	30,254
TOTAL	20,254	\$ 53,931	TOTAL	41,981	\$ 40,117
TOTAL ANNUAL ALLOWANCES PAID \$ 1,092,312,367			TOTAL ANNUAL ALLOWANCES PAID \$ 1,684,154,427		

ORDINARY DISABILITY RETIREMENT ALLOWANCES*As of June 30, 2007*

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	3	\$ 15,196
40–44	3	15,088	40–44	21	17,156
45–49	17	16,631	45–49	57	16,668
50–54	40	20,137	50–54	126	16,683
55–59	104	23,994	55–59	309	21,279
60–64	125	24,956	60–64	319	19,723
65–69	67	19,957	65–69	219	15,605
70–74	39	20,386	70–74	112	15,176
75–79	30	21,234	75–79	82	14,966
80–84	23	23,066	80–84	74	16,658
85–89	21	32,407	85–89	89	19,713
90 & over	14	37,678	90 & over	99	23,001
TOTAL	483	\$ 23,305	TOTAL	1,510	\$ 18,499
TOTAL ANNUAL ALLOWANCES PAID \$ 11,256,156			TOTAL ANNUAL ALLOWANCES PAID \$ 27,933,747		

ACCIDENT DISABILITY RETIREMENT ALLOWANCES

As of June 30, 2007

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	\$ 26,448
35–39	0	—	35–39	1	39,144
40–44	1	\$ 44,472	40–44	7	30,255
45–49	3	22,088	45–49	11	28,287
50–54	8	36,344	50–54	20	29,315
55–59	23	32,889	55–59	67	34,826
60–64	64	41,311	60–64	88	34,789
65–69	25	48,153	65–69	46	41,332
70–74	22	42,882	70–74	49	31,528
75–79	11	38,692	75–79	34	33,892
80–84	10	41,181	80–84	21	37,220
85–89	2	33,399	85–89	22	37,912
90 & over	4	40,887	90 & over	5	28,224
TOTAL	173	\$ 40,560	TOTAL	372	\$ 34,744
TOTAL ANNUAL ALLOWANCES PAID \$ 7,016,808			TOTAL ANNUAL ALLOWANCES PAID \$ 12,924,856		

DEATH BENEFITS—QPP

As of June 30, 2007

MEN			WOMEN		
Age	Number of Beneficiaries	Average Annual Benefit	Age	Number of Beneficiaries	Average Annual Benefit
under 30	4	\$ 38,600	under 30	3	\$ 36,844
30–34	1	15,696	30–34	1	23,760
35–39	2	4,476	35–39	0	—
40–44	7	13,966	40–44	1	25,272
45–49	4	10,699	45–49	13	11,786
50–54	8	14,023	50–54	10	11,379
55–59	43	20,877	55–59	32	25,307
60–64	76	27,950	60–64	126	34,908
65–69	121	26,850	65–69	138	35,200
70–74	113	22,930	70–74	207	33,963
75–79	151	22,305	75–79	329	32,544
80–84	178	20,878	80–84	438	29,359
85–89	153	18,039	85–89	467	26,720
90 & over	192	14,187	90 & over	901	22,495
TOTAL	1,053	\$ 20,761	TOTAL	2,666	\$ 27,695
TOTAL ANNUAL BENEFITS PAID \$ 21,861,560			TOTAL ANNUAL BENEFITS PAID \$ 73,835,252		

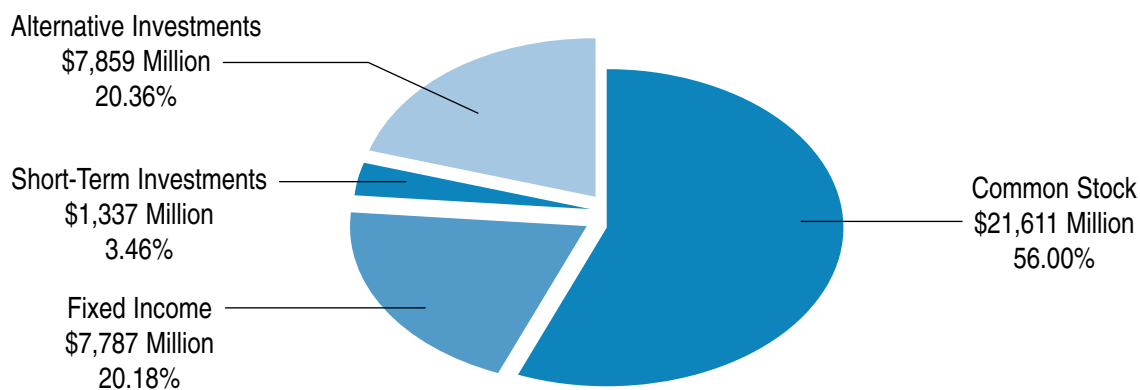
INVESTMENT SUMMARY—QPP

As of June 30, 2007

Type of Investment	Market Value In Thousands	Percent of Total Market Value
Fixed Income:		
Government Bonds	\$ 3,758,304	9.74%
Corporate Bonds	3,629,248	9.40
Foreign Bonds	399,293	1.03
TOTAL FIXED INCOME	\$ 7,786,845	20.17%
Common Stock:		
Financial & Utility	\$ 6,122,121	15.86%
Basic Industry	6,856,250	17.77
Consumer & Service	5,231,600	13.56
Technological	3,401,432	8.81
TOTAL COMMON STOCK	\$ 21,611,403	56.00%
Alternative Investments:		
Guaranteed Investment Contracts (GICs)	\$ 18,642	0.05%
Managed Investment Contracts	89,908	0.23
International	5,470,904	14.18
Mutual Fund	2,279,035	5.91
TOTAL ALTERNATIVE INVESTMENTS	\$ 7,858,489	20.37%
Short-Term Investments:		
Short-Term Investment	\$ 830,616	2.15%
Commercial Paper	506,769	1.31
TOTAL SHORT-TERM INVESTMENTS	\$ 1,337,385	3.46%
TOTAL	\$ 38,594,122*	100.00%

TOTAL ASSET ALLOCATION*—QPP

As of June 30, 2007—\$38.594 Billion



* Excludes \$6,077,662 in securities lending.

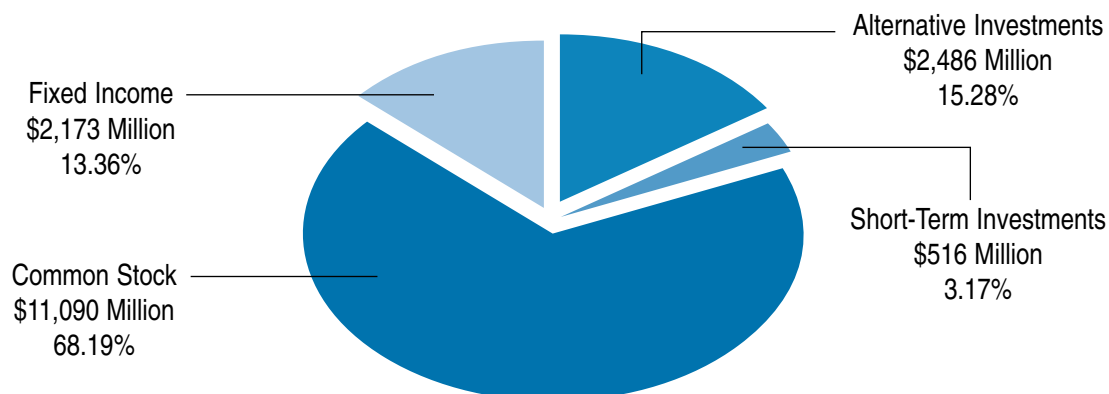
INVESTMENT SUMMARY—TDA PROGRAM

As of June 30, 2007

Type of Investment	Market Value <i>In Thousands</i>	Percent of Total Market Value
Fixed Income:		
Government Bonds	\$ 878,786	5.40%
Corporate Bonds	848,609	5.22
Foreign Bonds	445,930	2.74
TOTAL FIXED INCOME	\$ 2,173,325	13.37%
Common Stock:		
Financial & Utility	\$ 2,452,433	15.08%
Basic Industry	4,084,921	25.11
Consumer & Service	2,511,419	15.44
Technological	2,041,370	12.55
TOTAL COMMON STOCK	\$ 11,090,143	68.18%
Alternative Investments:		
Guaranteed Investment Contracts (GICs)	\$ 25,108	0.15%
Managed Investment Contracts	121,092	0.74
International	1,554,169	9.56
Mutual Fund	785,515	4.83
TOTAL ALTERNATIVE INVESTMENTS	\$ 2,485,884	15.28%
Short-Term Investments:		
Short-Term Investments	\$ 397,600	2.44%
Commercial Paper	118,495	0.73
TOTAL SHORT-TERM INVESTMENTS	\$ 516,095	3.16%
TOTAL*	\$ 16,265,447	100.00%

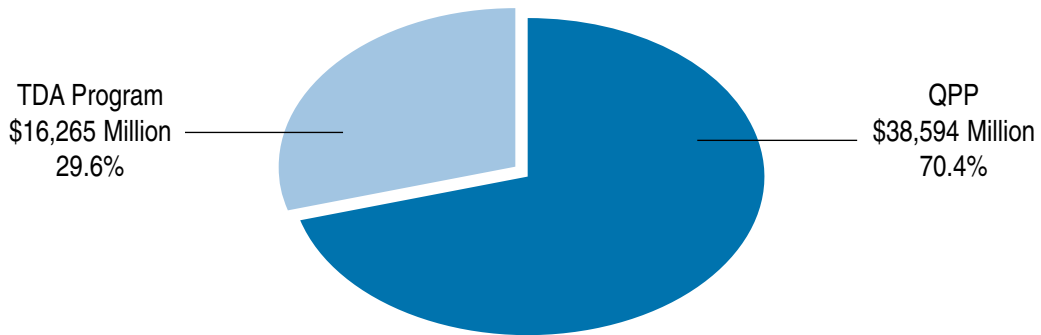
TOTAL ASSET ALLOCATION*—TDA PROGRAM

As of June 30, 2007—\$16.265 Billion

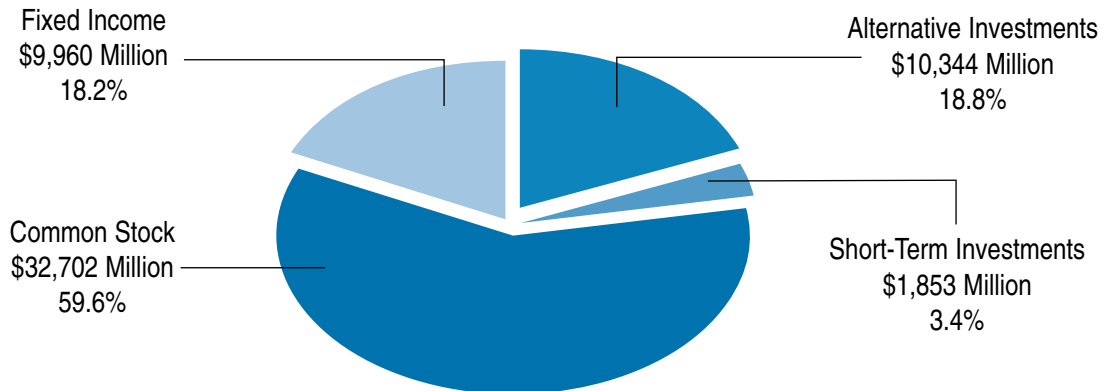


* Excludes \$1,849,576 in securities lending.

