

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Financial Statements as of and for the  
Years Ended December 31, 2016 and 2015,  
Supplemental Schedules, and  
Independent Auditors' Report

# MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Administration of  
The Manhattan and Bronx Surface Transit Operating Authority Pension Plan:

### **Report on the Financial Statements**

We have audited the accompanying statements of plan net position of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") as of December 31, 2016 and 2015, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

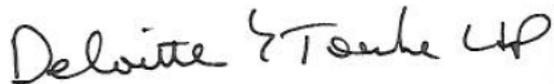
### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan's net position as of December 31, 2016 and 2015, and the changes in Plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 52; Employer Contributions and Notes to Schedule-Schedule II on pages 53-54; and the Investment Returns-Schedule III on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

February 22, 2018

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

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This management's discussion and analysis of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2016 and 2015. It is meant to assist the reader in understanding the Plan'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 the prior years' activity and results. This discussion and analysis may contain opinions, assumptions, or conclusions by MTA management that should not be considered a replacement for and is intended to be read in conjunction with the plan's financial statements which begin on page 10.

### Overview of Basic Financial Statements

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

- **The Statements of Plan Net Position** — presents the financial position of the Plan at fiscal year end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plan Net Position**— presents the results of activities during the 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**— provides additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information**— as required by the Government Accounting Standards Board ("GASB") includes the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Schedule of Investment returns.

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

### CONDENSED FINANCIAL INFORMATION AND ANALYSIS

#### FINANCIAL ANALYSIS

##### Plan Net Position As of December 31, 2016, 2015, and 2014 (Dollars in thousands)

	2016	2015	2014	Increase / Decrease			
				2016-2015		2015-2014	
				\$	%	\$	%
Cash and investments	\$ 2,526,557	\$ 2,263,535	\$ 2,249,053	\$ 263,022	11.6%	\$ 14,482	0.6 %
Receivables and other assets	39,441	40,789	98,897	(1,348)	(3.3)%	(58,108)	(58.8)%
<b>Total assets</b>	<b>\$ 2,565,998</b>	<b>\$ 2,304,324</b>	<b>\$ 2,347,950</b>	<b>\$ 261,674</b>	<b>11.4 %</b>	<b>\$ (43,626)</b>	<b>(1.9)%</b>
Payable for investment securities purchased	2,348	1,762	55,863	586	33.3 %	(54,101)	(96.8)%
Other liabilities	7,915	10,247	26,794	(2,332)	(22.8)%	(16,547)	(61.8)%
<b>Total liabilities</b>	<b>10,263</b>	<b>12,009</b>	<b>82,657</b>	<b>(1,746)</b>	<b>(14.5)%</b>	<b>(70,648)</b>	<b>(85.5)%</b>
<b>Plan net position restricted for pensions</b>	<b>\$ 2,555,735</b>	<b>\$ 2,292,315</b>	<b>\$ 2,265,293</b>	<b>\$ 263,420</b>	<b>11.5%</b>	<b>\$ 27,022</b>	<b>1.2%</b>

#### December 31, 2016 versus December 31, 2015

Cash and investments at December 31, 2016, were \$2,526.6 million, an increase of \$263.0 million or 11.6% from 2015. This increase is the result of investment activity and plan contributions net of benefit payments and expenses.

Receivables and other assets less plan liabilities at December 31, 2016 increased by \$0.4 million or 1.4%. The flat variance represents a minimal decrease in interest and dividends and employee loans offset by a minimal increase in investment securities payable and post retirement death benefits.

The plan net position restricted for pensions increased \$263.4 million or 11.5% in 2016 as a result of the changes noted above.

#### December 31, 2015 versus December 31, 2014

Cash and investments at December 31, 2015, were \$2,263.5 million, an increase of \$14.5 million or 0.6% from 2014. This increase is the result of investment activity and plan contributions net of benefit payments and expenses.

Receivables and other assets less plan liabilities at December 31, 2015 increased by \$12.5 million or 77.2% from 2014. This increase was due primarily to a decrease of \$58 million in receivables from investments,

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

offset by decreases in payable for investment securities purchased and other liabilities of \$70.6 million in 2015.

The plan net position restricted for pensions increased \$27 million or 1.2% in 2015 as a result of the changes noted above.

### Changes in Plan Net Position For the Years Ended December 31, 2016, 2015 and 2014 (Dollars in thousands)

	2016	2015	2014	Increase / Decrease			
				2016-2015		2015-2014	
				\$	%	\$	%
<b>Additions:</b>							
Net investment income	\$ 212,260	\$ (24,163)	\$ 105,084	\$ 236,423	978.5 %	\$ (129,247)	(123.0)%
Transfers and contributions	239,169	231,202	241,834	7,967	3.4 %	(10,632)	(4.4)%
<b>Total net additions</b>	<b>451,429</b>	<b>207,039</b>	<b>346,918</b>	<b>244,390</b>	<b>118.0 %</b>	<b>(139,879)</b>	<b>(40.3)%</b>
<b>Deductions:</b>							
Benefit payments	187,823	179,928	175,447	\$ 7,895	4.4%	\$ 4,481	2.6 %
Administrative expenses	186	89	73	97	109.0%	16	21.9 %
<b>Total deductions</b>	<b>188,009</b>	<b>180,017</b>	<b>175,520</b>	<b>7,992</b>	<b>4.4%</b>	<b>4,497</b>	<b>2.6 %</b>
<b>Net increase</b>	<b>263,420</b>	<b>27,022</b>	<b>171,398</b>	<b>236,398</b>	<b>874.8 %</b>	<b>(144,376)</b>	<b>(84.2)%</b>
Plan net position							
restricted for pensions:							
Beginning of year	2,292,315	2,265,293	2,093,895	27,022	1.2%	171,398	8.2 %
<b>End of year</b>	<b>\$ 2,555,735</b>	<b>\$ 2,292,315</b>	<b>\$ 2,265,293</b>	<b>\$ 263,420</b>	<b>11.5%</b>	<b>\$ 27,022</b>	<b>1.2 %</b>

### December 31, 2016 versus December 31, 2015

Net investment income increased by \$236.4 million in 2016 due to net investment gains of \$212.3 million in 2016 versus net losses of \$24.2 million in 2015.

Contributions increased by \$8.0 million or 3.4% in 2016 compared to 2015, as a result of the Actuarial Determined Contributions ("ADC") and member contributions from 2015 to 2016.

Benefit payments increased by \$7.9 million or 4.4% over the prior year due to a continuing trend of increase in the number of retirees and cost-of-living adjustments provided to retirees and beneficiaries.

Administrative expenses increased by \$0.097 million or 109.0% over 2015. This increase was due to recognition of Plan Trustee fees as part of administration expenses offset by a reduction of audit expenses reimbursed to the Plan for years 2014 and 2015 respectively. Starting in 2014, Plan annual audit expenses are paid by the MTA Headquarters and no longer by the Plan.

### December 31, 2015 versus December 31, 2014

Net investment income decreased by \$129.2 million or 123% in 2015 due to net investment losses of \$24.2 million in 2015 versus net gains of \$105.1 million in 2014.

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

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Contributions decreased by \$10.6 million in 2015 compared to 2014, as a result of the Actuarial Determined Contributions (“ADC”) from 2014 to 2015.

Benefit payments increased by \$4.5 million or 2.6% over the prior year due to a continuing trend of increase in the number of retirees and cost-of-living adjustments provided to retirees and beneficiaries.

Administrative expenses increased by \$.016 million or 21.9% over 2014. This increase was due to an increase in fees for various services provided to the plan.

### **Economic Factors**

#### **Market Overview and Outlook – 2016**

Despite investors entering the year with a myriad of concerns; such as soft economic growth in the United States (“U.S.”) and China, elevated valuations in nearly every market and asset class, and rising geopolitical tensions, performance proved to be robust and resilient across almost all major markets. After a weak 2015 appetite for risk was hearty as equities continued to march ever higher in the U.S., Japan, and Emerging Markets and returns were strong in the riskier corners of fixed income in investment grade, high yield, and emerging markets bonds.

Market performance was framed by a rather benign macro environment, albeit with some transitory complications. In 2015, eyes had turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines in 2015. As the calendar flipped from 2015 to 2016, these concerns dissipated and emerging markets rallied significantly off their 2015 lows. Europe was again in the headlines, this time as Brexit caused momentary anxiety that evaporated within days of the history-making vote. Nonetheless, Europe and the United Kingdom were among the few markets to post negative performance for 2016.

In the U.S., the Federal Reserve held off raising interest rates until December, well off the pace and trajectory forecast by markets heading into 2016. The December raise came weeks after Donald Trump’s election to the Presidency, which fueled a strong equities market push in the 4<sup>th</sup> quarter behind expectations for regulatory reform, repeal of the Affordable Care Act, and a re-writing of the U.S. Tax Code. How realistic these expectations are will play out in 2017 and 2018 ahead of the mid-term election cycle will remain to be seen.

#### ***Macro Themes***

- Tepid global growth continuing
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China reforms; turmoil in emerging markets and commodities
- High valuations and increasing leverage

The macro picture was framed by tepid global growth in 2016, with the likelihood that below average economic performance would continue into 2017 and 2018. Developed markets look to remain lukewarm, with Gross Domestic Product (“GDP”) growth struggling to break through the (+3.0%) level globally and perhaps likely to fall short in the U.S., Europe, or Japan in 2017 or 2018 according to both the

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

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International Monetary Fund (“IMF”) and World Bank. Inflation remains subdued across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where short-term interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. The continued European Central Bank intervention in credit and bond markets may lead to problems down the road. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. The slower pace of U.S. interest rate increases has continued to result in a U.S. dollar weakening a bit from highs in 2015 and 2016, potentially easing some strain on the U.S. manufacturing and exporting sectors.

