



# Annuitant News

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A Newsletter From The St. Paul Teachers' Retirement Fund Association

December 2006

## Annual Report Summary Year Ended June 30, 2006

This issue of Member News focuses on the financial status of the St. Paul Teachers' Retirement Fund Association (SPTRFA) for the fiscal year ended June 30, 2006, summarizing fiscal and actuarial information included in the full Annual Report. Copies of the Annual Report are provided to the administrative office of each school or other location. Members may also request a copy by contacting the pension fund office.

## The Year In Review

### Revenues & Expenditures

Reserves required to finance benefits come from employee and employer contributions, state aid and investment gains over time. During the fiscal year, contributions totaled \$37,467,912. Net investment income, including unrealized market appreciation was \$104,544,984 for the same period.

Benefits to retirees, disabilitants and survivors paid in this fiscal year totaled \$78,420,222. Refunds to members who left the Association totaled \$1,146,861. Administrative expenses were \$590,852.

Net assets held in trust on June 30, 2006 were \$1,005,745,229; a gain of \$71,077,865 over the same figure from the previous year.

### Investment Activity

Investment performance for the year was very positive, as the total fund return for the twelve months ended June 30, 2006, net of fees was 12.6%, placing the SPTRFA among the top 2% of funds in the Callan Public Fund Universe for the year. The 5-year annualized net return was 8.2%; just shy of our actuarial 8.5% target.

The one-year gross return was roughly even with our composite index; 12.9% and 13.1%, respectively. We have a relatively large allocation to international equities and real estate, which worked to the fund's advantage. Gains in 2006 were more attributable to asset allocation than to overall active manager performance.

## Member Services

The number of retirees, disabilitants, and survivors receiving benefits was 2,624. New retirements totaled 146 during the year, while 55 retired members and survivors passed away. The average new retiree monthly benefit for those whose teaching careers in Saint Paul range from 25 to 35 years, was \$3,520.

There were 4,202 active teaching members of the Association. The SPTRFA sent detailed benefit estimates to each active, vested member over age 40 who work at least 40% FTE. All other members received a statement of account status.

## Funding

As of July 1, 2006, the actuarial accrued liability funding ratio stood at 69%; unchanged from the previous year. Part of the drag on the rate of funding progress is due simply to the method by which asset values of the fund are calculated. However, there are other substantive factors that are potentially just as significant:

- A deficiency in annual contributions.
- A drop in covered membership and payroll due to District 625 staff reductions.
- Migration of the covered membership from the Basic Plan to the Coordinated Plan.

Future improvement in the funded ratio will, therefore, depend on a number of demographic and financial factors. Most prominent among these is the lack of adequate contributions. The most recent actuarial valuation indicates that annual deficiency in contributions is 8.7%. Each year that contributions are not increased, all else remaining the same, this statistic can be expected to worsen. Revenues clearly must be supplemented soon if the SPTRFA is to fully fund plan liabilities over any reasonable amortization term.

## Legislation

The 2006 Legislature passed two omnibus pension bills. The first (SF-2239 / HF-2362) affects the SPTRFA by putting a 5% cap on post-retirement benefit increases (effective 1/1/2011). However, the way this bill applies the cap could be problematic relative to Internal Revenue

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### Appreciation & Best Wishes

Jim Callaway is retiring after 34 years of sterling service to the members and trustees of this Association. It has been a genuine privilege to work with and learn from Jim.

His encyclopedic knowledge about benefit and funding matters will be missed, almost as much as his general insights and ever pleasant company.

Thanks and Congratulations Jim!

### Earnings Limitation

If you are receiving a pension from the SPTRFA, are under age 65, and become re-employed by Saint Paul Public Schools or Saint Paul College, your pension may be offset for any earnings in excess of limitations established by the Social Security Administration.

The Earnings Limitation for 2007 is \$12,980. If you earn more than that in 2007, your 2008 pension will be reduced by one dollar for every three dollars you earn over the \$12,980 limit.

Contact the SPTRFA for further information on this subject.

### In Memoriam

We offer our sympathies to the families and friends of the retired teachers who have passed away since our last newsletter was published.

- |                    |                      |
|--------------------|----------------------|
| Donald J. Berggren | Nicholas P. Lagios   |
| Gertrude R. Bretoi | Ruth F. Langer       |
| David J. Brill     | Arlys K. Larson      |
| Doris S. Erickson  | Beverly M. O'Hara    |
| Evelyn H. Fahsl    | Kathy E. Ruud        |
| Zarm C. Geisenhoff | Harold E. Robinson   |
| Sharon G. Gredvig  | Robert A. Spanovich  |
| D. Joe Haller      | Patricia A. Tromp    |
| George H. Hanrahan | Eileen M. Walsh      |
| V. Albert Johnson  | Mary Walton          |
| Willis G. Kunze    | Lester N. Westenberg |

Rest In Peace.

### *Year in Review continued from Page 1*

Service regulations. The SPTRFA is seeking clarification from the IRS on the effect of this law change.

The other major pension bill (SF-1057/HF-1120) has several positive changes, the most notable being amendments to the limitations in our investment options under state law. The SPTRFA requested these changes in order to have more future flexibility in allocating assets among asset classes.