TRS' TOTAL INVESTMENTS* (BY PLAN)
As of June 30, 2007—\$54.859 Billion



TRS' TOTAL INVESTMENTS* (BY ASSET ALLOCATION)
As of June 30, 2007—\$54.859 Billion



* Excludes \$7,854,294 in securities lending.

LIST OF LARGEST BOND ASSETS HELD (BY MARKET VALUE)

As of June 30, 2007

Par Value		Interest Rate	Due Date	Market Value
\$ 168,055,000.00	Federal Nat Mtg Assn #T/B/A	5.500%	07/01/34	\$ 162,068,040.63
145,170,000.00	Federal Home Ln Mtg Corp Gold #T/B/A	6.000	07/01/34	143,809,031.25
140,940,000.00	Federal Nat Mtg Assn #T/B/A	6.000	07/01/34	139,398,468.76
146,920,000.00	Federal Home Ln Mtg Corp Gold SFM #T/B/A	5.000	07/01/35	137,691,587.51
90,305,000.00	Federal Home Ln Mtg Corp Gold SFM #T/B/A	5.500	07/01/34	87,087,884.38
86,000,000.00	Federal Nat Mtg Assn SFM #T/B/A	5.000	08/01/21	83,097,500.00
71,626,442.57	Federal Nat Mtg Assn Pool #745275	5.000	02/01/36	67,296,624.12
60,600,000.00	Federal Nat Mtg Assn SFM #T/B/A	5.500	08/01/34	58,403,250.00
59,200,000.00	United States Treasury Notes	4.500	03/31/12	58,117,750.01
60,521,189.56	Federal Nat Mtg Assn Pool #745797	5.000	09/01/35	57,009,114.93

LIST OF LARGEST EQUITY ASSETS HELD (BY MARKET VALUE)

As of June 30, 2007

Shares	Equity	Market Value
3,257,216.00	Exxon Mobil Corp.	273,215,278.08
5,743,453.00	General Electric Co.	219,859,380.84
5,188,157.00	Microsoft Corp.	152,894,986.79
2,929,347.00	Citigroup Inc.	150,246,207.64
2,909,504.00	Bank America Corp.	142,245,650.54
3,344,262.00	AT&T Inc.	138,786,873.00
4,551,756.00	Pfizer Inc.	116,388,400.92
4,023,992.00	Cisco Systems Inc.	112,068,177.20
2,220,133.00	JP Morgan Chase & Co.	107,565,438.86
1,642,807.00	Procter & Gamble Co.	100,523,360.33
1,107,014.00	Chevron Corp.	93,254,859.36
1,445,587.00	Johnson & Johnson	89,077,070.94
1,245,259.00	American International Group, Inc.	87,205,487.77
1,785,982.00	Hewlett Packard Co.	79,690,516.84
652,782.00	Apple Computer Inc.	79,665,515.28
1,128,505.00	Altria Group Inc.	79,153,340.70
2,201,858.00	Wells Fargo & Co.	77,439,345.86
145,199.00	Google Inc. - Class A	75,895,517.30
716,432.00	International Business Machines	75,404,468.00
906,522.00	ConocoPhillips	71,161,977.16

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 publication Investment Portfolios.

SUMMARY OF INVESTMENT MANAGERS

PENSION FUND INVESTMENT MANAGERS

Equity

Aeltus Investment Management, 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.
 Cony EAFE
 Cony GTM EAFE
 Fourth Cinven Fund
 GE Asset Management, Inc.
 Mellon Capital Management Corporation
 Mondrian MTA
 Putnam Advisory Company, L.L.C.
 Relational Investors X, L.P.
 Rowe Price Fleming
 Schroder Investment Management N.A., Inc.
 Shamrock Capital Advisors
 Sprucegrove Investment Management, Ltd.
 State Street
 Westpeak Investment Advisors, L.P.

Enhanced Yield / Alternative

AFL-CIO Housing Investment
 Aisling Capital Partners II, L.P.
 Allegra Capital Partners IV, L.P.
 AMB Institutional Alliance Fund, Inc.
 Apollo Investment Fund
 Ares Corp. Opp Fund
 Arsenal Capital Partners, II
 Aurora Equity Capital Partners III
 Avista Capital Partners, L.P.
 BDCM Opp Fund
 Blackstone Group
 Blackstone Mezz Partners
 Bridgepoint Europe III, L.P.
 Canyon Johnson Realty Advisors
 Carlyle Group
 Catterton Partners VI L.P.
 CCMP Capital Investors II
 CD & R Fund VII, L.P.
 Celtic Pharmaceutical Holding, L.P.
 City Investment Fund
 Colter Investment Management, Ltd.
 Colony Realty Partners GP II, L.P.
 Cypress Mech BK Partners II
 Erasmus NYC Growth Fund, L.P.
 Ethos Private Equity Fund
 Fairview Capital Partners
 FdG Capital Partners, L.L.C.
 First Reserve Fund XI
 Freeman Spogli & Co., Inc.
 FT Ventures Fund III
 GI Partners Fund II, L.P.
 GSC Recovery III

Fixed Income

BlackRock Financial Management, Inc.
 Fisher, Francis, Trees, & Watts, Inc.
 Lehman Brothers
 Mackay Shields L.L.C.
 Morgan Stanley Investment Partners, L.P.
 Pacific Investment Management Company (PIMCO)
 Seix Investments
 Shenkman Capital
 Stone Harbor Investment Partners
 T. Rowe Price Associates, Inc.
 Taplin, Canida & Habacht
 Targeted Investment

REITs

Adelante Capital Management
 Morgan Stanley Investment Partners, L.P.
 Oaktree Capital Management
 Security Capital Research & Management
 Tishman Speyer

Heitman America RE Trust
 Intermedia Partners VII, L.P.
 J.P. Morgan Investment Management, Inc.
 Landmark Equity Partners
 Leeds Weld Equity Partners IV
 Lincolnshire Management, Inc.
 Markstone Capital Partners
 Midocean Partners III
 Montreux Equity Partners IV
 New Mountain Investments
 Paladin Homeland Security
 Palladium Equity Partners III
 PRE/Prudential Prisa II
 PRE/Urban America II
 Prisa
 Prism Venture Partners
 Quadrangle Capital Partners II
 Ripplewood Holdings, L.L.C.
 RRE Ventures
 RREEF America II, Inc.
 RREEF America III, Inc.
 SCP Private Equity Partners
 Silver Lake Partners II
 Solera Capital, L.L.C.
 Terra Firma Cap. III
 Thomas H Lee Equity Fund VI
 Thomas McNerney & Partners, L.P.
 U.S. Power Fund II, L.P.
 UBS Real Estate Separate Account
 VSS Communication Partners IV
 Yucaipa American Alliance Fund

VARIABLE A INVESTMENT MANAGERS

Advent Capital Management
 Alliance Capital Management, L.P.
 Amalgamated Bank of New York
 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.
 Lord Abbett & Co., LLC

Lynmar Capital Group, Inc.
 Mellon Capital Management Corporation
 Pacific Investment Management Company (PIMCO)
 Profit Investment Management, Inc.
 Rainier Investment Management, Inc.
 Shapiro Capital Management Company, Inc.
 Sound Shore Management, Inc.
 UBS Global Asset Management Trust Co.
 Walter Scott & Partners Ltd.
 Wellington Management Company, L.L.P.
 Zazove Associates

VARIABLE B INVESTMENT MANAGERS

NISA Investment Advisors, L.L.C.

Standish Mellon Asset Management, L.L.C.



Financial Section (QPP)

Independent Auditors' Report	37
Management's Discussion and Analysis	39
Statement of Plan Net Assets	43
Statement of Changes in Plan Net Assets	44
Notes to Financial Statements	45
Schedule 1—Funding Progress	59
Schedule 2—Employer Contributions	60
Schedule 3—Actuarial Methods and Assumptions	61
Schedule 4—Investment Expenses	62
Schedule 5—Professional Fees	64
Schedule 6—Administrative Expenses	65



Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281
USA

Tel: 973.683.7126
Fax: 973.451.5239
www.deloitte.com

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, 2007 and 2006, 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, 2007 and 2006, 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.

Financial Section (QPP)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplemental information is the responsibility of the management of the Plan. Such 2007, 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 supplemental information for the year ended June 30, 2001 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, the Plan changed the actuarial valuation methodology to be used in calculating employer contributions beginning with Fiscal Year 2006.

Deloitte + Touche LLP

October 30, 2007

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, 2007 and 2006. 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 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.

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

The financial statements are prepared in accordance with GASB Pronouncements.

Financial Highlights

The assets of TRS exceeded its liabilities by \$37.1 billion, \$32.2 billion, and \$30.5 billion as of June 30, 2007, 2006 and 2005, 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 \$4.9 billion from Fiscal Year 2006 and by \$6.6 billion from Fiscal Year 2005. These represent respective increases of 15.2% and 21.6%.

Receivables for investment securities sold amounted to \$1.1 billion at June 30, 2007, a decrease of \$61.5 million (5.3%) from June 30, 2006, and a decrease of \$23.3 million (2.1%) from June 30, 2005. 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 decrease 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 \$152.7 million as of June 30, 2007, an increase of \$18.7 million (14%) from June 30, 2006, and an increase of \$34.1 million (28.8%) from June 30, 2005.

At June 30, 2007 member loan receivables amounted to \$131.7 million, an increase of \$0.9 million (0.7%) from the previous year, and a decrease of \$3.3 million (2.5%) from June 30, 2005.