Europe continues to be impacted by high levels of public debt, fractious politics and low economic growth. Like emerging markets, a significant portion of Europe’s export engine is tied to Chinese demand and growth. Lower growth in China will place pressures on Europe, in particular net exporters, such as Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in periphery countries, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle should new rules (Basel III) on risk capital are implemented. In Japan, where banks are in better health, high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets posted solid returns in 2016 as the impact of capital flows due to the U.S. interest rate increases were much lower than expected. The main emerging markets, Brazil, Russia, India and China, defined as the “BRICs” all face their own challenges. Brazil faces high inflation, high interest rates, low growth, and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of (+7.0%) per year and will face a significant leadership election in late 2017. Russia remains impacted from lower energy prices and economic sanctions. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

### *United States*

Markets in the U.S. were strong for the year and were amongst the best performers in 2016. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment declining to very low levels and the remaining hangovers from the 2008 financial crisis appearing to fully dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December, causing a sell-off in government bond markets.

### *Equity*

- Surprising and solid year for stocks
- Valuations stretched
- Risk Indulging – Small Cap outperformed Large Cap; Cyclical outperformed Defensives;
- Value leads growth on Bank sector performance
- Barring significant developments, equity markets set for another low-return year

Large Cap stocks were strongly positive, with the S&P 500 and Russell 1000 indices posting returns of (+12.0%) and (+12.1%), respectively. Small Cap and Mid Cap indices outperformed large cap. Small

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis

As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

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Cap, as measured by the Russell 2000 Index, returned (+21.3%). The Russell Mid Cap Index lagged but still managed to post a (+13.8%) return.

Digging deeper, there was significant performance dispersion across the sectors. Cyclical Sectors performed well with Energy (+28.0%), Financials (+22.7%) and Industrials (+20.0%) leading the charge higher. Healthcare (-2.8%), Real Estate (+3.2%), and Consumer Staples (+5.0%) were the lagging sectors. This divergence shows investors' appetite shifted from 2015, when defensive and yield oriented sectors were the best performing segments of the S&P 500. In 2016, investors shifted towards sectors tied to economic growth (Energy and Industrials) or those that may benefit from deregulation (Financials).

### *Fixed Income*

The return of an appetite for risk was also evident within the U.S. Fixed Income markets. Treasuries returned (+1.0%) for the year, although this sector was impacted particularly hard in period after the U.S. Election as the Federal Reserve increased interest rate. The 4<sup>th</sup> quarter return of (-3.8%) was amongst the worst 3 month return in Treasuries in quite some time. Government bonds will likely not provide the safe haven status previously counted on by investors going forward given the Trump Administration's pledges on spending/stimulus and the populist tone of the campaign. Credit outperformed Treasuries for the year, with (+5.6%), although it too gave back significant performance in the 4<sup>th</sup> quarter (-3.0%). High yield posted impressive gains, as worries in the Energy sector that significantly impacted the market in 2015 gave way to optimism that defaults would not be nearly as extreme as anticipated. High Yield not only posted a strong return for the year (+17.1%) but unlike other areas of fixed income, was also positive in the 4<sup>th</sup> quarter (+1.8%). Volatility entered the fixed income markets significantly in the back half of the year. High Yield held steady in the face of rising interest rates as higher quality and more liquid segments of the market lost value.

### *International Developed*

- Weak year in Developed Markets (U.S. dollar returns)
- Eurozone and United Kingdom slightly negative for the year
- Japan and Far East positive performers
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2016 and expected through 2017

Europe muddled through another year in 2016 and seemed to never quite hit its stride even as growth projections continued to improve. In U.S. dollars, Europe and United Kingdom equities posted negative performance in 2016. Much of the negative performance as due to currency movements, as both the Euro and Sterling depreciated against the U.S. dollar in 2016. Brexit led to a historical decline in the Sterling through the summer and fall and the effects of the decision to leave the European Union may take years to be realized. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets posted positive performance, albeit relatively tepid performance in U.S. dollar terms.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. Global Treasuries returned (+1.6%) in 2016, although 4<sup>th</sup> quarter was particularly unkind with a (-8.5%) return. Much of the negative performance can be attributed to market responses to the interest rate increases in the U.S., the relative strength of the U.S. dollar, and the return to risk taking across most markets.

# Manhattan and Bronx Surface Transit Operating Authority Pension Plan

## Management's Discussion and Analysis As of and For the Years Ended December 31, 2016 and 2015 (Unaudited)

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### *Emerging Markets*

- Solid year in Emerging Markets (U.S. dollar returns)
- Major rebound from performance in 2015
- Brazil, Russia, and Thailand posted big years
- Mexico and Turkey worst performers
- Emerging Market Bonds reversed recent performance losses with strong calendar year
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted strong performance as investor appetite for risky assets extended into emerging markets stocks and bonds. The broad emerging markets index returned (+11.2%) for the year. Of the markets tracked by Morgan Stanley Country Index ("MSCI"), Brazil (+66.8%), Russia (+55.5%) and Thailand (+19.6%) posted the strongest gains. China was a notable laggard for the year, with its (+1.1%) gain trailing the broader markets and the majority of its large country peers. Performance of the bond markets of emerging markets was encouraging. Both hard currency and local currency bond posted solid years in performance. Hard currency bonds, which are predominately issued in U.S. dollar, returned (+10.2%) in 2016. Local currency bonds, which are more susceptible to risk-off periods and capital flight, returned (+9.9%) for the year.

### *Commodities*

- Rebounded from one worst years on record for commodities
- Little expectation for a full recovery in commodity prices in the near term

Commodity indices posted positive performance in 2016, with the broad Bloomberg Commodity Index up (+11.8%). Industrial metals (iron ore, zinc, nickel, aluminum, and copper) all posted strong performance for the year. Also reversing recent history with a rebound in performance were oil and natural gas. Precious metals, consistent with a risk-on attitude from investors, lagged the overall commodity market and the other main sectors.

### **Contact Information**

This financial report is designed to provide a general overview of the Manhattan and Bronx Surface Transit Operating Authority Pension Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Comptroller, Metropolitan Transportation Authority, 2 Broadway, 16<sup>th</sup> Floor, New York, NY 10004.

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# MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

## STATEMENTS OF PLAN NET POSITION AS OF DECEMBER 31, 2016 AND 2015 (In thousands)

	<b>2016</b>	<b>2015</b>
<b>ASSETS:</b>		
Cash	\$ 10,431	\$ 4,884
Receivables:		
Investment securities sold	995	927
Interest and dividends	949	1,614
Employee loans	<u>37,497</u>	<u>38,248</u>
Total receivables	<u>39,441</u>	<u>40,789</u>
Investments at fair market value (Notes 2 and 3):		
Investments measured at readily determinable fair value	343,501	524,352
Investments measured at net asset value	<u>2,172,625</u>	<u>1,734,299</u>
Total investments	<u>2,516,126</u>	<u>2,258,651</u>
Total assets	<u>2,565,998</u>	<u>2,304,324</u>
<b>LIABILITIES:</b>		
Accounts payable	1,469	1,357
Payable for investment securities purchased	2,348	1,762
Accrued benefits payable	1,342	1,578
Accrued post retirement death benefits (PRDB) payable	1,492	893
Accrued 55/25 Additional Members Contribution (AMC) payable	<u>3,612</u>	<u>6,419</u>
Total liabilities	<u>10,263</u>	<u>12,009</u>
<b>PLAN NET POSITION</b>		
<b>RESTRICTED FOR PENSIONS</b>	<u>\$2,555,735</u>	<u>\$2,292,315</u>

See notes to financial statements.

# MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

## STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In thousands)

	2016	2015
ADDITIONS:		
Contributions (Note 4):		
Employee contributions	\$ 18,472	\$ 16,321
Employer contributions	<u>220,697</u>	<u>214,881</u>
Total contributions	<u>239,169</u>	<u>231,202</u>
Investment income:		
Interest income	5,957	8,071
Dividend income	19,288	18,336
Net appreciation/(depreciation) in fair value of investments	<u>224,671</u>	<u>(22,885)</u>
Total investment income	249,916	3,522
Less investment expenses	<u>37,656</u>	<u>27,685</u>
Net investment income/(loss)	<u>212,260</u>	<u>(24,163)</u>
Total additions	<u>451,429</u>	<u>207,039</u>
DEDUCTIONS:		
Benefit payments and withdrawals	187,823	179,928
Administrative expenses	<u>186</u>	<u>89</u>
Total deductions	<u>188,009</u>	<u>180,017</u>
NET INCREASE	<u>263,420</u>	<u>27,022</u>
PLAN NET POSITION RESTRICTED FOR PENSIONS:		
Beginning of year	<u>2,292,315</u>	<u>2,265,293</u>
End of year	<u>\$2,555,735</u>	<u>\$2,292,315</u>

See notes to financial statements.

# MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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### 1. PLAN DESCRIPTION

Effective January 1, 1989, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) adopted a defined benefit qualified pension plan known as the MaBSTOA Pension Plan (the “Plan”). Prior to the adoption of the Plan, MaBSTOA pension benefits were funded on a pay-as-you-go basis.

The Plan is a single-employer public employee retirement system. MaBSTOA employees are specifically excluded from the New York City Employees Retirement System (NYCERS). Effective January 1, 1999, in order to afford managerial and nonrepresented MaBSTOA employees the same pension rights as like title employees in the Transit Authority, membership in the MaBSTOA Plan is optional.

The Board of Administration, established in 1963, determines eligibility of employees and beneficiaries for retirement and death benefits. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (TWU) and three employer representatives.

Membership of the Plan consisted of the following as of January 1, 2016 and 2015, respectively, the date of the latest actuarial valuation:

	2016	2015
Active and inactive members	8,617	8,217
Retirees and beneficiaries currently receiving benefits	5,468	5,394
Vested formerly active members not yet receiving benefits	<u>998</u>	<u>959</u>
Total members	<u>15,083</u>	<u>14,570</u>

The Plan provides retirement, death, accident and disability benefits. The benefits provided by the Plan are generally similar to the benefits provided to participants in NYCERS. A participant may receive a vested benefit in accordance with the requirements of his or her Tier.

