

April 19, 2006

Dear Captains:

I am sure you have read and heard much about the Variable Supplement Fund and the Defined Benefit legislation that was signed by Governor Pataki in 2000. From the time the legislation was signed we explained exactly how the benefit would work. We have always kept you informed on the status of the VSF with regards to payouts each and every year since its existence. The defined benefit is financed with a "skim" of New York City Employees' Retirement system stock investment earnings. For the fund to continue to make annual payouts to retirees the investment earnings must out perform the assumed rate of interest. So clearly the skim is tied into how well the market performs.

The earnings generated during the first year of the VSF was sufficient to finance the defined benefit (as a direct result of the late 1990's bull market) over the past six years. However, stock earnings over the past few years have not continued to perform as well due to many reasons, to include the events of 9/11 therefore the VSF was unable to generate enough money to continue its annual payouts in full. While the stock market at times seems to be doing better there is still a substantial amount of money to be made up by NYCERS before the VSF is once again entitled to a skim from the pension fund. Please keep in mind that the VSF is guaranteed from the year 2019 onward so all Captains that were hired since 1999 and retired from service beginning in 2019 are not affected by this current situation. Those Captains retiring between 7/1/99 and 2019 will be guaranteed the benefit in 2019 and depending on how the market performs and the availability of funds for the VSF a payout could happen prior to 2019 (there are no guarantees on this).

I have heard the concerns expressed by current Captains getting ready to retire prior to 2019 and the concerns of retired Captains currently receiving payouts. While it is unlikely that there will be enough money in the VSF to make the payment of \$12,000 this year, the fact remains that the benefit will be guaranteed for all Captains in 2019 (to be eligible for this benefit you needed to be on the City payroll and not have retired before July 1, 1999).

As the legislation for the VSF defined benefit exists right now it is all or nothing regarding payouts to retirees. Legislation has been submitted to give those that sit on the variable supplements board discretion to authorize benefit payments that are less than statutorily prescribed payments. I sit on that board with Norman Seabrook.

The CCA does not control how the stock markets will perform in any given year nor the investments made by NYCERS. We will continue to address the issues of the VSF and its effect on those retiring and those already retired that are eligible for payouts. We are grateful to have achieved such a great benefit as the VSF and remind all Captains that you knew there was a possibility of a non payout prior 2019.

Sincerely,

Peter D. Meringolo