Financial Analysis

STATEMENT OF PLAN NET ASSETS			
<i>(In Thousands)</i>			
	2007	As of June 30 2006	2005
Cash	\$ 43	\$ 37	\$ 65
Receivables for investments sold	1,104,536	1,166,009	1,127,808
Receivables for accrued interest and dividends	152,695	133,991	118,584
Member loan receivables	131,722	130,782	135,065
Investments, at fair value	44,671,784	38,573,430	36,133,048
Other assets	28,076	17,944	49,264
TOTAL ASSETS	\$ 46,088,856	\$ 40,022,193	\$ 37,563,834
Accounts payable	470,755	252,755	27,488
Payable for investments purchased	2,370,738	2,569,678	2,357,121
Accrued benefits payable	13,095	14,441	12,835
Payable for securities lending	6,091,477	4,978,602	4,674,220
TOTAL LIABILITIES	\$ 8,946,065	\$ 7,815,476	\$ 7,071,664
NET ASSETS HELD IN TRUST FOR BENEFITS	\$ 37,142,791	\$ 32,206,717	\$ 30,492,170

Investments at June 30, 2007 were \$44.7 billion in comparison to \$38.6 billion at June 30, 2006 and \$36.1 billion at June 30, 2005. The investment asset balances represent increases of \$6.1 billion (15.8%) from June 30, 2006 and \$8.5 billion (23.6%) from June 30, 2005.

Accounts payable at June 30, 2007 amounted to \$470.8 million, an increase of \$218.0 million (86.3%) from June 30, 2006 and an increase of \$443.3 million (1,612.9%) from June 30, 2005. The June 30, 2005 account payable balance included a \$230.8 employer contribution asset, which was received at the end of the 2005 fiscal year and payable to the Plan's investment fund. 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, 2007 amounted to \$2.4 billion, a decrease of \$198.9 million (7.74%) from the previous year ended June 30, 2006 and an increase of \$13.6 million (0.6%) from June 30, 2005. 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, 2007 amounted to \$13.1 million, a decrease of \$1.3 million (9.3%) from June 30, 2006 and an increase of \$0.3 million (2.0%) from June 30, 2005. The \$1.3 million accrued benefit decrease from the period ending June 30, 2006 to June 30, 2007 is attributed to a decline in the year-end benefits payable to beneficiaries.

STATEMENT OF CHANGES IN PLAN NET ASSETS

(In Thousands)

	Year Ended June 30		
	2007	2006	2005
Additions:			
Member contributions	\$ 143,786	\$ 141,056	\$ 124,539
Employer contributions	1,622,743	1,338,338	1,248,704
Net receipts from (payments to) other retirement systems	(453)	(401)	3,215
Securities-lending income	17,333	21,786	17,166
Net investment income	6,770,235	3,587,983	3,294,136
TOTAL NET ADDITIONS	\$ 8,553,644	\$ 5,088,762	\$ 4,687,760
Deductions:			
Benefits payments and withdrawals	3,580,005	3,340,277	3,133,272
Administrative expenses	37,565	33,938	37,722
TOTAL DEDUCTIONS	\$ 3,617,570	\$ 3,374,215	\$ 3,170,994
NET INCREASE	\$ 4,936,074	\$ 1,714,547	\$ 1,516,766

Changes in Plan Net Assets

TRS received \$143.8 million in member contributions during Fiscal Year 2007, \$141.1 million in Fiscal Year 2006 and \$124.5 million in Fiscal Year 2005. The \$143.8 member contributions represent a \$2.7 million (1.9%) increase from Fiscal Year 2006 and a \$19.2 million (15.5%) increase from Fiscal Year 2005. The change in contributions reflects increases due to the adoption of the current Teachers' contract on October 3, 2005, as well as 9,775 new enrollees.

Employer contributions for the fiscal year ended June 30, 2007 totaled \$1.6 billion, an increase of 21.3% and 30.0% over Fiscal Years 2006 and 2005, respectively.

Net investment income increased by \$3.2 billion (88.7%) from Fiscal Year 2006 and increased by \$3.5 billion (105.5%) from Fiscal Year 2005.

Benefits payments and withdrawals for the fiscal year ended June 30, 2007 totaled \$3.6 billion, an increase of 7.2% from Fiscal Year 2006 and 14.3% from Fiscal Year 2005. Benefits payments and withdrawals for Fiscal Year 2007 are composed of retirement benefits (80.7%), interest that is accumulated on behalf of and transferred to the TDA Program (15.3%), and refunds, death benefits and loan repayment withdrawals (4.0%). Retirement benefits continued to increase incrementally, increasing 5.5% from Fiscal Year 2006 and 11.9% from Fiscal Year 2005. Interest accumulated on behalf of and transferred monthly to the TDA Program increased 21.2% from Fiscal Year 2006 and 45.9% from Fiscal Year 2005, reflecting the growth of the TDA Fixed Annuity Program. Also, benefits payments and withdrawals account for the funds disbursed from the Plan's Annuity Programs. For Fiscal Year 2007, as well as Fiscal Years 2006 and 2005, benefits payments and withdrawals were composed of 81.4% of Fixed Annuity Program funds, 17.8% of Variable A Annuity Program funds and 0.8% of Variable B Annuity Program funds.

Administrative expenses for the fiscal year ended June 30, 2007 totaled \$37.6 million, an increase of 10.7% over Fiscal Year 2006 and a decrease of 0.4% over Fiscal Year 2005. The 10.7% increase in administrative expenses from the prior fiscal year is primarily attributed to increases in staff salaries and data processing support services.

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, 2007, net securities-lending income amounted to \$17.3 million compared with \$21.8 million for Fiscal Year 2006 and \$17.2 million for Fiscal Year 2005.

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

INVESTMENT SUMMARY		
<i>(In Thousands)</i>		
Type of Investment	2007	2006
Short-term investments	\$ 1,327,528	\$ 1,157,263
Debt securities	7,786,845	6,896,635
Equity securities—Domestic	22,144,145	19,769,374
Private equity	907,991	506,634
Mutual Funds—International equity	5,214,722	4,160,727
Mutual Funds—TIPS	1,018,517	918,320
Mortgages	75,967	45,360
Promissory notes	9,857	5,340
Managed investment contracts	89,908	104,297
Guaranteed investment contracts	18,642	46,918
Collateral from securities lending	6,077,662	4,962,562
TOTAL	\$ 44,671,784	\$ 38,573,430

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	
	2007	2006
ASSETS		
Cash	\$ 43	\$ 37
Receivables:		
Investment securities sold	1,104,536	1,166,009
Accrued interest and dividends	152,695	133,991
Member loans (Note 5)	131,722	130,782
TOTAL RECEIVABLES	\$ 1,388,953	\$ 1,430,782
Investments, at Fair Value (Notes 2 and 3):		
Fixed funds:		
Short-term investment fund	1,129,234	1,002,186
Debt securities:		
U.S. Government	3,758,304	3,429,728
Corporate	3,629,248	3,301,849
Foreign	70,775	81,522
Equity securities:		
Domestic	15,986,293	13,829,692
Private equity	907,991	506,634
Mutual funds:		
Domestic equity	41,171	32,374
International equity	5,214,722	4,160,727
Treasury inflation-protected securities	1,018,517	918,320
Mortgages	75,967	45,360
Promissory notes	9,857	5,340
Variable A funds:		
Short-term investments	128,040	97,394
Equity securities	6,116,681	5,907,308
Corporate bonds	328,518	83,536
Variable B funds:		
Short-term investments	70,254	57,683
Managed investment contracts	89,908	104,297
Guaranteed investment contracts	18,642	46,918
Collateral from securities lending	6,077,662	4,962,562
TOTAL INVESTMENTS	\$ 44,671,784	\$ 38,573,430
Other Assets	28,076	17,944
TOTAL ASSETS	\$ 46,088,856	\$ 40,022,193
LIABILITIES		
Accounts payable	470,755	252,755
Payables for investment securities purchased	2,370,738	2,569,678
Accrued benefits payable	13,095	14,441
Securities lending (Note 2)	6,091,477	4,978,602
TOTAL LIABILITIES	\$ 8,946,065	\$ 7,815,476
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS*	\$ 37,142,791	\$ 32,206,717

* 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	
	2007	2006
ADDITIONS:		
CONTRIBUTIONS:		
Member contributions	\$ 143,786	\$ 141,056
Employer contributions (Note 4)	1,600,904	1,316,611
Other employer contributions	21,839	21,727
TOTAL CONTRIBUTIONS	\$ 1,766,529	\$ 1,479,394
INVESTMENT INCOME (Note 2):		
Interest income	618,991	625,541
Dividend income	533,097	412,535
Recovered investment losses	2,316	—
Net appreciation in fair value of investments	5,697,519	2,613,216
TOTAL INVESTMENT INCOME	\$ 6,851,923	\$ 3,651,292
Less:		
Investment expenses	81,688	63,309
NET INCOME	\$ 6,770,235	\$ 3,587,983
SECURITIES-LENDING TRANSACTIONS:		
Securities-lending income	421,923	242,127
Securities-lending fees	(404,590)	(220,341)
Net securities-lending income	17,333	21,786
NET INVESTMENT INCOME	\$ 6,787,568	\$ 3,609,769
Other:		
Net payments to other retirement systems	(453)	(401)
TOTAL ADDITIONS	\$ 8,553,644	\$ 5,088,762
DEDUCTIONS:		
Benefits payments and withdrawals (Notes 1 and 2)	3,580,005	3,340,277
Administrative expenses	37,565	33,938
TOTAL DEDUCTIONS	\$ 3,617,570	\$ 3,374,215
INCREASE IN PLAN NET ASSETS	4,936,074	1,714,547
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS AT BEGINNING OF YEAR	32,206,717	30,492,170
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS AT END OF YEAR	\$ 37,142,791	\$ 32,206,717

(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 dates of the Plan’s most recent actuarial valuations, the Plan’s membership consisted of:

PLAN MEMBERSHIP		
	As of June 30	
	2005	2004
Retirees and beneficiaries receiving benefits	65,168	62,728
Terminated vested members not yet receiving benefits	5,172	4,754
Other Inactives*	12,638	9,094
Active members receiving salaries	104,850	105,391
TOTAL	187,828	181,967

* Represents members who are no longer on payroll but not otherwise classified.

Under the One-Year Lag Methodology (OYLM) in effect for fiscal years beginning 2006, the actuarial valuation determines the Employer Contribution for the second following fiscal year. June 30, 2005 and June 30, 2004 are the dates used for calculating Fiscal Year 2007 and Fiscal Year 2006 Employer Contributions, respectively.

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 increased 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 30 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) Benefits Payments and Withdrawals

Plan deductions are primarily due to benefits 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 \$547 million and \$452 million were classified as part of the benefit payments and withdrawals for Fiscal Year 2007 and Fiscal Year 2006.

(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. 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. Also, in Fiscal Years 2004, 2006, and 2007, the Plan received \$5.7 million, \$1.5 million, and \$2.2 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 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. Accordingly, the Plan recorded the investments purchased with the cash collateral from securities lending with a corresponding liability for securities lending.

(h) Pronouncement Issued but Not Yet Effective

In May, 2007, GASB issued Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined-benefit and defined-contribution pensions. The Statement more closely aligns the financial reporting requirements for pensions with those for Other Postemployment Benefits (OPEB) and consequently, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by Statement No. 50 amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement is intended to

improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

The requirements of Statement No. 50 are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. The Plan is currently evaluating the impact of Statement No. 50 on its period ending June 30, 2008 financial statements.