NYCERS has determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to members who retired no earlier than 1986. In June 2012, the Metropolitan Transportation Authority (“MTA”) Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit. As of December 31, 2012, the Plan had estimated that \$6 million is owed to beneficiaries of retirees who were deceased prior to January 1, 2013. As of December 31, 2016, the Plan has paid \$7.1 million in post-retirement benefits and accrued an additional \$2 million based on the updated valuation. The Plan recorded \$1.5 million in liabilities in the Plan’s financial statements as of December 31, 2016 compared to \$0.893 million as of December 31, 2015.

**Funding Policy**—Contribution requirements of Plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA Plan. MaBSTOA’s funding policy for periodic employer contributions provides for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA’s policy to fund to the pension trust, at a minimum, the current year’s normal cost plus amortization of the unfunded actuarial accrued liability.

The MaBSTOA Pension Plan includes the following retirement programs: (i) Tier 1 Age 50 and 20 Year, Age 55 and 1/100; (ii) Tier 2 Age 55 and 25 Year, Tier 2 Age 55 and 1/100; (iii) Tier 3 and Tier 4



(a) 1998 Supplement

Eligibility: Date of retirement is prior to 1993 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.

Benefit: Commencing with the payment for the month of September 1998, the cost-of-living adjustment is applied to the first \$13,500 of the maximum retirement allowance, computed without option modification. If not eligible by September 1998, payment will commence first of the month following eligibility.

(b) 1999 Supplement

Eligibility: Date of retirement is prior to 1994 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.

Benefit: Commencing with the payment for the month of September 1999, the cost-of-living adjustment is applied to the first \$14,000 of the maximum retirement allowance, computed without option modification. If not eligible by September 1999, payment will commence first of the month following eligibility.

(c) 2000 Supplement

Eligibility: Date of retirement is prior to 1997 and one of the following conditions is met:

- (i) All disability pensioners who have been retired for at least 5 years,
- (ii) Other pensioners who have attained (or will attain) age 62 and have been retired for at least 5 years,
- (iii) Other pensioners who have attained (or will attain) age 55 and have been retired for at least 10 years and
- (iv) All recipients of an accidental death benefit who have been in receipt of payments for at least 5 years.

Benefit: Commencing with the payment for the month of September 2000, the cost-of-living adjustment is applied to the first \$18,000 of the maximum retirement allowance, computed without option modification. The cost-of-living adjustment is equal to the change in the CPI-U measured from year of retirement through 1997 multiplied by 50% (greater percentages exist if date of retirement is prior to 1968). If not eligible by September 2000, payment will commence first of the month following eligibility.

Surviving Spouse Eligibility: The surviving spouse of a deceased retired member who chose any joint and survivor option.

Surviving Spouse Benefit: Commencing with the payment for the month of September 2000, the benefit is equal to 50% of the 2000 supplementation which the pensioner would be receiving if living.

(d) Automatic Cost-of-Living Adjustment (COLA)

Eligibility: One of the following conditions is met:

- (i) All disability pensioners who have been retired for at least 5 years,
- (ii) Other pensioners who have attained (or will attain) age 62 and have been retired for at least 5 years,
- (iii) Other pensioners who have attained (or will attain) age 55 and have been retired for at least 10 years and
- (iv) All recipients of an accidental death benefit who have been in receipt of payments for at least 5 years.

Benefit: Commencing with the payment for the month of September 2001 and continuing each September thereafter, the COLA is applied to the first \$18,000 of the maximum retirement allowance, computed without option modification plus any prior COLAs or supplementations. The cost-of-living adjustment is equal to the change in the CPI-U for the year ending March 31 multiplied by 50%. The resulting percentage is then rounded up to the next higher 0.1% and shall not exceed 3.0% nor be less than 1.0%. If not eligible by September 2001 or each September thereafter, payment will commence first of the month following eligibility.

Surviving Spouse Eligibility: The surviving spouse of a deceased retired member who chose any joint and survivor option.

Surviving Spouse Benefit: The benefit is equal to 50% of the automatic COLA benefit which the pensioner would be receiving if living and commence in the month following the death of the deceased member.

6. Normal and Optional Forms of Payment

The basic benefits described in the following sections are payable in the form of a life annuity. Other options are 100% and 50% contingent annuities with and without a popup feature, 5-year and 10-year certain and life annuities, and single life annuities with an insurance feature.

Benefits payable under the optional forms are actuarially adjusted to reflect the anticipated longer payment stream.

7. Maximum Benefit

Maximum benefits payable conform to those legislated by the Tax Reform Act of 1986. For 2015, the maximum benefit is \$210,000.

8. Changes in Plan Provisions Since Prior Valuation

The military service location was removed as a requirement for applying to purchase military service credit

The deadline for filing a Notice of Participation in the World Trade Center Rescue, Recovery or Clean-Up Operations was extended until September 11, 2018.

## I. Tier 1 Employees

1. Eligibility  
Members hired before July 1, 1973.
2. Pensionable Compensation
  - (a) Compensation  
Greater of earned or earnable salary during the year prior to retirement.
  - (b) Final Compensation  
Highest average earnings over five consecutive years.
  - (c) Compensation Limit  
If hired after June 17, 1971, earnings in a year are limited to 120% of the preceding year.
3. Benefits
  - (a) Service Retirement  
Eligibility: Attainment of age 50 and completion of 20 years of credited service.  
Benefit:  
1.5% for service before March 1, 1962, plus  
2.0% for service from March 1, 1962 to June 30, 1970, plus  
2.5% for service after June 30, 1970  
The accumulated percentage above, up to a maximum of 50%, is multiplied by the member's Compensation. Once the accumulated percentage reaches 50%, the percentage for each further year of service reverts back to 1.5%. The percentage in excess of 50% is multiplied by the Final Compensation.
  - (b) Termination Benefits  
Eligibility: Completion of 20 years of credited service.  
Benefit: The Service Retirement Benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 50.
  - (c) Ordinary Death Benefits  
Active Members  
Eligibility: Completion of 6 months of credited service, but the benefit described below requires completion of 20 years of credited service.  
Benefit: A lump sum equal to the present value of the retirement benefit under the Return of Reserve option.  
Terminated Vested Members  
If a member dies before age 50, a lump sum equal to the present value of the retirement benefit under the Return of Reserve option is payable (Death Gamble).
  - (d) Accidental Death Benefits  
Eligibility: Line of duty related death for World Trade Center Presumption benefits and performance of duty for all other Accidental Death benefits.  
Benefit: The benefit equals 50% of Final Compensation.

- |   |   |
|---|---|
| (e) Ordinary Disability Benefits                    | <p>Eligibility: Completion of 10 years of credited service.</p> <p>Benefit: The benefit equals the greater of the Service Retirement percentages described (a) above or 25% multiplied by Final Compensation. If eligible for a service retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.</p>  |
| (f) Accidental Disability Benefits                  | <p>Eligibility: Duty-related accident. Line of duty related accident for World Trade Center Presumption benefits and performance of duty for all other Accidental Disability benefits.</p> <p>Benefit: The benefit equals 75% of the Final Compensation reduced by 100% of any worker's compensation payments. If eligible for a service retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.</p> |
| 4. Member Contributions                             | None  |
| 5. Changes in Plan Provisions Since Prior Valuation | None  |

## II. Tier 2 Employees

1. Eligibility Members hired on or after July 1, 1973, and before July 27, 1976.
2. Final Average Compensation
  - (a) Final 3-Year Average Compensation: Highest average earnings over three consecutive years.
  - (b) Final 5-Year Average Compensation: Highest average earnings over five consecutive years.
  - (c) Compensation Limit: Earnings in a year cannot exceed 120% of the average of the two preceding years.
3. Benefits
  - (a) Service Retirement  
Eligibility: Attainment of age 55 and completion of 25 years of credited service.  
Benefit: The benefit equals 50% of Final 3-Year Average Compensation for the first 20 years of credited service, plus 1.5% of Final 5-Year Average Compensation per year of credited service in excess of 20 years.
  - (b) Early Retirement  
Eligibility: Attainment of age 50 and completion of 20 years of credited service.  
Benefit: Determined in the same manner as the Service Retirement benefit but no greater than 2.0% of the Final 3-Year Average Compensation per year of credited service.
  - (c) Termination Benefits  
Eligibility: Completion of 20 years of credited service.  
Benefit: The benefit equals the Early Retirement benefit, with compensation and service calculated as of the date of termination. The benefit is deferred until age 50. If a member dies before age 50, 50% of the ordinary death benefit (below) is payable.
  - (d) Ordinary Death Benefit  
Eligibility: Completion of 90 days of credited service.  
Benefit: The benefit equals a lump sum equal to 3 times salary, raised to the next multiple of \$1,000.
  - (e) Accidental Death Benefit  
Eligibility: Line of duty related death for World Trade Center Presumption benefits and Performance of Duty for all other Accidental Death benefits.  
Benefit: The benefit equals 50% of the Final 5-Year Average Compensation.
  - (f) Ordinary Disability Benefits  
Eligibility: Completion of 10 years of credited service  
Benefit: The benefit equals the greater of the Service Retirement percentage calculated in (a) above and 25% multiplied by Final 5-Year Average Compensation. If eligible for an Early or Service Retirement benefit, the greater of this benefit and the Early or Service Retirement benefit is payable.

(g) Accidental Disability Benefits      Eligibility: Line of duty related accident for World Trade Center Presumption benefits and performance of duty for all other Accidental Disability benefits.

Benefit: The benefit equals 75% of the Final 5-Year Average Compensation reduced by any worker's compensation payments. If eligible for an Early or Service Retirement benefit, the greater of this benefit and the Early or Service Retirement benefit is payable.

4. Member Contributions      None

5. Changes in Plan Provisions Since Prior Valuation      None

### III. Tier 3 and Tier 4—Basic Age 62 & 5 Year Retirement Program

1. Eligibility

Non-operating Members hired prior to June 28, 1995, who have not elected the 55 & 25 Plan. Members hired on or after July 27, 1976, and before September 1, 1983, are in Tier 3. Members hired on or after September 1, 1983, are in Tier 4.
2. Final Average Compensation

Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation cannot exceed 110% of the average of the two preceding years.
3. Benefits
  - (a) Service Retirement

Eligibility: Attainment of age 62 and completion of at least 5 years of credited service.

Benefit: If at least 20 years of credited service is completed, the benefit equals 2.0% of Final Average Compensation for first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If completed less than 20 years of credited service, the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service.
  - (b) Early Retirement

Eligibility: Attainment of age 55 and completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit reduced by 6% for each of the first two years prior to age 62, and by 3% for years prior to age 60.
  - (c) Termination Benefits
    - (i) Refund of Contributions

Eligibility: Completion of less than 5 years of Credited Service.

Benefit: The benefit equals a refund of the member's contributions accumulated with interest at a rate of 5.0%.
    - (ii) Vested Benefit

Eligibility: Completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 62. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the ordinary death benefit (below) is payable. All accumulated regular contributions with interest are payable.

(d) Ordinary Death Benefits

Eligibility: all members.

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement, the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Spouse Benefit (Tier 3 only)

Eligibility: Vested and spouse is beneficiary.

Benefit: In lieu of the ordinary death benefit above, the spouse may elect 1/3 of the ordinary death benefit plus an annuity of 1.0% of Final Average Compensation per year of credited service, payable for life, or until remarriage. If the surviving spouse is more than 10 years younger, the annuity is actuarially reduced. The total of all payments will at least equal the amount of the full lump sum benefit.

(e) Accidental Death Benefits

Eligibility: Line of duty related death for World Trade Center Presumption benefits and performance of duty for all other Accidental Death benefits.

Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

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|---|---|
| (f) Ordinary and Accidental Disability Benefits     | Eligibility: Completion of 10 years of credited service for ordinary. No minimum years of credited service required for accidental.<br><br>Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. |
| 4. Member Contributions                             | Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000, or the later of 10 years of membership or 10 years of credited service.   |
| 5. Changes in Plan Provisions Since Prior Valuation | None  |

#### **IV. Tier 3 and Tier 4—25 Year and Age 55 Retirement Programs**

1. Eligibility

All operating members hired prior to April 1, 2012 and non-operating members hired prior to July 26, 1994, who elected this program. Members hired on or after July 27, 1976, and before September 1, 1983, are in Tier 3. Members hired on or after September 1, 1983 and before April 1, 2012 are in Tier 4.
2. Final Average Compensation

Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation cannot exceed 110% of the average of the two preceding years.
3. Benefits
  - (a) Service Retirement

Eligibility: Attainment of age 55 and completion of at least 25 years of credited service, or attainment of age 62 and completion of at least 5 years of credited service.

Benefit: If completed less than 20 years of credited service, the benefit upon attainment of age 62 equals 1-2/3% of Final Average Compensation multiplied by years of credited service. If completed between 20 and 25 years of service, the benefit upon attainment of age 62 equals 2% of Final Average Compensation multiplied by years of credited service. If at least 25 years of credited service is completed, the benefit equals 2.0% of Final Average Compensation for the first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If age 62 with at least 20 years of credited service is completed, the benefit equals 2.0% of Final Average Compensation for the first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. For non-operating employees who have attained age 62, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.
  - (b) Termination Benefits
    - (i) Refund of Contributions

Eligibility: Less than 5 years of credited service.

Benefit: The benefit equals a refund of the basic member's accumulated contributions. Non-operating can also obtain 50% of additional member contribution. All contributions are refunded with interest at a rate of 5.0% also payable.

(ii) Vested Benefit

Eligibility: Completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 62 if credited service is less than 25 years, else the benefit is deferred until age 55 for operating employees only. For non-operating employees the benefit is payable at age 62 with less than 25 years or if both age and service has not been fulfilled. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest and one-half of accumulated additional member contributions with interest are payable.

(c) Ordinary Death Benefits

Eligibility: All members.

Pre-retirement Benefit: A maximum benefit equals to a lump sum of three times annual salary for members with 3 or more years of credited service. The benefit payment is less if fewer than 3 years of credited service. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement, the pre-retirement benefit shall be reduced by 50% and reduced, an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Spouse Benefit (Tier 3 only)

Eligibility: Vested and spouse is beneficiary.

Benefit: In lieu of the ordinary death benefit above, the spouse may elect 1/3 of the ordinary death benefit plus an annuity of 1.0% of Final Average Compensation per year of credited service, payable for life, or until remarriage. If the surviving spouse is more than 10 years younger, the annuity is actuarially reduced. The total of all payments will at least equal the amount of the full lump sum benefit.

(d) Accidental Death Benefits	<p>Eligibility: Line of duty related death for World Trade Center Presumption benefits and Performance of Duty for all other Accidental Death benefits.</p> <p>Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:</p> <ul style="list-style-type: none"> <li>(i) Spouse, until remarriage</li> <li>(ii) Children, to age 25</li> <li>(iii) Dependent parents</li> <li>(iv) Any other dependent survivors, to age 21.</li> </ul> <p>Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.</p>
(e) Ordinary and Accidental Disability Benefits	<p>Eligibility: Completion of 10 years of credited service for ordinary. No minimum years of credited service requirement for accidental.</p> <p>Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. For non-operating employees, a refund of one-half of the member's additional contributions accumulated plus interest at a rate of 5.0% is also payable.</p>
4. Member Contributions	<p>Operating Employees: Regular contribution rate of 2.0%. Additional 55/25 contributions were made through 2000. These contributions may be refunded effective November 2007 for TWU Local 100 and April 2008 for TSO Local 106.</p> <p>Non-operating Employees: Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000 or after the later of 10 years of membership or 10 years of credited service. Additional contribution rates were 4.35%, 2.85% and 1.85%, of which 1.85% ceases after 30 years of credited service.</p>
5. Changes in Plan Provisions Since Prior Valuation	None

## V. Tier 4—Age 57 & 5 Year

### Retirement Program

1. Eligibility  
Non-operating members hired on or after June 28, 1995 and prior to April 1, 2012. Members hired on or after September 1, 1983 and before April 1, 2012 are in Tier 4.
2. Final Average Compensation  
Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation cannot exceed 110% of the average of the two preceding years.
3. Benefits
  - (a) Service Retirement  
Eligibility: Attainment of age 57 and completion of at least 5 years of credited service.  
Benefit: If less than 20 years of credited service are completed, the benefit equals 1.67% of Final Average Compensation multiplied by years of credited service. If between 20 and 30 years of credited service are completed, the benefit equals 2% of Final Average Compensation multiplied by years credited service. If more than 30 years are completed, 2% of Final Average Compensation multiplied by years of credited service plus 1.5% of Final Average Compensation multiplied by years of credited service in excess of 30. For non-operating employees who have attained age 62, a refund of one-half of the member's additional contributions accumulated plus interest at a rate of 5.0% is also payable.
  - (b) Termination Benefits
    - (i) Refund of Contributions  
Eligibility: Completion of less than 5 years of credited service.  
Benefit: The benefit equals a refund of the member's contributions accumulated plus interest at a rate of 5.0%.
    - (ii) Vested Benefit  
Eligibility: Completion of at least 5 years of credited service.  
Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 57. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) is payable. All accumulated regular contributions with interest and one-half of accumulated additional member contributions with interest are payable.

(c) Ordinary Death Benefits	<p>Eligibility: All members</p> <p>Pre-retirement Benefit: A maximum benefit equals to a lump sum of three times annual salary for members with 3 or more years of credited service. The benefit payment is less if fewer than 3 years of credited service. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.</p> <p>Post-retirement Benefit: Upon retirement, the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.</p>
(d) Accidental Death Benefits	<p>Eligibility: Line of duty related death for World Trade Center Presumption benefits and performance of duty for all other Accidental Death benefits.</p> <p>Benefit: The benefit equals 50% of final 1-year compensation paid to eligible beneficiary as defined by priority:</p> <ul style="list-style-type: none"> <li>(i) Spouse, until remarriage</li> <li>(ii) Children, to age 25</li> <li>(iii) Dependent parents</li> <li>(iv) Any other dependent survivors, to age 21.</li> </ul> <p>Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.</p>
(e) Ordinary and Accidental Disability Benefits	<p>Eligibility: Completion of 10 years of credited service for ordinary. No minimum years of credited service requirement for accidental.</p> <p>Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. For non-operating employees, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.</p>
4. Member Contributions	<p>Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000, or after the later of 10 years of membership or 10 years of credited service. Additional contribution rates were 4.35%, 2.85% and 1.85% of which 1.85%, ceases after 30 years of credited service.</p>
5. Changes in Plan Provisions Since Prior Valuation	<p>None</p>

## VI. Tier 6—25 and

### Age 55 Retirement Program

1. Eligibility

All operating members hired on or after April 1, 2012.
2. Final Average

Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,490 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.
3. Benefits
  - (a) Service Retirement

Eligibility: Attainment of age 55 and completion of at least 25 years of credited service, or attainment of age 63 and completion of at least 10 years of credited service.

Benefit: If completed at least 25 years of credited service, the benefit equals 2.0% of Final Average Salary for the first 30 years of credited service plus 1.5% of Final Average Salary for years of credited service in excess of 30. If completed less than 20 years of credited service, 1.67% of Final Average Salary multiplied by years of credited service. If completed between 20 to 25 of credited service, 35% of Final Average Salary for first 20 years of credited service, plus 2% of Final Average Salary for years of credited service in excess of 20.
  - (b) Termination Benefits
    - (i) Refund of Contributions

Eligibility: Completion of less than 10 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated plus interest at a rate of 5.0%.
    - (ii) Vested Benefit

Eligibility: Completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The vested benefit is deferred until age 63 if credited service is less than 25 years, else the benefit is deferred until age 55. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest are payable.

(c) Ordinary Death Benefits

Eligibility: All members

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement, the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

(d) Accidental Death Benefits

Eligibility: Line of duty related death for World Trade Center Presumption benefits and performance of duty for all other Accidental Death benefits.

Benefit: The benefit equals 50% of wages earned during last year of service or annual wage rate if less than one year of service, paid to eligible beneficiary as defined by priority:

(i) Spouse, until remarriage

(ii) Children, to age 25

(iii) Dependent parents

(iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

(e) Ordinary and Accidental Disability Benefits

Eligibility: Completion of 10 years of credited service for ordinary. No minimum years of credited service requirement for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Salary per year of credited service and 1/3 of Final Average Salary. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.