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 25% 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, 2007 and 2006. Bank of New York (BONY) was the primary custodian for substantially all of the other securities of the Plan. On December 4, 2006, Bank of New York and Mellon Global Securities Services announced their intent to merge companies. The merger was completed on July 2, 2007 forming the Bank of New York Mellon Corporation. 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 or lower. Not 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, 2007

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	13.73%	–	–	–	0.04%	–	–	–	–	13.77%
Corporate Bonds	11.56%	6.06%	11.41%	12.00%	9.78%	16.99%	3.65%	–	1.06%	72.51%
Yankee Bonds	–	–	0.66%	0.73%	0.05%	0.01%	–	–	–	1.45%
Short Term										
Commercial Paper	–	–	2.35%	–	–	–	–	–	0.25%	2.60%
Pooled Funds	–	–	–	–	–	–	–	9.52%	–	9.52%
Certificates of Deposit	–	–	–	–	–	–	–	–	–	–
U.S. Treasuries	–	–	–	–	–	–	–	–	0.15%	0.15%
U.S. Agencies	–	–	–	–	–	–	–	–	–	–
Percent of Rated Portfolio	25.29%	6.06%	14.42%	12.73%	9.87%	17.00%	3.65%	9.52%	1.46%	100.00%

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%	–	0.99%	64.05%
Yankee Bonds	0.02%	0.08%	0.49%	0.81%	0.05%	0.05%	–	–	–	1.50%
Short Term										
Commercial Paper	–	–	–	–	–	–	–	5.03%	–	5.03%
Pooled Funds	–	–	–	–	–	–	–	–	7.33%	7.33%
Certificates of Deposit	–	–	–	–	–	–	–	0.26%	0.16%	0.42%
U.S. Treasuries	0.23%	–	–	–	–	–	–	–	–	0.23%
U.S. Agencies	–	–	–	–	–	–	–	0.66%	1.37%	2.03%
Percent of Rated Portfolio	29.28%	3.95%	13.67%	11.01%	8.56%	15.89%	1.84%	5.95%	9.85%	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 0.75 years. Duration range is a measure of the overall portfolio, while statements of the stated maturity reflect the specific maturities of the individual securities held. 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, 2007

	Investment Maturities				
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S. Government	45.40%	2.81%	6.24%	–	36.35%
Corporate Bonds	45.89%	0.87%	14.81%	17.19%	13.02%
Yankee Bonds	0.92%	–	0.37%	0.19%	0.36%
Short Term					
Commercial Paper	1.63%	1.63%	–	–	–
Pooled Funds	6.06%	6.06%	–	–	–
Certificates of Deposit	–	–	–	–	–
U.S. Treasuries	0.10%	0.10%	–	–	–
U.S. Agencies	–	–	–	–	–
Percent of Rated Portfolio	100.00%	11.47%	21.42%	17.38%	49.73%

June 30, 2006

	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					
Commercial Paper	3.33%	3.33%	–	–	–
Pooled Funds	4.85%	4.85%	–	–	–
Certificates of Deposit	0.27%	0.27%	–	–	–
U.S. Treasuries	0.15%	0.15%	–	–	–
U.S. Agencies	4.14%	4.14%	–	–	–
Percent of Rated Portfolio	100.00%	15.21%	20.80%	19.30%	44.69%

(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, 2007

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	622,096	413,001	417,247	-	-	-	-	516,392	25,406	1,994,142
Yankee Bonds	-	-	-	-	-	-	-	50,727	-	50,727
Short-Term										
Commercial Paper	-	-	-	-	-	-	-	174,779	-	174,779
Pooled Funds	513,658	-	-	-	-	-	-	-	-	513,658
Repurchase Agreements	-	-	-	-	-	-	-	26,172	873,799	899,971
Certificates of Deposit	-	350,273	201,193	-	-	-	-	540,394	-	1,091,860
Bank Notes	92,825	657,073	331,413	-	-	-	-	143,782	-	1,225,093
Other	83	974	-	-	-	-	-	126,375	-	127,432
Total	\$1,228,662	\$1,421,321	\$ 949,853	\$ -	\$ -	\$ -	\$ -	\$1,578,621	\$ 899,205	\$6,077,662
Percent of Securities-Lending Portfolio	20.22%	23.39%	15.63%	0.00%	0.00%	0.00%	0.00%	25.97%	14.80%	100.00%

June 30, 2006

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,105	\$ -	\$ 4,105
Corporate Bonds	354,495	258,436	684,747	-	-	-	-	164,022	12,028	1,473,728
Yankee Bonds	-	-	-	-	-	-	-	37,647	-	37,647
Short Term										
Commercial Paper	-	-	14,780	-	-	-	-	320,210	-	334,990
Pooled Funds	615,508	-	-	-	-	-	-	-	-	615,508
Repurchase Agreements	-	-	-	-	-	-	-	30,266	868,907	899,173
Certificates of Deposit	1,752	683,761	197,216	-	-	-	-	67,412	-	950,141
Bank Notes	5,328	298,054	239,562	-	-	-	-	58,571	-	601,515
Other	-	5,629	762	-	-	-	-	39,364	-	45,755
Total	\$ 977,083	\$1,245,880	\$1,137,067	\$ -	\$ -	\$ -	\$ -	\$ 721,597	\$ 880,935	\$4,962,562
Percent of Securities-Lending Portfolio	19.69%	25.11%	22.91%	0.00%	0.00%	0.00%	0.00%	14.54%	17.75%	100.00%

Financial Section (QPP)

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, 2007

	Investment Maturities				
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	1,994,142	539,879	1,454,263	-	-
Yankee Bonds	50,727	20,846	29,881	-	-
Short Term					
Commercial Paper	174,779	174,779	-	-	-
Pooled Funds	513,658	513,658	-	-	-
Repurchase Agreements	899,971	899,971	-	-	-
Certificates of Deposit	1,091,860	593,758	498,102	-	-
Bank Notes	1,225,093	349,942	875,151	-	-
Other	127,432	118,859	8,573	-	-
Total	\$6,077,662	\$3,211,692	\$2,865,970	\$ -	\$ -
Percent of Securities-Lending Portfolio	100.00%	52.84%	47.16%	0.00%	0.00%

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	\$ 4,105	\$ 4,105	\$ -	\$ -	\$ -
Corporate Bonds	1,473,728	201,528	1,272,200	-	-
Yankee Bonds	37,647	15,132	22,515	-	-
Short Term					
Commercial Paper	334,990	334,990	-	-	-
Pooled Funds	615,508	615,508	-	-	-
Repurchase Agreements	899,173	899,173	-	-	-
Certificates of Deposit	950,141	72,008	878,133	-	-
Bank Notes	601,515	36,598	564,917	-	-
Other	45,755	44,951	804	-	-
Total	\$4,962,562	\$2,223,993	\$2,738,569	\$ -	\$ -
Percent of Securities-Lending Portfolio	100.00%	44.82%	55.18%	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, 2005 (Lag) actuarial valuation was used to determine the Fiscal Year 2007 Employer Contribution. There were no changes in actuarial assumptions and methods from the prior actuarial valuation.

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 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).

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 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. 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.

Chapter 152/06 eliminated the ten-year phase-in. All actuarial liabilities attributable to Chapter 125/00 are now recognized in the actuarial valuation.

Statutory Contributions for Fiscal Years 2007 and 2006 were equal to the amounts calculated by the Actuary.

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, 2007 and 2006 is \$131.7 million and \$130.8 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 \$8.6 million and \$7.3 million in Fiscal Years 2007 and 2006.

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 2007, total expenses attributed to the Plan were approximately \$46.2 million; \$37.6 million was paid from the assets of the Plan. The remaining \$8.6 million were incurred on behalf of the Plan by other City agencies, primarily the Comptroller's office. 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 and the remaining \$7.3 million was paid by other City agencies on behalf of the Plan. Investment expenses charged to the investment earnings of the Plan amounted to \$81.7 million in 2007 and \$63.3 million in 2006.

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 2007 and 2006, 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 November 2006 and analyzed experience for Fiscal Years 2002 through 2005. Segal made recommendations to the actuarial assumptions and methods based on their analysis. The Actuary is reviewing these recommendations.

(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 result in somewhat lesser Employer Contributions for Fiscal Years 2007 and 2006 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, created a presumptive eligibility for accidental disability in connection with the World Trade Center attack on September 11, 2001.

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 (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)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date June 30	Actuarial Asset Value (AAV) (A)	Actuarial Accrued Liability (AAL)* (A) & (B)	Unfunded AAL (UAAL) (C) (2) - (1)	Funded Ratio (1) ÷ (2)	Covered Payroll	UAAL as a Percentage of Covered Payroll (3) ÷ (5)
2005 (Lag)	\$32,865,126	\$32,872,322	\$7,196	100.0%	\$6,273,910	0.1%
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

* 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, 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%, 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
2007	\$1,600,904	100.0%
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

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 Contributions of \$1.2 billion, \$920.3 million, \$639.6 million and \$509.9 million for Fiscal Years 2005, 2004, 2003 and 2002, 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 eliminated 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 Years 2007 and 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, 2005 (Lag) and June 30, 2004 (Lag). These actuarial valuations were used to determine Employer Contributions for Fiscal Years 2007 and 2006, respectively. Additional information as of the last two actuarial valuations follows:

	June 30, 2005 (Lag) ¹	June 30, 2004 (Lag) ¹
Actuarial cost method	Frozen Initial Liability ²	Frozen Initial Liability ²
Amortization method for Unfunded Actuarial Accrued Liabilities	Level dollar for UAAL attributable to 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 2002 (Part A only) Early Retirement Incentive (ERI). All outstanding components of UAAL are being amortized over closed periods. ³
Remaining amortization period	2 years for 2002 ERI (Part A only)	3 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 Program, current market value.	Modified six-year moving average of market values with a "market value restart" as of June 30, 1999. For assets of Variable Annuity Program, 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 2006.
Active service: withdrawal, death, disability, service retirement	Tables adopted by Retirement Board during Fiscal Year 2006.	Tables adopted by Retirement Board during Fiscal Year 2006.
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 reestablished as of June 30, 1999 by the Entry Age Actuarial Cost Method, but with the UAAL no less than \$0. The financial results using this Frozen Initial Liability Actuarial Cost Method differ minimally from those that would be produced using the Aggregate Actuarial Cost Method.