4. Member Contributions

Regular contribution rate varies based on gross wages earned during two plan years (April 1 to March 31) prior to applicable plan year based on following table. For first three years, a projection of annual wages will be used. The rate for the plan year ending March 31, 2013 for all Tier 6 employees is 2%.

Annual Wages Earned During Plan Year	Contribution Rate
Up to \$45,000	3.00%
\$45,001-\$55,000	3.50%
\$55,001-\$75,000	4.50%
\$75,001-\$100,000	5.75%
Greater than \$100,000	6.00%

5. Changes in Plan Provisions Since Prior Valuation

None

**VII. Tier 6—Age 63 and 10 Year Retirement Program**

1. Eligibility All non-operating members hired on or after April 1, 2012.
2. Final Average Compensation Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,490 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.
3. Benefits
  - (a) Service Retirement

Eligibility: Attainment of age 63 and completion of at least 10 years of credited service.

Benefit: If completed less than 20 years of credited service, the benefit equals 1.67%% of Final Average Salary multiplied by years of credited service. If completed at least 20 years of credited service, 35% of Final Average Salary for the first 20 years of credited service, plus 2% of Final Average Salary times each year of credited service in excess of 20.
  - (b) Early Retirement

Eligibility: Attainment of age 55 and completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit reduced by 6.5% for each year prior to age 63.
  - (c) Termination Benefits
    - (i) Refund of Contributions

Eligibility: Completion of less than 10 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated plus interest at a rate of 5.0%.
    - (ii) Vested Benefit

Eligibility: Completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 63. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest are payable.

(d) Ordinary Death Benefits

Eligibility: All members

Pre-retirement Benefit: A maximum benefit equals to a lump sum of three times annual salary for members with 3 or more years of credited service. The benefit payment is less if fewer than 3 years of credited service. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement, the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

(e) Accidental Death Benefits

Eligibility: Line of duty related death for World Trade Center Presumption benefits and performance of duty for all other Accidental Death benefits.

Benefit: The benefit equals 50% of wages participant earned during last year of service or annual wage rate if less than one year of service, paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

(f) Ordinary and Accidental Disability Benefits

Eligibility: Completion of 10 years of credited service for ordinary. No minimum years of credited service requirement for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Salary per year of credited service and 1/3 of Final Average Salary. If eligible for Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.

4. Member Contributions

Regular contribution rate varies based on gross wages earned during two plan years (April 1 to March 31) prior to applicable plan year based on following table. For first three years, a projection of annual wages will be used. The rate for the plan year ending March 31, 2013 for all Tier 6 employees is 3%.

Annual Wages Earned During Plan Year	Contribution Rate
Up to \$45,000	3.00%
\$45,001–\$55,000	3.50%
\$55,001–\$75,000	4.50%
\$75,001–\$100,000	5.75%
Greater than \$100,000	6.00%

5. Changes in Plan Provisions Since Prior Valuation

The MaBSTOA Board adopted amendments on June 21, 2017 which provided eligible members a refund of the employee Additional Member Contributions made in the Tier 4 Age 57 and 5 Year Program and the Tier 4 Age 25 and Year 55 Early Retirement Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

**Basis of Accounting**—The Plan is accounted for on the accrual basis of accounting under which deductions are recorded when the liability is incurred and additions are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Contributions from members are recorded when the employer makes payroll deductions from plan members. Employer contributions are recognized when due in accordance with the terms of the Plan. Additions to the Plan consist of contributions (member and employer) and net investment income.

The accounting and reporting policies of the Plan conform to accounting principles generally accepted in the United States of America (GAAP).

**New Accounting Standards Adopted** – The Plan adopted GASB Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73*. GASB Statement No.82 requires the Plans to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. There was no material impact on the Plan’s financial statements as a result of the implementation of GASB 82.

**Recent Accounting Pronouncements** — Not yet adopted

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>MaBSTOA Pension Plan Required Year of Adoption</b>
	<i>Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and</i>	
73	68	2017
84	<i>Fiduciary Activities</i>	2019
85	<i>Omnibus 2017</i>	2018

**Methods Used to Value Investments**—Investments are stated at fair value or NAV which approximates fair value. Fair value is the amount that the Plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. All investments, with the exception of alternative investments are valued based on closing market prices or broker quotes.

Traded securities are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Alternative investments are valued based on the most current net asset values.

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.

**Use of Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

**Risks and Uncertainties**—The Plan’s investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the Plan’s financial statements.

**Income Taxes**—The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of ERISA. Therefore, income retained by the Plan is not subject to Federal income tax.

### **3. CASH AND INVESTMENTS**

**Investment Committee**—The Plan’s policy statement is issued for the guidance of fiduciaries, including the members of the Board and investment managers, in the course of investing the assets of the Trust. The investments of the Trust will be made for the exclusive benefit of the Plan participants and their beneficiaries. Policy guidelines may be amended by the Board upon consideration of the advice and recommendations of the investment professionals.

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on, at least, a quarterly basis and will be readjusted when an asset class weighting is outside its target range. The following was the MaBSTOA Pension Plan Board adopted asset allocation policy as at December 31, 2016.

<b>Asset Class</b>	<b>Target Allocation (%)</b>	<b>Target Range (%)</b>	<b>Policy Benchmark</b>
Equities	29.0	24-34	
Domestic Large Cap	10.0	5-15	S&P 500
Domestic Small Cap	5.5	2-10	Russell 2000
International Developed Markets Equities	10.0	5-15	MSCI EAFE
Emerging Markets Equities	3.5	2-6	MSCI Emerging Markets
Fixed Income	15.0	9-21	Manager Specific
Global Asset Allocation*	20.0	15-33	50% World Equity/ 50% Citigroup WGBI unhedged
Opportunistic Investments	6.0	0-15	Manager Specific
Absolute Return	15.0	10-22	Manager Specific
Real Assets	5.0	0-10	Manager Specific
Real Estate	3.0	0-10	Manager Specific
Private Equity	7.0	0-10	Venture Economics
<b>Total</b>	<b>100.0</b>		

\* The Global Asset Allocation managers will invest across numerous liquid asset classes including: stocks, bonds, commodities, TIPS and REITs.

**Investment Objective** — The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

**Investment Guidelines** — The Board of Pension Managers executes investment management agreements with professional investment management firms to manage the assets of the Plan. The fund managers must adhere to guidelines that have been established to limit exposure to risk.

All Securities managers shall be registered advisors under the Investment Advisors Act of 1940.

The overall capital structure targets and permissible ranges for eligible asset classes of the Trust are detailed within the Investment Policy Statement. Full discretion, within the parameters of the guidelines described herein and in any individual investment policy associated with that allocation, is granted to the investment managers regarding the asset allocation, the selection of securities, and the timing of transactions. It is anticipated that the majority of investment managers will be funded through commingled funds, however, in some cases (likely equity and fixed income mandates) separate account vehicles may be utilized. For separate accounts, individual manager guidelines and/or exemptions are specified in each approved investment management agreement (IMA). Should there be conflicts, the individual manager guidelines set forth in the IMA supersede the general guidelines in the Investment Policy Statement. For commingled funds, investment guidelines and/or exemptions are specified in such vehicle's offering documents. Should there be conflicts, the individual vehicle's investment guidelines supersede the general guidelines in the Investment Policy Statement.

Individual investment manager benchmarks and performance requirements are specified within the Investment Policy Statement. Performance of the Trust will be evaluated on a regular basis. Evaluation will include the degree to which performance results meet the goals and objectives as herewith set forth. Toward that end, the following standards will be used in evaluating investment performance:

1. The compliance of each investment manager with the guidelines as expressed herein, and
2. The extent to which the total rate of return performance of the Trust achieves or exceeds the targeted goals.

#### **Fixed Income Investment Managers**

- Domestic fixed income investments are permitted, subject to the guidelines reflected in Investment Policy Statement. Yankee bonds, which are dollar denominated foreign securities, may be held by each domestic manager in proportions which each manager shall deem appropriate.
- International fixed income securities are permitted, subject to the guidelines reflected in Investment Policy Statement. Generally defined, the Citigroup World Government Bond Index represents the opportunity set for international developed markets. The J.P. Morgan Emerging Markets Bond Index-Global represents the opportunity set for international emerging markets denominated in USD. The J.P. Morgan GBI-EM Global Diversified Index represents the opportunity set for international emerging markets denominated in local currency. These index references are guidelines and do not prohibit investment in securities outside those indexes.
- Investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies.
- The average duration (interest rate sensitivity) of an actively managed fixed income portfolio shall range within two years of the benchmark's duration.
- For domestic fixed income portfolios, individual manager account for the securities of an individual issuer, excepting the U.S. government and U.S. government agencies, shall not constitute more than 5% at market at any time.
- For international bond portfolios, individual manager account for the securities of any non-governmental issuer shall not constitute more than 5% at market at any time.

## **Equity Investment Managers**

- Domestic equity investments are permitted, subject to the guidelines. American Depository Receipts (ADRs), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges (e.g., Reuters, Nestle, Sony) may be held by each domestic stock manager in proportions which each manager shall deem appropriate.
- International equities are permitted, subject to the guidelines. Generally defined, the Morgan Stanley EAFE (Europe, Australasia and the Far East) Index represents the opportunity set for international developed markets. The Morgan Stanley Emerging Markets Free Index represents the opportunity set for international emerging markets. These index references are guidelines and do not prohibit investment in securities outside those indexes.
- The equity specialists may vary equity commitment from 90% to 100% of assets under management.
- Individual manager account may hold no more than 8% at market or 1.5x the manager's benchmark weight (whichever is greater) of any single company's stock.

## **Overlay Manager(s)**

- For a variety of reasons, the investment program may carry large amounts of cash throughout the year. In order to achieve the actuarial assumed returns on the total investment program, the Board may retain a futures overlay manager. The overlay manager shall use exchange traded futures contracts to expose the cash to the long-term target asset allocation.
- In addition, the overlay manager may be utilized for the following:
  - a) Expose un-invested assets of domestic and international equity investment managers to their respective equity benchmarks through the use of futures contracts,
  - b) Assist the Board in rebalancing, transitions, and/or gaining exposure to approved asset classes,
  - c) Provide the market (or "beta") exposures in a portable alpha program.
  - d) The overlay manager shall ensure that all futures positions are fully collateralized and the manager is prohibited from leveraging any portion of the portfolio.

## **Alternative Investments Managers**

**Alternative investments are broadly categorized into the following categories:**

- Opportunistic
- Real assets
- Real estate
- Absolute return
- Private equity

Common features of alternative investments are limited liquidity, the use of derivatives, leverage and shorting, lower regulatory oversight, limited transparency, and high fees. Compensating for these risks, these investments offer the potential of diversification and/or higher rates of return over time.

## **Derivatives Policy**

Where appropriate, investment managers may use derivative securities for the following reasons:

- Hedging. To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.

- Creation of Market Exposures. Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
- Management of Country and Asset Allocation Exposure. Investment managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.
- Additional uses of derivatives shall be approved by the Board or set forth in the individual investment guidelines or the offering documents prior to implementation and shall be restricted to those specific investment managers.

#### **Ineligible Investments (Separately Managed Accounts)**

Unless specifically approved by the Board or set forth in the individual investment guidelines, certain securities, strategies and investments are ineligible for inclusion within separately managed accounts. Among these are:

- Privately-placed or other non-marketable debt, except securities issued under Rule 144a,
- Lettered, legend or other so-called restricted stock,
- Commodities
- Short sales, and,
- Direct investments in private placements, real estate, oil and gas and venture capital, or funds comprised thereof.

#### **Exceptions:**

The Board of Managers, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may, from time to time, allow investment in such funds. The Board recognizes that it cannot give specific policy directives to a fund whose policies are already established; therefore, the Board is relying on the investment consultant to assess and monitor the investment policies of any funds used by the Plan to ascertain whether they are appropriate.

**Investment Valuation and Income Recognition** — Investments are presented at fair value based on information provided by JP Morgan Chase (the “trustee”), New England Pension Consultant (“NEPC”), and the investment managers. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available, or net asset value, which is determined to be a practical expedient for measuring fair value. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. All investments are registered, with securities held by the Plan’s trustee, in the name of the Plan. Gains and losses on investments that were sold during the year are included in the statement of plan net position.

**Risks and Uncertainties** — The Plan’s investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the Plan’s financial statements.

The financial markets, both domestically and internationally, have demonstrated significant volatility on a daily basis, which affects the valuation of investments. The Plan utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and with acceptable levels of risk.

**Investments measured at readily determined fair value (FV)**

	Quoted Price in			
	December 31, 2016	Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Equity Securities:</b>				
Separate account large-cap equity funds	\$ 72,251,016	\$ 72,251,016	\$ -	\$ -
Separate account small-cap equity funds	128,138,196	128,138,196	-	-
Separate account real estate investment trust funds	23,322,458	23,322,458	-	-
<b>Total equity investments</b>	<b>223,711,670</b>	<b>223,711,670</b>	<b>-</b>	<b>-</b>
<b>Debt Securities</b>				
Separate account debt funds	119,789,292	-	119,789,292	-
<b>Total debt investments</b>	<b>119,789,292</b>	<b>-</b>	<b>119,789,292</b>	<b>-</b>
<b>Total investments at readily determined FV</b>	<b>\$ 343,500,962</b>	<b>\$ 223,711,670</b>	<b>\$ 119,789,292</b>	<b>\$ -</b>

**Investments measured at the net asset value (NAV)**

	December 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>Equity Securities:</b>				
Commingled large cap equity funds	\$ 153,081,608	\$ -	Daily	None
Commingled international equity funds	279,977,601	-	Daily	None
Commingled emerging market equity funds	77,484,913	-	Daily, monthly	None
<b>Total equity investments measured at the NAV</b>	<b>510,544,122</b>	<b>-</b>		
<b>Debt Securities</b>				
Commingled debt funds	208,539,805	-	Daily, monthly, quarterly	None
Mutual fund	32,031,598	-	Daily	None
<b>Total debt investments measured at the NAV</b>	<b>240,571,403</b>	<b>-</b>		
<b>Absolute return:</b>				
Directional	83,483,726	-	Monthly	3-60 days
Direct lending	115,235,870	8,281,753	Bi-annually	60 plus days
Distressed securities	24,674,583	-	Not eligible	N/A
Credit long	35,726,215	-	Quarterly	3-30 days
Credit long/short	50,695,157	-	Quarterly	3-60 days
Equity long/short	36,673,598	-	Quarterly	3-60 days
Event driven	48,446,341	2,093,427	Quarterly, Bi-annually	60-120 days
Global macro	86,868,753	-	Monthly	3-30 days
Global tactical asset allocation	167,208,452	-	Daily, monthly	3-30 days
Market neutral	184,367	-	Quarterly	3-60 days
Multistrategy	74,514,322	-	Quarterly	3-60 days
Risk parity	232,165,400	-	Monthly	3-30 days
Structured credit	12,843,757	32,062,887	Not eligible	N/A
<b>Total absolute return measured at the NAV</b>	<b>968,720,541</b>	<b>42,438,067</b>		
Private equity - private equity partnerships	163,295,227	141,080,843	Not eligible	N/A
<b>Real assets</b>				
Commingled commodities fund	53,584,239	-	Not eligible	N/A
Commingled real estate funds	101,208,383	-	Not eligible	N/A
Energy	37,318,500	21,838,034	Not eligible	N/A
Infrastructure	9,604,288	12,685,084	Not eligible	N/A
<b>Total real assets measured at the NAV</b>	<b>201,715,410</b>	<b>34,523,118</b>		
Short term investments measured at the NAV	87,778,068	-		
<b>Total investments measured at the NAV</b>	<b>2,172,624,771</b>	<b>\$ 218,042,028</b>		

Total investments at fair value \$ 2,516,125,733

**Investments measured at readily determined fair value (FV)**

	Quoted Price in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs
	December 31, 2015	Level 1	Level 2	Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 233,730,250	\$ 233,730,250	\$ -	\$ -
Separate account small-cap equity funds	112,521,684	112,521,684	-	-
Total equity investments	346,251,934	346,251,934	-	-
Debt Securities				
Separate account debt funds	178,100,326	-	178,100,326	-
Total debt investments	178,100,326	-	178,100,326	-
Total investments at readily determined FV	\$ 524,352,260	\$ -	\$ 178,100,326	\$ -

**Investments measured at the net asset value (NAV)**

	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Commingled international equity funds	\$ 191,633,568	\$ -	Daily	None
Commingled emerging market equity funds	78,259,008	-	Daily, monthly	None
Total equity investments measured at the NAV	269,892,576	-		
Debt Securities				
Commingled debt funds	157,718,640	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	157,718,640	-		
Absolute return:				
Directional	75,442,971	-	Monthly	3-60 days
Direct lending	81,226,075	20,685,570	Bi-annually	60 plus days
Credit long	32,478,393	-	Quarterly	3-30 days
Credit long/short	48,558,309	-	Quarterly	3-60 days
Equity long/short	18,545,495	-	Quarterly	3-60 days
Event driven	67,624,501	2,093,427	Quarterly, Bi-annually	60-120 days
Global macro	85,169,414	-	Monthly	3-30 days
Global tactical asset allocation	203,808,645	-	Daily, monthly	3-30 days
Market neutral	326,315	-	Quarterly	3-60 days
Multistrategy	19,978,907	-	Quarterly	3-60 days
Risk parity	279,343,628	-	Monthly	3-30 days
Total absolute return measured at the NAV	912,502,653	22,778,997		
Private equity - private equity partnerships	136,463,123	54,599,911	Not eligible	N/A
Real assets				
Commingled commodities fund	43,822,896	-	Not eligible	N/A
Commingled real estate funds	80,268,283	-	Not eligible	N/A
Energy	23,749,949	38,029,950	Not eligible	N/A
Infrastructure	6,117,124	15,433,863	Not eligible	N/A
Total real assets measured at the NAV	153,958,252	53,463,813		
Short term investments measured at the NAV	103,763,871	-		
Total investments measured at the NAV	1,734,299,115	\$ 130,842,721		
Total investments at fair value	\$ 2,258,651,375			

**Concentration of Credit Risk** – Individual investments held by the Plan that represents 5.0% or more of the Plan’s net assets available for benefits at December 31, 2016 and 2015 are as follows:

	2016	2015
Investments at fair value as determined by quoted market prices:		
Bridgewater All Weather Fund	\$ -	\$ 119,786,492

**Credit Risk** — At December 31, 2016 and 2015, the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2016 Fair Value	Percentage of Fixed Income Portfolio	2015 Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 29,130,599	5.39 %	\$ 87,622,789	12.20 %
AA	(7,537,593)	(1.39)	36,024,253	5.02
A	36,408,312	6.73	45,960,297	6.40
BBB	77,354,781	14.30	169,644,600	23.63
BB	63,644,818	11.77	52,544,773	7.32
B	41,858,028	7.74	31,853,323	4.43
CCC	6,609,734	1.22	4,970,616	0.68
CC	1,089,363	0.20	-	-
C	2,581,483	0.48	-	-
Not Rated	<u>88,743,868</u>	<u>16.41</u>	<u>42,637,192</u>	<u>5.94</u>
Credit risk debt securities	339,883,393	62.85	471,257,843	65.62
U.S. Government bonds	<u>200,917,215</u>	<u>37.15</u>	<u>246,821,098</u>	<u>34.38</u>
Total fixed income securities	540,800,608	<u>100.00 %</u>	718,078,941	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>1,975,325,125</u>		<u>1,540,572,434</u>	
Total investments	<u>\$ 2,516,125,733</u>		<u>\$ 2,258,651,375</u>	

**Interest Rate Risk Exceptions** — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price’s sensitivity to 100 basis point change in interest rates.