(3)—In conjunction with Chapter 85/00, there is an amortization method. However, the June 30, 1999 UAAL for the Plan 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, 2007 (Unaudited)

INVESTMENT EXPENSES		TRS' Share of Fees and Commissions Paid
Investment Agent	Service	
FIXED ANNUITY PROGRAM		
Adelante Capital Management	Investment Manager	\$1,368,455
Aeltus Investment Management, Inc.	Investment Manager	914,456
AFL-CIO Housing Invest.	Investment Manager	332,517
Aisling	Investment Manager	107,980
AMB Alliance Fd III	Investment Manager	52,350
Apollo Investment VI	Investment Manager	178,601
Apollo Real Estate Fund V	Investment Manager	204,477
ARES Corp.	Investment Manager	75,376
ARES Corp. OPP II	Investment Manager	528,673
Ariel Capital Mgmt. Inc.-Mid. Cap. & Small Cap.	Investment Manager	1,203,769
Arsenal Cap. Ptnrs II	Investment Manager	136,459
Aurora Capital Equity Partners	Investment Manager	330,156
Avista Capital Ptnrs	Investment Manager	793,124
Bank of Ireland Asset Management (U.S.) Limited	Investment Manager	713,168
Barclays Global Investors N.A.	Investment Manager	366,442
BDCM OPP	Investment Manager	549,259
BDCM OPP Fund II	Investment Manager	437,162
BlackRock TIPS MTA	Investment Manager	149,141
BlackRock Financial Management - Corp.	Investment Manager	258,003
BlackRock Financial Management - Mortgage	Investment Manager	338,703
Blackstone Capital	Investment Manager	33,124
Blackstone Capital V	Investment Manager	309,003
Blackstone Mezz Partners II	Investment Manager	167,175
Blackstone RE	Investment Manager	172,538
Bridgepoint Europe III	Investment Manager	423,976
Canyon Johnson	Investment Manager	422,907
Canyon Johnson URB	Investment Manager	450,001
Capital Guardian Trust Co. (Domestic Eq.)	Investment Manager	438,649
Capital Guardian Trust Co. (Int'l)	Investment Manager	5,366,655
Catterton Ptnrs VI	Investment Manager	792,073
CCMP Capital Investors II	Investment Manager	271,555
CD & R Fund VII, L.P.	Investment Manager	280,316
Celtic Pharm Hldgs, L.P.	Investment Manager	4,160,000
Chicago Equity Partners	Investment Manager	615,977
City Investment Fund	Investment Manager	1,875,832
Coller Capital	Investment Manager	434,612
Cony EAFE	Investment Manager	94,665
Cony GTM EAFE	Investment Manager	8,522
Cypress Associates	Investment Manager	215,705
Erasmus NYC Growth Fund, L.P.	Investment Manager	689,685
Ethos Private Equity Fund	Investment Manager	266,495
Fairview Capital Partners	Investment Manager	213,176
FdG Capital Partners	Investment Manager	298,502
FdG Capital Partners II	Investment Manager	442,992
First Reserve Fd XI	Investment Manager	315,840
Fisher, Francis, Trees & Watts, Inc. - Gov't	Investment Manager	438,708
Fisher, Francis, Trees & Watts, Inc. - Int'l	Investment Manager	271,530
Fourth Cinven Fd	Investment Manager	465,186
Freeman Spogli & Co., Inc.	Investment Manager	310,890
FT Ventures Fd III	Investment Manager	174,590
G.E. Investment Management, Inc.	Investment Manager	2,330,934
G I Partners	Investment Manager	162,487
GSC Recovery	Investment Manager	125,000
Heitman America	Investment Manager	18,301
Intermedia Partners VII, L.P.	Investment Manager	263,933
J.P. Morgan	Investment Manager	134,023
Landmark Eq. XI	Investment Manager	170,832
Landmark Fund XIII	Investment Manager	125,000
Leeds Weld Equity Partners	Investment Manager	314,638
Lehman Brothers - (Alternative Inv.)	Investment Manager	462,360
Lehman Brothers - Govt	Investment Manager	71,503

Continued on page 63

SCHEDULE 4: INVESTMENT EXPENSES (Continued)

Year Ended June 30, 2007 (Unaudited)

INVESTMENT EXPENSES		TRS' Share of Fees and Commissions Paid
Investment Agent	Service	
Lehman Brothers - Mortgage	Investment Manager	226,333
Lincolnshire Equity Fund III	Investment Manager	359,990
Mackay Shields	Investment Manager	1,845,246
Markstone Capital Partners	Investment Manager	799,900
Mellon Capital Management	Investment Manager	126,911
Midocean Partners III	Investment Manager	1,005,227
Mondrian MTA	Investment Manager	3,526,397
Montreux Eq. Partners IV	Investment Manager	183,078
Morgan Stanley (Domestic Eq.)	Investment Manager	2,822,119
Morgan Stanley Mortgage	Investment Manager	640,201
New Mountain Partners	Investment Manager	229,351
New Mountain Partners II	Investment Manager	392,047
OCM Re Opp Fund	Investment Manager	172,593
Paladin Homeland Security	Investment Manager	393,133
Palladium Equity Partners	Investment Manager	528,211
PIMCO Advisor - Gov't	Investment Manager	281,293
PIMCO Advisor - Mortgage	Investment Manager	802,057
PIMCO TIPS MTA	Investment Manager	482,037
PRE Colony Realty Partners	Investment Manager	242,164
PRE JPMC SP Fd	Investment Manager	255,609
PRE JPMC SS Fd	Investment Manager	142,107
PRE Urban America II	Investment Manager	137,500
PRE Ventures Fund IV	Investment Manager	104,320
Prisa	Investment Manager	213,834
Prism Venture Partners V	Investment Manager	437,176
Quadrangle Capital Partners II	Investment Manager	181,060
Relational Investors X, L.P.	Investment Manager	406,994
Ripplewood Partners	Investment Manager	160,199
Rowe Price Fleming International Inc.	Investment Manager	1,590,287
RRE Ventures III, L.P.	Investment Manager	520,703
RRE Ventures IV, L.P.	Investment Manager	625,000
RREEF Amer. II	Investment Manager	234,244
SCP Private Equity Partners	Investment Manager	229,436
Security Capital	Investment Manager	1,222,684
Seix	Investment Manager	680,027
Shamrock Capital	Investment Manager	515,000
Shenkman Capital	Investment Manager	1,334,860
Silver Lake	Investment Manager	334,877
Solera Partners	Investment Manager	356,602
Sprucegrove Investment Management, Ltd.	Investment Manager	2,806,421
State Street TIPS MTA	Investment Manager	15,067
Stone Harbor	Investment Manager	847,649
T. Rowe Price - Corp.	Investment Manager	305,718
T. Rowe Price Associates, Inc.	Investment Manager	1,172,334
Taplin, Canida & Habacht	Investment Manager	480,217
Terra Firma Cap. III	Investment Manager	529,620
Thomas H Lee Equity Fd VI	Investment Manager	713,577
Thomas McNerney Ptnrs	Investment Manager	227,092
Thomas McNerney Ptnrs II	Investment Manager	375,000
Tishman Speyer	Investment Manager	798,260
U.S. Power Fund II	Investment Manager	384,163
UBS Resa	Investment Manager	340,675
VSS Comm	Investment Manager	340,792
Westpeak Investment Advisors L.P.	Investment Manager	439,699
Yucaipa American Alliance Fund	Investment Manager	877,884
Legal Fees		135,401
Consultant Fees	Investment Consultant	2,112,549
TOTAL FIXED ANNUITY PROGRAM		\$71,281,086

Continued on page 64

SCHEDULE 4: INVESTMENT EXPENSES (Continued)

Year Ended June 30, 2007 (Unaudited)

INVESTMENT EXPENSES Investment Agent	Service	TRS' Share of Fees and Commissions Paid
VARIABLE A ANNUITY PROGRAM		
Advent Capital Management	Investment Manager	\$ 177,662
Alliance Capital Management, L.P.	Investment Manager	192,756
Amalgamated Bank of New York	Investment Manager	20,261
Barclays Global Investors, N.A. - Int'l. Alpha Tilts	Investment Manager	1,381,224
Barclays Global Investors, N.A. - Russell 3000	Investment Manager	29,800
Barclays Global Investors, N.A. - Tactical Asset	Investment Manager	115,655
Capital Guardian Trust Co.	Investment Manager	673,581
Cardinal Capital Management	Investment Manager	147,452
CRM - Mid. Value	Investment Manager	115,840
Enhanced Investment Technologies, Inc. (INTECH)	Investment Manager	621,502
Goldman Sachs Asset Management	Investment Manager	850,926
High Pointe Capital Management	Investment Manager	37,748
Lord Abbett & Co., LLC	Investment Manager	105,897
Lynmar Capital Group	Investment Manager	94,277
Mellon Capital Management Corp. - Enhanced Asset Allocation	Investment Manager	472,475
Mellon Capital Management Corp. - Russell 3000	Investment Manager	67,183
PanAgora Asset Management	Investment Manager	193,643
Profit Investment Management	Investment Manager	92,210
Rainier - Small / Mid.	Investment Manager	343,563
Shapiro - Small Cap.	Investment Manager	126,281
Sound Shore Management, Inc.	Investment Manager	228,153
UBS Brinson - Non U.S.	Investment Manager	768,720
Walter Scott & Partners Ltd.	Investment Manager	334,471
Wellington - Lrg. Cap. Core	Investment Manager	524,588
Zazove Associates	Investment Manager	251,405
Mellon Trust Co.	Custodial Bank	156,219
Interactive Data	Investment Expense	22,608
TOTAL VARIABLE A ANNUITY PROGRAM		\$ 8,146,100
VARIABLE B ANNUITY PROGRAM		
Standish Mellon Asset Mgmt./NISA Investment Advisors	Funding Advisor	\$ 122,358
Mellon Global Securities Services	Custodial Bank	4,650
Consultant fees		51,198
TOTAL VARIABLE B ANNUITY PROGRAM		\$ 178,206
TOTAL INVESTMENT EXPENSES*		\$ 79,605,392

* Total Investment Expenses does not include \$2,082,451 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, 2007 (Unaudited)

Professional	Nature of Service	
Bank of New York	Custody Services	\$ 601,105
Interactive Data	Investment Service	22,608
Mellon	Custody Services	160,869
Pacific Group	Consulting Services	975,992
Rocaton Investment Advisors	Investment Advisors	517,046
Townsend Real Estate	Consulting Services	226,114
TOTAL		\$ 2,503,734

SCHEDULE 6: ADMINISTRATIVE EXPENSES

Year Ended June 30, 2007 (Unaudited)

PERSONNEL SERVICES	
Staff Salaries	\$18,537,723
Social Security	1,022,510
Insurance (Health)	1,646,307
Welfare Benefit Fund	795,350
TOTAL PERSONNEL SERVICES	\$22,001,890
PROFESSIONAL SERVICES	
Data Processing Support Services	\$ 3,619,253
Temporary and Consulting Services	1,087,934
Professional Services	534,419
TOTAL PROFESSIONAL SERVICES	\$ 5,241,606
COMMUNICATION	
Telephone	\$ 284,858
Postage	503,890
Local Traveling Expenses*	31,702
Non-Local Traveling Expenses**	31,922
TOTAL COMMUNICATION	\$ 852,372
RENTALS	
Office Space	\$ 4,162,923
Equipment Leasing	355,798
Cold Site	203,069
Relocation Expenses	3,127,002
TOTAL RENTALS	\$ 7,848,792
MISCELLANEOUS	
Utilities	\$ 287,150
Supplies and Materials	61,766
Maintenance, Repairs, and Services	356,708
Office Equipment and Furniture	146,597
Advertising Expenses	61,894
Storage	84,802
Printing	356,487
Training Program	197,306
Books	7,053
Miscellaneous	60,550
TOTAL MISCELLANEOUS	\$ 1,620,313
TOTAL ADMINISTRATIVE EXPENSES***	\$ 37,564,973

* Includes Local Travel Fare \$14,419, Courier \$10,928, and Meals & Refreshments \$6,355.

** Includes Hotels & Meals \$12,490, Travel Fare \$7,814, and Conferences \$11,618.

*** The Plan's expenses account for 76% of total TRS administrative expenses, the balance or \$10,855,415 paid by the TDA plan and loan service charge revenues. Other administrative expenses of \$8,611,335 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)

Independent Auditors' Report	69
Management's Discussion and Analysis	70
Statement of Plan Net Assets	74
Statement of Changes in Plan Net Assets	75
Notes to Financial Statements	76
Schedule 1—Investment Expenses	83
Schedule 2—Professional Fees	84
Schedule 3—Administrative Expenses	84



Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281
USA

Tel: +1.212.436.2000
Fax: +1.212.436.5000
www.deloitte.com

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 TDA Program or the Plan) as of June 30, 2007 and 2006, 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 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, 2007 and 2006, 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.

Deloitte + Touche LLP

October 30, 2007

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, 2007, 2006, and 2005. 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 74.

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 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 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 TDA 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 \$16.4 billion, \$14.1 billion and \$12.6 billion as of June 30, 2007, 2006, and 2005, 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, 2007, increased by \$2.3 billion from June 30, 2006 and \$3.8 billion from June 30, 2005. These represent respective increases of 16.0% and 29.9%.

STATEMENT OF PLAN NET ASSETS

	2007	As of June 30 2006	2005
Cash	\$ 40,982	\$ 40,445	\$ 62,440
Receivables for investment securities sold	71,559,142	3,013,855	2,144,954
Receivables for accrued interest and dividends	36,885,825	21,725,178	15,763,443
Receivable from TRS QPP	14,417,484	23,337,320	27,316,963
Member loan receivables	220,544,412	194,890,597	180,501,089
Investments, at fair value	18,132,080,518	15,217,609,401	14,148,825,064
TOTAL ASSETS	\$ 18,475,528,363	\$ 15,460,616,796	\$ 14,374,613,953
Accounts payable	109,482,019	97,515,589	93,390,372
Payable for investment securities purchased	70,851,101	4,518,431	4,704,086
Accrued benefits payable	48,565,295	54,244,650	45,436,185
Payables for securities-lending transactions	1,866,632,503	1,184,099,879	1,620,904,840
TOTAL LIABILITIES	\$ 2,095,530,918	\$ 1,340,378,549	\$ 1,764,435,483
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	\$ 16,379,997,445	\$ 14,120,238,247	\$ 12,610,178,470

Receivables for investment securities sold at June 30, 2007 amounted to \$71.6 million, an increase of \$68.6 million (2,274.3%) from June 30, 2006 and an increase of \$69.4 million (3,236.2%) from June 30, 2005. 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 from timing differences in trading and settlement dates. Trades typically do not settle until a few days after the trade date.

Receivables for accrued earnings at June 30, 2007 were \$36.9 million, an increase of \$15.2 million (69.8%) over June 30, 2006 and \$21.1 million (134.0%) over June 30, 2005.

Receivables from QPP represent the TDA share of investment income and receivables for securities from Variable Funds. Receivables from the TRS QPP at June 30, 2007 were \$14.4 million, a decrease of \$8.9 million (38.2%) over June 30, 2006 and \$12.9 million (47.2%) over June 30, 2005.

Member loan receivables amounted to \$220.5 million, an increase of \$25.6 million (13.2%) from the prior June and \$40.0 million (22.2%) from June 30, 2005. For Fiscal Year 2007, loan disbursements amounted to \$115.5 million and principal and interest payments amounted to \$101.5 million.

Investments at June 30, 2007 were \$18.1 billion, an increase of \$2.9 billion (19.2%) from June 30, 2006 and \$4.0 billion (28.2%) from June 30, 2005. Investments in equity securities accounted for 72.7% of the TDA Program's investments as of June 30, 2007 and 76.1% as of June 30, 2006.

Accounts payable at June 30, 2007 amounted to \$109.5 million, compared to \$97.5 million at June 30, 2006 for an increase of 12.3%, and \$93.4 million at June 30, 2005 for an increase of 17.2%. 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, 2007 amounted to \$70.8 million, increasing \$66.3 million (1,468.1%) from June 30, 2006 and \$66.1 million (1,406.2%) from June 30, 2005. 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, 2007 amounted to \$48.6 million, a decrease of \$5.7 million (10.5%) from June 30, 2006 and an increase of \$3.1 million (6.9%) from June 30, 2005. The \$5.7 million accrued benefit decrease from the period ended June 30, 2006 to June 30, 2007 is attributed to a decline in pending membership withdrawals and benefits payable to beneficiaries.

	STATEMENT OF CHANGES IN PLAN NET ASSETS		
	2007	Year Ended June 30 2006	2005
Additions:			
Member contributions	\$ 579,380,931	\$ 556,812,734	\$ 493,523,473
Net investment income	2,047,234,891	1,294,161,402	1,004,892,433
TOTAL NET ADDITIONS	\$ 2,626,615,822	\$ 1,850,974,136	\$ 1,498,415,906
Deductions:			
Administrative expenses	10,855,415	8,889,316	8,497,278
Benefits payments and withdrawals	356,001,209	332,025,043	279,660,786
TOTAL DEDUCTIONS	\$ 366,856,624	\$ 340,914,359	\$ 288,158,064
NET INCREASE	\$ 2,259,759,198	\$ 1,510,059,777	\$ 1,210,257,842

Changes in Plan Net Assets

TRS received \$579.4 million in member contributions during Fiscal Year 2007, an increase of \$22.6 million (4.1%) from Fiscal Year 2006 and \$85.9 million (17.4%) from Fiscal Year 2005.

Net investment income increased by \$753.1 million (58.2%) from Fiscal Year 2006 and \$1.0 billion (103.7%) from Fiscal Year 2005.

Administrative expenses for the fiscal year ended June 30, 2007 totaled \$10.9 million, an increase of \$2.0 million (22.1%) from Fiscal Year 2006 and \$2.4 million (27.8%) from Fiscal Year 2005.

Benefit payments and withdrawals, consisting primarily of total and partial withdrawals, increased by \$24.0 million (7.2%) from Fiscal Year 2006 and by \$76.3 million (27.3%) from Fiscal Year 2005.

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		
<i>Fair Value</i>		
Type of Investment	2007	2006
Short-term investments	\$ 513,790,603	\$ 408,643,817
U.S. debt securities (bonds)	2,173,324,851	1,650,152,415
U.S. equity securities	11,742,265,863	10,519,381,996
Private equity	212,311,067	114,953,963
Mutual funds—International equity	1,219,332,499	944,058,197
Treasury inflation-protected securities	238,154,722	208,364,439
Mortgage	17,763,143	10,292,097
Promissory notes	2,304,849	1,211,506
Managed investment contracts	121,092,239	121,702,788
Guaranteed investment contracts	25,108,179	54,748,304
Collateral from securities lending	1,866,632,503	1,184,099,879
TOTAL	\$ 18,132,080,518	\$ 15,217,609,401

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	
	2007	2006
ASSETS		
Cash	\$ 40,982	\$ 40,445
Receivables:		
Accrued interest and dividends receivable	36,885,825	21,725,178
Receivables for investment securities sold	71,559,142	3,013,855
Receivables from TRS QPP (Note 5)	14,417,484	23,337,320
Member loans	220,544,412	194,890,597
TOTAL RECEIVABLES	\$ 343,406,863	\$ 242,966,950
Investments, at Fair Value (Notes 2 and 3):		
Fixed funds:		
Short-term investment fund	264,043,276	227,393,449
Debt securities:		
U.S. Government	878,785,663	778,196,349
Corporate	848,608,971	749,180,890
Foreign	16,548,881	18,497,203
Equity securities:		
Domestic	3,737,995,507	3,145,266,593
Private equity	212,311,067	114,953,963
Mutual funds:		
Domestic	9,626,750	—
International equity	1,219,332,499	944,058,197
Treasury inflation-protected securities	238,154,722	208,364,439
Mortgages	17,763,143	10,292,097
Promissory notes	2,304,849	1,211,506
Securities-lending collateral	1,324,201,022	1,117,017,096
Variable A funds:		
Short-term investments	152,851,950	112,028,532
Equity securities	7,994,643,606	7,374,115,403
Corporate bonds	429,381,336	104,277,973
Securities-lending collateral	517,490,768	33,857,596
Variable B funds:		
Short-term investments	96,895,377	69,221,836
Managed investment contracts	121,092,239	121,702,788
Guaranteed investment contracts	25,108,179	54,748,304
Securities-lending collateral	24,940,713	33,225,187
TOTAL INVESTMENTS	\$ 18,132,080,518	\$ 15,217,609,401
TOTAL ASSETS	\$ 18,475,528,363	\$ 15,460,616,796
LIABILITIES		
Accounts payable	109,482,019	97,515,589
Payables for investment securities purchased	70,851,101	4,518,431
Accrued benefits payable	48,565,295	54,244,650
Securities lending (Note 2)	1,866,632,503	1,184,099,879
TOTAL LIABILITIES	\$ 2,095,530,918	\$ 1,340,378,549
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	\$ 16,379,997,445	\$ 14,120,238,247

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

STATEMENT OF CHANGES IN PLAN NET ASSETS—TDA

	<i>Year Ended June 30</i>	
	2007	2006
ADDITIONS		
CONTRIBUTIONS:		
Member contributions (Note 3)	\$ 579,380,931	\$ 556,812,734
INVESTMENT INCOME (Note 5):		
Interest income	580,354,351	471,515,823
Dividend income	71,876,224	23,986,039
Net appreciation in fair value of investments	1,409,235,237	815,552,286
TOTAL INVESTMENT GAIN	2,061,465,812	1,311,054,148
Less:		
Investment expenses	15,268,783	17,061,552
SECURITY-LENDING TRANSACTIONS:		
Security-lending income	19,510,026	4,070,913
Security-lending fees	(18,472,164)	(3,902,107)
Net securities-lending income	1,037,862	168,806
NET INVESTMENT GAIN	\$ 2,047,234,891	\$ 1,294,161,402
TOTAL NET ADDITIONS	\$ 2,626,615,822	\$ 1,850,974,136
DEDUCTIONS:		
Benefits payments and withdrawals (Note 4)	356,001,209	332,025,043
Administrative expenses (Note 8)	10,855,415	8,889,316
TOTAL DEDUCTIONS	\$ 366,856,624	\$ 340,914,359
NET INCREASE	2,259,759,198	1,510,059,777
NET ASSETS HELD IN TRUST FOR BENEFITS AT BEGINNING OF YEAR	14,120,238,247	12,610,178,470
NET ASSETS HELD IN TRUST FOR BENEFITS AT END OF YEAR	\$ 16,379,997,445	\$ 14,120,238,247

(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 period 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 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 25% 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, 2007 and 2006. Bank of New York (BONY) was the primary custodian for substantially all of the other securities of the Plan. On December 4, 2006, Bank of New York and Mellon Global Securities Services announced their intent to merge companies. The merger was completed on July 2, 2007 forming the Bank of New York Mellon Corporation.