Investment Fund	2016		2015	
	Fair Value	Duration	Fair Value	Duration
Chase	\$ 98,666,882	11.38	\$ 178,100,326	11.46
Wellington Blended Emerging Market Debt	33,839,192	5.55	50,038,235	5.06
Allianz Structured Alpha Fund	81,596,994	0.25	95,184,350	0.13
GAM Unconstrained Bond Fund	96,393,243	0.25	66,632,867	0.93
Bridgewater All Weather Fund	67,809,509	9.00	119,786,492	7.87
Wellington Opportunistic	17,303,562	1.91	24,882,085	1.69
Bridgewater Pure Alpha	2,541,467	(3.54)	68,987,225	4.36
Northern Trust William Capital	10,029,926	-	10,006,812	-
Park Square Capital Credit Opportunities	26,754,777	0.54	11,594,616	0.61
Crescent Capital High Income Fund	21,285,910	2.61	16,941,461	2.64
Fir Tree Value Realization Fund	53,997	-	1,237,589	-
Libremax Partners Fund	4,116,447	5.02	-	-
Gramercy Distressed Opportunistic Fund	6,902,793	(0.48)	-	-
Makuria Credit Fund	9,865,029	1.05	-	-
Wellington Global Managed Fund	40,351,500	6.70	60,508,536	6.77
Wellington Trust Collective Investment Fund and Diversified Inflation Fund	12,774,483	0.88	5,740,799	7.56
Canyon Value	<u>10,514,897</u>	1.90	<u>8,437,548</u>	2.40
Total fixed income securities	540,800,608		718,078,941	
Portfolio modified duration		4.37		5.82
Investments with no duration reported	<u>\$ 1,975,325,125</u>		<u>\$ 1,540,572,434</u>	
Total investments	<u>\$ 2,516,125,733</u>		<u>\$ 2,258,651,375</u>	

**Foreign Currency Risk** — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. The Plan also holds investments in American Depositary Receipts (“ADRs”) which are not included in the below schedule since they are denominated in U.S. dollars and accounted for at fair market value.

In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan’s foreign currency exposures as of December 31, 2016 and 2015 are as follows (amounts in U.S. dollars, in thousands):

<b>Foreign Currency Holdings in US \$</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Argentina Peso	\$ 297,239	\$ 356,060
Dollar (Australian)	44,173,581	36,638,334
Bahraini Dinar	293,236	266,989
Bangladesh (Taka)	319,744	239,250
Botswana Pula	77,108	90,152
Brazil Cruzeiro Real	5,303,903	4,680,235
Bulgarian Lev	5,948	3,467
Dollar (Canadian)	21,994,856	22,397,864
Chilean Peso	624,031	3,334,238
China (Yuan Renminbi)	7,786,652	7,865,310
Colombian Peso	2,057,190	5,006,485
Croatia Kuna	306,814	249,652
Czech Koruna	586,800	(1,735,533)
Krone (Danish)	1,303,137	2,568,644
Egyptian Pound	345,211	476,692
Euro	99,630,684	60,258,522
Georgian Lari	1,072,262	1,276,382
Ghanaian Cedi	29,813	34,674
Dollar (Hong Kong)	10,531,260	4,071,871
Hungary (Forint)	(374,759)	(96,208)
Icelandic Krona	310,355	-
Indian Rupee	16,821,854	9,489,781
Indonesia Rupiah	11,243,312	9,665,947
Israeli (Shekel)	634,785	1,230,939
Yen (Japan)	30,640,715	26,799,654
Jordanian Dinar	295,078	287,794
Kazakhstani Tenge	282,504	239,250
Kenyan Shilling	603,770	631,670
Kuwait Dinar	636,886	492,370
Lebanese Pound	90,816	100,554
Malaysian (Ringgit)	2,983,677	3,344,436
Mauritius (Rupee)	552,962	263,522
Mexican New Peso	2,046,380	23,349,282
Morocco Dirham	313,101	253,120
Dollar (New Zealand)	3,543,970	(2,158,637)
Nigerian Naira	492,602	617,800
Krone (Norwegian)	(1,972,015)	505,295
Omanian Rial	307,841	253,120
Pakistani Rupee	2,082,977	1,950,170
Panamanian Balboa	133,397	104,022
Peru Sol	1,415,694	1,993,211
Philippines Peso	1,270,926	1,329,935
Polish (New Zloty)	(198,443)	1,653,189
Pound (Sterling)	89,307,070	51,632,941
Qatar Riyal	586,038	556,324
Romanian Leu	286,159	1,347,620
Russian Federation Rouble	1,435,821	5,086,596
Saudi Riyal	344,613	273,924
Singapore Dollar	881,381	809,776
South Africa Rand	3,667,204	2,801,380
South Korean Won	7,866,343	7,504,005
Sri Lankan Rupee	283,694	263,522
Krona (Swedish)	3,797,748	4,013,303
Swiss Franc	10,292,983	7,645,046
Thai (Bhat)	3,825,862	3,438,066
Dollar (Taiwan, New)	18,015,165	15,665,679
Tunisian Dinar	111,355	114,424
Turkish Lira	582,729	913,173
Ukrainian Hryvnia	-	45,076
UAE Dirham	1,125,511	1,138,385
Uruguayan Pesos	-	433,945
Vietnamese Dong	296,607	249,652
Other	4,054,160	8,968,309
<b>Total</b>	<b>\$ 417,658,297</b>	<b>\$ 343,280,650</b>

#### 4. CONTRIBUTIONS

The financial objective of the Plan is to fund, on an actuarial basis, the retirement and death benefits for eligible MaBSTOA employees and beneficiaries. MaBSTOA contributions to the fund are made annually. Contributions to MaBSTOA require the approval of the MaBSTOA Board.

Employer contributions amounted to \$220.7 million and \$214.9 million for the years ended December 31, 2016 and 2015, respectively. Employee contributions amounted to \$18.5 million and \$16.3 million for the years ended December 31, 2016 and 2015, respectively. Contributions made by employees are accounted for in separate accounts maintained for each employee. Annually, these accounts are credited with interest at 5%. Effective April 1, 1990, MaBSTOA began to deduct employee contributions as pretax contributions under Section 414(h) of the Internal Revenue Code.

Pursuant to Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant's accumulated contribution account is used as collateral against the loan. The Plan granted \$17.0 million and \$16.8 million in loans to members during 2016 and 2015, respectively. Loan repayments by members amounted to \$15.6 million and \$15.1 million in 2016 and 2015, respectively.

Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions including accumulated interest less any loans outstanding.

#### 5. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2016 and 2015 were as follows (in thousands):

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Total pension liability	\$ 3,536,747	\$ 3,391,989
Fiduciary net position	<u>2,555,735</u>	<u>2,292,315</u>
Net pension liability	<u>\$ 981,012</u>	<u>\$ 1,099,674</u>
Fiduciary net position as a percentage of the total pension liability	72.26 %	67.58 %
Covered payroll	\$ 713,280	\$ 685,999
Net pension liability as a percentage of covered payroll	137.54 %	160.30 %

**Actuarial Methods and Assumptions**—The total pension liability as of December 31, 2016 was determined by an actuarial valuation date of January 1, 2016, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2016	January 1, 2015
Actuarial cost method	Frozen initial liability (FIL) <sup>(1)</sup>	Frozen initial liability (FIL) <sup>(1)</sup>
Amortization method	For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population	For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial Assumptions:		
Investment rate of return	7.00%, net of investment related expenses	7.00%, net of investment related expenses
Projected salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	55% of inflation assumption or 1.375% per annum, if applicable	55% of inflation assumption or 1.375% per annum, if applicable
Inflation	2.50% per annum	2.50% per annum

<sup>(1)</sup> Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

Until the inception of the Tier 6 provisions in 2012, amendments enacted by State legislation in 2000 reflected the most significant changes to the plan and are summarized as follows:

For operating employees (Chapter 10 of the Laws of 2000):

- All operating employees are automatically included in the 2000 55/25 plan.
- Elimination of the 2.3% additional employees' contributions applicable to members of the 55/25 plan.

- Reduction in the Tier 3 and 4 employee contribution rate from 3.0% to 2.0%.

For managerial and non-operating employees (Chapter 126 of the Laws of 2000):

- Vesting under the Age 57 plan required only five years of service versus ten.
- As of October 1, 2000, regular Tier 3 and 4 employee contributions ceased after the completion of ten years of service.

For retired members (Chapter 125 of the Laws of 2000):

- Automatic cost-of-living adjustments (COLAs). The COLAs apply to retired members as follows:

<b>Retirees at Least age</b>	<b>Retired or Receiving Benefits for at Least</b>
62	5 years
55	10
Disabled retirees	5
Accidental death beneficiaries	5

- Initial COLA payable September 30, 2000, based on the first \$18,000 of the maximum retirement allowance.
- Thereafter, annual COLAs of 50% of the increase in the consumer price index (CPI), but not less than 1% or more than 3%, of the first \$18,000 of maximum retirement allowance will be payable.

The benefit enhancements, as well as the automatic COLA for retirees, were reflected in the actuarial valuation beginning with the January 1, 2000, valuation.

The Plan adopted several amendments during 2002 as a result of state legislation. Amendments included changes to the definition of active service for Tier 1 and Tier 2 members, extension of the phase-in period from five years to ten years for funding liabilities created by Chapter 125 of the Laws of 2000 and increased accidental disability benefits for Tier 3 and Tier 4 members.

The Plan also adopted the legislative provisions of Chapter 379, which allow current and former members of the Transport Workers Union, Local 100 and Transit Supervisors Organization, Local 106, with an accumulated balance of additional member contributions (AMC) made in accordance with the MaBSTOA 55/25 Plan enacted in 1994, to apply for a refund of such contributions. AMC refunds amounted to approximately \$443 thousand and \$692 thousand as of December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, assets were available to fund 72.3% and 67.6%, respectively, of the unfunded actuarial accrued liability (UAAL) when measured using the Entry Age Normal Cost Method per GASB 67 and the market value of assets.

## Calculation on Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

### Schedule of Calculations of Money-Weighted Rate of Return

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2016	\$2,292,315,704	12.00	1.00	\$2,502,222,161
Monthly net external cash flows:				
January	4,341,704	11.50	0.96	4,722,691
February	4,343,937	10.50	0.88	4,692,116
March	4,343,937	9.50	0.79	4,655,262
April	4,343,937	8.50	0.71	4,622,746
May	4,343,937	7.50	0.63	4,590,457
June	4,343,937	6.50	0.54	4,554,401
July	4,343,937	5.50	0.46	4,522,589
August	4,343,937	4.50	0.38	4,491,000
September	4,343,937	3.50	0.29	4,455,725
October	4,343,937	2.50	0.21	4,424,603
November	4,343,937	1.50	0.13	4,393,698
December	3,378,850	0.38	0.03	2,287,743
Ending Value - December 31, 2016	\$2,555,735,192			\$2,555,735,192
Money-Weighted Rate of Return	9.16%			

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2015	\$2,265,293,331	12.00	1.00	\$2,241,439,352
Monthly net external cash flows:				
January	4,487,720	11.50	0.96	4,442,344
February	4,487,720	10.50	0.88	4,446,107
March	4,487,720	9.50	0.79	4,450,345
April	4,487,720	8.50	0.71	4,454,116
May	4,487,720	7.50	0.63	4,457,890
June	4,487,720	6.50	0.54	4,462,139
July	8,968,720	5.50	0.46	8,925,152
August	5,144,720	4.50	0.38	5,124,066
September	5,144,720	3.50	0.29	5,128,950
October	5,144,720	2.50	0.21	5,133,295
November	5,144,720	1.50	0.13	5,137,644
December	(5,287,934)	0.50	0.04	-5,285,696
Ending Value - December 31, 2015	\$2,292,315,704			\$2,292,315,704
Money-Weighted Rate of Return	-1.05%			

**Expected Rate of Return on Investments**—The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of the December 31, 2016 and 2015 actuarial valuations are summarized in the following table:

<b>Asset Class</b>	<b>Index</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
U.S. Core Fixed Income	Barclays Aggregate	10.00 %	1.67 %
U.S. High Yield Bonds	BAML High Yield	8.00 %	5.04 %
Global Bonds	Citi WGBI	10.00 %	0.28 %
Emerging Market Bonds	JPM EMBI Plus	3.00 %	3.78 %
U.S. Large Cap	S&P 500	10.00 %	4.80 %
U.S. Small Cap	Russell 2000	5.50 %	6.06 %
Global Equities	MSCI ACWI NR	10.00 %	5.49 %
Foreign Developed Equities	MSCI EAFE NR	10.00 %	6.06 %
Emerging Market Equities	MSCI EM NR	3.50 %	8.39 %
GLOBAL REITs	FTSE EPRA/NAREIT Developed	5.00 %	5.77 %
Private Real Estate Property	NCREIF Property	3.00 %	3.64 %
Private Equity	Cambridge Private Equity	7.00 %	8.99 %
Hedge Funds - MultiStrategy	HFRI Fund Wtd Composite	15.00 %	3.45 %
<b>Total</b>			
Assumed Inflation—Mean			2.50 %
Assumed Inflation—Standard Deviation			1.85 %
Portfolio Arithmetic Mean Return			7.03 %
Portfolio Standard Deviation			11.54 %
Long-Term Expected Rate of Return			7.00 %

<b>Asset Class</b>	<b>Index</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
U.S. Core Fixed Income	Barclays Aggregate	10.00 %	2.11 %
U.S. High Yield Bonds	BAML High Yield	8.00 %	4.32 %
Global Bonds	Citi WGBI	10.00 %	0.82 %
Emerging Market Bonds	JPM EMBI Plus	3.00 %	5.17 %
U.S. Large Cap	S&P 500	10.00 %	5.09 %
U.S. Small Cap	Russell 2000	5.50 %	6.26 %
Global Equities	MSCI ACWI NR	10.00 %	5.67 %
Foreign Developed Equities	MSCI EAFE NR	10.00 %	6.06 %
Emerging Market Equities	MSCI EM NR	3.50 %	8.21 %
GLOBAL REITS	FTSE EPRA/NAREIT Developed	5.00 %	5.98 %
Private Real Estate Property	NCREIF Property	3.00 %	3.84 %
Private Equity	Cambridge Private Equity	7.00 %	9.17 %
Hedge Funds - MultiStrategy	HFRI Fund Wtd Composite	15.00 %	4.20 %
<b>Total</b>			
Assumed Inflation—Mean			2.50 %
Assumed Inflation—Standard Deviation			1.89 %
Portfolio Arithmetic Mean Return			7.31 %
Portfolio Standard Deviation			11.67 %
Long-Term Expected Rate of Return			7.00 %

**Discount Rate**—The discount rate used to measure the total liability as of December 31, 2016 and 2015 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Plans' contributions will be made in accordance with the statutory contributions determined by the Actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**—The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 percent; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate for years 2016 and 2015 respectively:

<b>2016 (in thousands)</b>	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Net pension liability	<u>\$ 1,376,916</u>	<u>\$ 981,012</u>	<u>\$ 643,826</u>
<b>2015 (in thousands)</b>	<b>1% Decrease 6.00%</b>	<b>Current Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Net pension liability	<u>\$ 1,480,961</u>	<u>\$ 1,099,673</u>	<u>\$ 775,092</u>

**6. CUSTODIAL AND OTHER PROFESSIONAL SERVICES**

JP Morgan Chase Bank is custodian and trustee of plan assets with the exception of Mellon asset management investments in which Mellon Bank N.A. is the custodian. JP Morgan Chase also provides cash receipt and cash disbursement services to the Plan. NEPC reviews the Plan's portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. NEPC also provides audit services for the Plan's equity portfolios. Actuarial services were provided to the Plan by Milliman Inc.

**7. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 22, 2018.

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**REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)**

**MANHATTAN AND BRONX SURFACE TRANSIT  
OPERATING AUTHORITY PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS  
(in millions)**

	2016	2015	2014
Total pension liability:			
Service cost	\$ 82	\$ 77	\$ 72
Interest	237	232	224
Changes of benefit terms	-	-	-
Differences between expected and actual experience	14	(69)	(2)
Benefit payments and withdrawals	<u>(188)</u>	<u>(180)</u>	<u>(175)</u>
Net change in total pension liability	145	60	119
Total pension liability—beginning	<u>3,391</u>	<u>3,331</u>	<u>3,212</u>
Total pension liability—ending (a)	<u>3,536</u>	<u>3,391</u>	<u>3,331</u>
Plan fiduciary net position:			
Employer contributions	221	215	226
Employee contributions	18	16	15
Net investment income	212	(24)	105
Benefit payments and withdrawals	(188)	(180)	(175)
Administrative expenses	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	263	27	171
Plan fiduciary net position—beginning	<u>2,292</u>	<u>2,265</u>	<u>2,094</u>
Plan fiduciary net position—ending (b)	<u>2,555</u>	<u>2,292</u>	<u>2,265</u>
Employer's net pension liability—ending (a)-(b)	<u>\$ 981</u>	<u>\$ 1,099</u>	<u>\$ 1,066</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72.26 %</u>	<u>67.58 %</u>	<u>68.00 %</u>
Covered-employee payroll	<u>713</u>	<u>686</u>	<u>672</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>137.54 %</u>	<u>160.30 %</u>	<u>158.74 %</u>

Note: Information for periods prior to 2014 was not readily available.

**MANHATTAN AND BRONX SURFACE TRANSIT  
OPERATING AUTHORITY PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(in thousands)**

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<b>Fiscal Year Ending December 31,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency/ (Excess)</b>	<b>Covered- Employee Payroll</b>	<b>Contributions as a Percentage of Covered-Employee Payroll</b>
2016	\$220,486	\$220,697	\$ (211)	\$713,280	30.94 %
2015	214,881	214,881	-	685,998	31.32
2014	226,374	226,374	-	671,633	33.70
2013	234,474	234,474	-	582,081	40.28
2012	228,918	228,918	-	575,989	39.74
2011	186,454	186,454	-	579,696	32.16
2010	200,633	200,633	-	591,073	33.94
2009	204,274	204,274	-	569,383	35.88
2008	201,919	201,919	-	562,241	35.91
2007	179,228	179,228	-	519,680	34.49

## MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF EMPLOYER CONTRIBUTIONS

Note to Schedule II:

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the Plan are as follows:

Valuation Dates	January 1, 2016	January 1, 2015	January 1, 2014
Actuarial cost method	Frozen initial liability (FIL) (1)	Frozen initial liability (FIL) (1)	Frozen initial liability (FIL) (1)
Amortization method	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Interest rate	Net rate of 7.0% for 2015, per annum, net of investment expenses	Net rate of 7.0% for 2015, per annum, net of investment expenses	Net rate of 7.0% for 2014, per annum, net of investment expenses
Inflation	2.5% per annum	2.5% per annum	2.5% per annum
Deaths after retirement	Tables based on recent experience	Tables based on recent experience	Tables based on recent experience
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience	Tables based on recent experience
Rates of normal retirement	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap
Cost-of-living adjustments	55% of inflation assumption or 1.375% per annum if applicable (2)	55% of inflation assumption or 1.375% per annum if applicable (2)	55% of inflation assumption or 1.375% per annum if applicable (2)
Provision for expenses	An average of the prior two years' administrative charges added to the normal cost	An average of the prior two years' administrative charges added to the normal cost	An average of the prior two years' administrative charges added to the normal cost

(1) Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

(2) Assumes a long-term consumer price inflation assumption of 2.5% per annum, compounded annually.

## MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) SCHEDULE OF INVESTMENT RETURNS

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The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The following table displays the annual money-weighted rate of return calculated net of investment expense for the Plan for:

<b>Fiscal Year Ended December 31</b>	<b>Annual Money-Weighted Rate of Return</b>
2016	9.16 %
2015	(1.05)
2014	4.95

Note: Information for periods prior to 2014 was not readily available.