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 or lower. 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									
	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
June 30, 2007										
U.S. Government	13.73%	—	—	—	0.04%	—	—	—	—	13.77%
Corporate Bonds	11.56%	6.06%	11.41%	12.00%	9.78%	16.99%	3.65%	—	1.06%	72.51%
Yankee Bonds	—	—	0.66%	0.73%	0.05%	0.01%	—	—	—	1.45%
Short Term										
Commercial Paper	—	—	2.35%	—	—	—	—	—	0.25%	2.60%
Pooled Funds	—	—	—	—	—	—	—	9.52%	—	9.52%
Certificates of Deposit	—	—	—	—	—	—	—	—	0.15%	0.15%
U.S. Treasuries	—	—	—	—	—	—	—	—	—	—
U.S. Agencies	—	—	—	—	—	—	—	—	—	—
Percent of Rated Portfolio	25.29%	6.06%	14.42%	12.73%	9.87%	17.00%	3.65%	9.52%	1.46%	100.00%
June 30, 2006										
U.S. Government	19.41%	—	—	—	—	—	—	—	—	19.41%
Corporate Bonds	9.62%	3.87%	13.18%	10.20%	8.51%	15.84%	1.84%	—	0.99%	64.05%
Yankee Bonds	0.02%	0.08%	0.49%	0.81%	0.05%	0.05%	—	—	—	1.50%
Short Term										
Commercial Paper	—	—	—	—	—	—	—	5.03%	—	5.03%
Pooled Funds	—	—	—	—	—	—	—	—	7.33%	7.33%
Certificates of Deposit	—	—	—	—	—	—	—	0.26%	0.16%	0.42%
U.S. Treasuries	0.23%	—	—	—	—	—	—	—	—	0.23%
U.S. Agencies	—	—	—	—	—	—	—	0.66%	1.37%	2.03%
Percent of Rated Portfolio	29.28%	3.95%	13.67%	11.01%	8.56%	15.89%	1.84%	5.95%	9.85%	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 0.75 years. Duration range is a measure of the overall portfolio, while statements of the stated maturity reflect the specific maturities of the individual securities held. 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, 2007

	Investment Maturities				
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S. Government	45.40%	2.81%	6.24%	–	36.35%
Corporate Bonds	45.89%	0.87%	14.81%	17.19%	13.02%
Yankee Bonds	0.92%	–	0.37%	0.19%	0.36%
Short Term					
Commercial Paper	1.63%	1.63%	–	–	–
Pooled Funds	6.06%	6.06%	–	–	–
Certificates of Deposit	–	–	–	–	–
U.S. Treasuries	0.10%	0.10%	–	–	–
U.S. Agencies	–	–	–	–	–
Percent of Rated Portfolio	100.00%	11.47%	21.42%	17.38%	49.73%

June 30, 2006

	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					
Commercial Paper	3.33%	3.33%	–	–	–
Pooled Funds	4.85%	4.85%	–	–	–
Certificates of Deposit	0.27%	0.27%	–	–	–
U.S. Treasuries	0.15%	0.15%	–	–	–
U.S. Agencies	4.14%	4.14%	–	–	–
Percent of Rated Portfolio	100.00%	15.21%	20.80%	19.30%	44.69%

(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, 2007

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	200,123	96,570	98,138	-	-	-	-	120,745	5,941	521,517
Yankee Bonds	-	-	-	-	-	-	-	11,861	-	11,861
Short-Term	-	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	40,868	-	40,868
Pooled Funds	120,106	-	-	-	-	-	-	-	-	120,106
Repurchase Agreements	-	-	69,843	-	-	-	-	6,120	305,726	381,689
Certificates of Deposit	35,182	234,022	129,134	-	-	-	-	126,358	-	524,696
Bank Notes	15,419	126,463	60,597	-	-	-	-	33,620	-	236,099
Other	19	228	-	-	-	-	-	29,550	-	29,797
Total	\$ 370,849	\$ 457,283	\$ 357,712	\$ -	\$ -	\$ -	\$ -	\$ 369,122	\$ 311,667	\$ 1,866,633
Percent of Securities-Lending Portfolio	19.87%	24.50%	19.16%	0.00%	0.00%	0.00%	0.00%	19.77%	16.70%	100.00%

June 30, 2006

	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 931	\$ -	\$ 931
Corporate Bonds	82,729	58,638	155,367	-	-	-	-	37,216	6,369	340,319
Yankee Bonds	-	-	-	-	-	-	-	8,542	-	8,542
Short Term	-	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	17,834	-	-	-	-	72,655	-	90,489
Pooled Funds	139,657	-	-	-	-	-	-	-	-	139,657
Repurchase Agreements	-	-	-	-	-	-	-	6,867	212,316	219,183
Certificates of Deposit	2,115	165,320	55,384	-	-	-	-	15,296	-	238,115
Bank Notes	1,209	67,628	54,356	-	-	-	-	13,289	-	136,482
Other	-	1,277	173	-	-	-	-	8,932	-	10,382
Total	\$ 225,710	\$ 292,863	\$ 283,114	\$ -	\$ -	\$ -	\$ -	\$ 163,728	\$ 218,685	\$ 1,184,100
Percent of Securities-Lending Portfolio	19.06%	24.73%	23.91%	0.00%	0.00%	0.00%	0.00%	13.83%	18.47%	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, 2007

	Investment Maturities				
	Fair Value	Less than one year	One to five years	Six to ten years	More than ten years
U.S. Government	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Bonds	521,516	181,473	340,043	-	-
Yankee Bonds	11,861	4,874	6,987	-	-
Short Term					
Commercial Paper	110,711	110,711	-	-	-
Pooled Funds	120,106	120,106	-	-	-
Repurchase Agreements	311,845	311,845	-	-	-
Certificates of Deposit	524,697	408,228	116,469	-	-
Bank Notes	236,100	31,468	204,632	-	-
Other	29,797	27,792	2,005	-	-
Total	\$1,866,633	\$1,196,497	\$ 670,136	\$ -	\$ -
Percent of Securities-Lending Portfolio	100.00%	64.10%	35.90%	0.00%	0.00%

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	\$ 931	\$ 931	\$ -	\$ -	\$ -
Corporate Bonds	340,319	49,839	290,480	-	-
Yankee Bonds	8,542	3,433	5,109	-	-
Short Term					
Commercial Paper	90,489	90,489	-	-	-
Pooled Funds	139,657	139,657	-	-	-
Repurchase Agreements	219,184	219,184	-	-	-
Certificates of Deposit	238,114	20,842	217,272	-	-
Bank Notes	136,482	8,304	128,178	-	-
Other	10,382	10,200	182	-	-
Total	\$1,184,100	\$ 542,879	\$ 641,221	\$ -	\$ -
Percent of Securities-Lending Portfolio	100.00%	45.85%	54.15%	0.00%	0.00%

7. 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, 2007 and 2006 is \$221 million and \$195 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, 2007 (Unaudited)

INVESTMENT EXPENSES		
Investment Agent	Service	TRS' Share of Expenses
VARIABLE A ANNUITY PROGRAM		
Advent Capital Management	Investment Manager	\$ 216,385
Alliance Capital Management, L.P.	Investment Manager	234,769
Amalgamated Bank of New York	Investment Manager	24,677
Barclays Global Investors, N.A. - Int'l. Alpha Tilts	Investment Manager	1,682,277
Barclays Global Investors, N.A. - Russell 3000	Investment Manager	36,295
Barclays Global Investors, N.A. - Tactical Asset	Investment Manager	140,864
Capital Guardian Trust Co.	Investment Manager	820,396
Cardinal Capital Management	Investment Manager	179,591
CRM-Mid. Value	Investment Manager	141,089
Enhanced Investment Technologies, Inc. (INTECH)	Investment Manager	756,965
Goldman Sachs Asset Management	Investment Manager	1,036,395
High Pointe Capital Management	Investment Manager	45,975
Lord Abbett & Co., LLC	Investment Manager	128,979
Lynmar Capital Group	Investment Manager	114,826
Mellon Capital Management Corp. - Enhanced Asset Allocation	Investment Manager	575,456
Mellon Capital Management Corp. - Russell 3000	Investment Manager	81,827
PanAgora Asset Management	Investment Manager	235,850
Profit Investment Management	Investment Manager	112,309
Rainier - Small / Mid.	Investment Manager	418,446
Shapiro - Small Cap.	Investment Manager	153,805
Sound Shore Management, Inc.	Investment Manager	277,881
UBS Brinson - Non U.S.	Investment Manager	936,271
Walter Scott & Partners, Ltd.	Investment Manager	407,372
Wellington - Lrg. Cap. Core	Investment Manager	638,928
Zazove Associates	Investment Manager	306,202
Mellon Trust Co.	Custodial Bank	190,269
Interactive Data	Investment Services	27,535
TOTAL VARIABLE A ANNUITY PROGRAM		\$ 9,921,634
VARIABLE B ANNUITY PROGRAM		
Certus Asset Advisors	Funding Advisor	158,905
Mellon Global Securities Services	Custodial Bank	3,148
Consultant Fees		24,910
TOTAL VARIABLE B ANNUITY PROGRAM		\$ 186,963
TOTAL INVESTMENT EXPENSES*		\$ 10,108,597

* Total investment expenses does not include \$5,160,186 Variable A and B provisions for expenses.

See pages 62-64 for corresponding schedule for the Qualified Pension Plan (QPP).

SCHEDULE 2: PROFESSIONAL FEES*As of June 30, 2007 (Unaudited)*

Professional	Nature of Service	
VARIABLE A ANNUITY PROGRAM		
Rocaton Investment Advisors	Consulting	\$87,969
TOTAL VARIABLE A ANNUITY PROGRAM		\$ 87,969
VARIABLE B ANNUITY PROGRAM		
Rocaton Investment Advisors	Consulting	\$24,909
TOTAL VARIABLE B ANNUITY PROGRAM		\$ 24,909

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

SCHEDULE 3: ADMINISTRATIVE EXPENSES*As of June 30, 2007 (Unaudited)*

PERSONNEL SERVICES		
Staff Salaries	\$ 5,356,977	
Social Security	295,482	
Insurance (Health)	475,745	
Welfare Benefit Fund	229,838	
TOTAL PERSONNEL SERVICES		\$ 6,358,042
PROFESSIONAL SERVICES		
Data Processing Support Services	\$ 1,045,881	
Temporary and Consulting Services	314,388	
Professional Services	154,435	
TOTAL PROFESSIONAL SERVICES		\$ 1,514,704
COMMUNICATIONS		
Telephone	\$ 82,317	
Postage	145,612	
Local Traveling Expenses	9,161	
Non-Local Traveling Expenses	9,225	
TOTAL COMMUNICATIONS		\$ 246,315
RENTALS		
Office Space	\$ 1,202,989	
Equipment Leasing	102,817	
Cold Site	58,682	
Relocation Expenses	903,632	
TOTAL RENTALS		\$ 2,268,120
MISCELLANEOUS		
Utilities	\$ 82,980	
Supplies and Materials	17,849	
Maintenance, Repairs, and Services	103,080	
Office Equipment and Furniture	42,363	
Advertising Expenses	17,886	
Storage	24,506	
Printing	103,017	
Training Programs	57,017	
Books	2,038	
Miscellaneous	17,498	
TOTAL MISCELLANEOUS		\$ 468,234
TOTAL ADMINISTRATIVE EXPENSES		\$ 10,855,415

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



Actuarial Section

Actuary's Comprehensive Annual Financial Report (CAFR) Certification Letter for Fiscal Year Ended June 30, 2007	87
Summary of Actuarial Assumptions and Methods in Effect for the June 2005 (Lag) Actuarial Valuation	90
Table 1—Deaths Among Service and Disability Pensioners	92
Table 2—Withdrawals from Active Service (Due to Death or Disability)	92
Table 3—Withdrawals from Active Service	93
Table 4—Withdrawals from Active Service (After Eligibility for Service Retirement)	93
Table 5—Salary Scale	94
Active Member Valuation Data	94
Retirants and Beneficiaries Added to and Removed from Rolls	95
Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets (Solvency Test)	95
Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets (Solvency Test—Notes)	96
Additional Discussion of Plan Funding and Other Measures of Funded Status	97
Statutory vs. Annual Required Contributions	101



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 6, 2007

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, 2007

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, 2005 (Lag) actuarial valuation to determine Fiscal Year 2007 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 2007 were equal to the Annual Required Contributions as defined under Governmental Accounting Standards Board Statement Number 25 (GASB 25).

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, 2005 (Lag) Actuarial Valuation." These actuarial assumptions and methods were first 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 are unchanged from those employed in the June 30, 2004 (Lag) actuarial valuation that was used to determine Fiscal Year 2006 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

Actuarial Section

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, 2005 (Lag) actuarial valuation is included in this CAFR. A summary of the census data used in the June 30, 2004 (Lag) actuarial valuation of the Plan is available in the June 30, 2006 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:

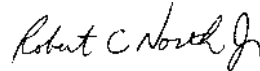
- Summary of Actuarial Assumptions and Methods in Effect for the June 30, 2005 (Lag) Actuarial Valuation.
- Active Member Valuation Data.
- Retirants and Beneficiaries Added to and Removed from Rolls.
- Comparative Summary of Actuarial Values and Percentages Covered by Actuarial Value of Assets—Solvency Test.
- Additional Discussion of Plan Funding and Other Measures of Funded Status.
- Statutory vs. Annual Required Contributions.
- 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. John R. Gibney, Jr. or me.

Respectfully submitted,



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

RCN/bs

cc: Mr. J.R. Gibney
Mr. E. Hue
Mr. S.S. Krasner
Mr. J.A. Petrovic
Mr. N. Serrano

Summary of Actuarial Assumptions and Methods in Effect as of June 30, 2005 (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 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 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, 2005 (Lag) valuation date to determine Fiscal Year 2007 Employer Contributions.

This methodology requires technical adjustments to certain components used to determine Fiscal Year 2007 Employer Contributions as follows:

- Present Value of Future Salary (PVFS)

The PVFS at June 30, 2005 is reduced by the value of salary projected to be paid during Fiscal Year 2006.

- Salary for Determining Employer Contributions

Salary used to determine the employer Normal Cost is the salary projected to be paid during Fiscal Year 2007 to members on payroll at June 30, 2005.

- Present Value of Future Normal Costs (PVFNC)

The PVFNC at June 30, 2005 is reduced by the discounted value of the Fiscal Year 2006 Employer Contribution (after offsetting for any UAAL payments).

10. Beginning with 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.

The AAVM in effect for the June 30, 2005 (Lag) actuarial valuation is unchanged from the AAVM used in the June 30, 2004 (Lag) actuarial valuation.

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.

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

Age	Service Pensioners		Age	Disability Pensioners	
	Males	Females		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

Age	Accidental Disability		Age	Ordinary Disability		Age	Death	
	Males	Females		Males	Females		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	70	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					Females				
Age	With Reduced Benefits	With Unreduced Benefits Years of Service Since First Elig.			Age	With Reduced Benefits	With Unreduced Benefits Years of Service Since First Elig.		
		0-1	1-2	2+			0-1	1-2	2+
		50	0.00%	0.00%			0.00%	0.00%	50
55	2.00	12.00	0.00	0.00	55	2.00	10.00	0.00	0.00
60	5.00	12.00	10.00	10.00	60	5.00	10.00	8.00	8.00
65	0.00	30.00	30.00	30.00	65	0.00	30.00	30.00	30.00
70	NA	100.00	100.00	100.00	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
1999	86,682	\$4,217,560,016	\$48,656	5.4%
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)**
2005 (Lag)	104,850	6,273,909,925	59,837	2.1

* 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

Fiscal Year Ended June 30	Added to Rolls		Removed from Rolls		Rolls End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances*	Number	Annual Allowances	Number	Annual Allowances*		
1999	1,794	\$147,046,596	1,537	\$ 36,719,223	50,525	\$1,604,299,434	7.4%	\$31,753
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
2005	4,423	255,085,446	1,983	59,626,485	65,168	2,588,036,353	8.2	39,713

* Allowances shown in table are those that are actually being paid and are not adjusted for anticipated changes due to finalization of benefit calculation or contract settlements.

**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

As of June 30	Accumulated Member Contributions (A)	Current Retirees and Beneficiaries (B)	Active Members' Employer-Financed Portion (C)	Actuarial Value of Assets (D)	Percentage of Actuarial Values Covered by Actuarial Value of Assets	
					(A)	(B)
1999	\$3,111,019	\$15,748,859	\$12,447,411*	\$34,626,062	100%	100%
2000	3,354,746	17,446,520	14,340,434*	36,142,435	100	100
2001	3,077,510	17,254,058	14,114,923*	35,410,230	100	100
2002	2,931,464	18,189,124	13,623,528*	34,177,750	100	96
2003	2,752,562	20,489,777	12,561,516	33,169,210	100	79
2004	2,628,369	24,460,479	11,465,947	32,817,102	100	50
2004 (Lag)	2,628,369	24,636,479	11,682,625	33,149,251	100	50
2005 (Lag)	2,624,824	26,590,313	11,418,808	32,533,526	100	29

* 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%
2005 (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 AAVM 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.

In accordance with GASB Statement Number 50 (GASB 50), when effective, the EAAL will be a required disclosure for certain Public Pension Plans that utilize the Aggregate ACM.

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 Statement Number 5 (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 or a Market Value of Liabilities (MVL).

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							
<i>(In Millions)</i>							
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
6/30/05 (Lag)	30,492.2	32,865.1	32,872.3	42,644.4	40,633.9	37,033.8	51,957.2
6/30/06 (Lag) ^{##}	32,206.7	32,405.6	32,410.6	44,861.7	42,619.6	38,580.8	47,892.4

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, 2004 (Lag), 2005 (Lag) and 2006 (Lag) equal approximately 6.0%, 6.0%, 5.7%, 5.8%, 4.6%, 5.5%, 5.5%, 4.2%, and 5.4% respectively and the durations of the Obligations as of June 30, 1999, 2000, 2001, 2002, 2003, 2004, 2004 (Lag), 2005 (Lag) and 2006 (Lag) equal approximately 11.5 years, 11.8 years, 11.6 years, 10.9 years, 11.8 years, 11.1 years, 11.2 years, 13.0 years and 11.9 years, respectively.

The June 30, 2006 (Lag) figures are preliminary and are generally based on the same census data, actuarial assumptions and methods used to develop published, preliminary Fiscal Year 2008 employer contributions.

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	
6/30/05 (Lag)	100	77	72	81	75	89	82	59	
6/30/06 (Lag)#	100	72	72	76	76	84	83	67	

Preliminary

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.

The ratios of AAV/EAAL reflect information that will be a required disclosure for certain Public Pension Plans that utilize the Aggregate ACM. This requirement currently exists for certain OPEB plans under GASB 43 and GASB 45.

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 AAV/PBO with AAV/ABO provides insight into the impact of expected salary growth on the value of benefits earned to date.

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**
2000	\$181,769,965	\$181,769,965	4.310%
2001	444,965,372	571,955,543	9.424
2002	509,931,588	607,762,939	10.167
2003	639,617,910	805,782,222	11.695
2004	920,264,167	1,015,331,185	15.788
2005	1,228,275,356	1,304,032,623	19.748
2006***	1,316,610,517	1,316,610,517	21.293
2007****	1,600,904,278	1,600,904,278	25.471

* Represents total employer contributions accrued for fiscal year.

The Statutory Contributions for Fiscal Years 2001 and 2002 were 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.

The Statutory Contributions for Fiscal Years 2003 through 2005 were computed in accordance with Chapter 278/02 which extended from five to ten years the phase-in period for the funding of the additional actuarial liabilities attributable to Chapter 125/00.

The Statutory Contributions for Fiscal Years 2006 and 2007 were computed in accordance with Chapter 152/06 which eliminated the use of a ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities attributed to Chapter 125/00.

** The employer rates of contribution equal the Statutory Contributions as percentages of the salaries of members who were on payroll or projected to be on payroll (under One-Year Lag Methodology) as of the preceding June 30th adjusted, where applicable, to be consistent with collective bargaining agreements estimated to be achieved.

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

**** Based on June 30, 2005 (Lag) Actuarial Valuation.



55 Water Street, New York, NY 10041

1 (888) 8-NYC-TRS • www.trsnyc.ny.us