This bill also modified the "augmentation" rate applied to benefits for deferred vested members hired after June 30, 2006. Members who withdraw from teaching service, but leave their contributions and credited service with the SPTRFA, enjoy a form of inflation protection much like a post-retirement COLA. The rates for members hired before the effective date were 3% until the January 1 after age 55, and 5% thereafter. For those hired after the effective date, the augmentation rate will be 2.5% for all years in deferral.

### *Administrative Service Charge*

Again this year, members will not be assessed any additional service charge because our administrative expenses remained well below the trigger points set in State law.

### *2007 Cost of Living Adjustment*

Members retired for at least one year as of June 30, 2006 are receiving an increase of 2.0% on January 1, 2007. This guaranteed 2.0% will reduce the impact of inflation on pension benefits. There is no additional increase for excess investment earnings payable in 2007 because the five-year annualized rate of return on fund investments as of June 30, 2006 was less than the statutory 8.5% threshold.

### *Professional Services*

Our Association is audited each year by the Office of the State Auditor. Actuarial data is provided by the Segal Company, who produce the official valuations for all Minnesota defined benefit public pension funds. Special actuarial services are provided by our consultant, Gabriel, Roeder, and Smith. Legal services were provided by the firm of Oppenheimer, Wolff & Donnelly, LLP. Investment performance information is from our General Investment Consultant, Callan Associates.

### Annual Meeting:

The Annual Meeting of the Members is scheduled for 4:00 p.m. on Thursday, January 18, 2007. The meeting will be held at the Highland Park Senior High Auditorium at 1015 S. Snelling Avenue in Saint Paul.

The agenda for the meeting includes, but is not limited to the election of trustees, reports on membership, revenues and expenditures, presentations by investment managers and a Committee of Nine report.

## Statement of Plan Net Assets

*Financial Summary for the Fiscal Year Ended June 30, 2006*

<b>Assets</b>			
Cash	13,179,150	Securities Lending Collateral	87,924,018
Receivables	6,396,322	Furniture and Fixtures	26,608
Investments (Fair Value):		<b>Total Assets</b>	<b>1,099,590,109</b>
Commercial Paper	290,750		
U.S. Government Securities	36,717,587	<b>Liabilities</b>	
TBA Mortgage-backed Securities	16,574,584	Accounts Payable	1,118,549
Corporate Bonds	33,093,082	Security Purchases Payable	4,802,313
Common Stocks	215,765,996	Securities Lending Collateral	87,924,018
Commingled Investment Funds	595,461,885	<b>Total Liabilities</b>	<b>93,844,880</b>
Alternative Investments	4,066,386		
Real Estate	90,093,741	<b>Net Assets Held in Trust for Pension Benefits</b>	<b>1,005,745,229</b>
<b>Total Investments</b>	<b>992,064,011</b>		

## Statement of Changes in Plan Net Assets

*Financial Summary for the Fiscal Year Ended June 30, 2006*

<b>Additions</b>			
Contributions:		Net Income From Securities Lending Activity	196,229
Employer	20,615,130	Total Net Investment Income/(Loss)	113,767,888
Employee	13,453,021	<b>Total Additions</b>	<b>151,235,800</b>
State of Minnesota	3,399,761		
<b>Total Contributions</b>	<b>37,467,912</b>	<b>Deductions</b>	
Investment Income:		Benefits to Participants	78,420,222
Appreciation in Fair Value	104,544,984	Withdrawals and Refunds	1,146,861
Interest	4,721,758	Total Benefits, Withdrawals and Refunds	79,567,083
Dividends	4,023,842	Administrative Expenses	590,852
Other	4,891,012	<b>Total Deductions</b>	<b>80,157,935</b>
<b>Total Investing Activity Income/(Loss)</b>	<b>118,181,596</b>	Net Increase (Decrease)	71,077,865
Less: Investing Activity Expense	(4,609,937)	<b>Net Assets Held in Trust for Pension Benefits:</b>	
<b>Net Income/(Loss) From Investing Activity</b>	<b>113,571,659</b>	Beginning of the Year	934,667,364
Securities Lending Income	4,214,659	<b>End of the Year</b>	<b>1,005,745,229</b>
Less: Borrower Rebates	3,935,481		
Less: Management Fees	82,949		
<b>Total Securities Lending Expense</b>	<b>4,018,430</b>		

**Required Contributions and Funding Ratios**  
*Actuarial Valuation Summary Data as of July 1, 2006 — In Thousands*

	2005	2006
<b>A . Contributions % of Payroll</b>		
1. Statutory Contributions - Chapter 354A	16.49%	16.33%
2. Required Contributions - Chapter 356	23.78%	25.03%
3. Sufficiency / (Deficiency)	(7.29%)	(8.70%)
<b>B . Funding Ratios</b>		
1. Accrued Benefit Funding Ratio		
a. Current Assets	\$ 905,293	938,919
b. Current Benefit Obligations	1,248,867	1,305,809
c. Funding Ratio	72.49%	71.90%
2. Accrued Liability Funding Ratio		
a. Current Assets	\$ 905,293	938,919
b. Actuarial Accrued Liability	1,299,832	1,358,620
c. Funding Ratio	69.65%	69.11%
3. Projected Benefit Funding Ratio		
a. Current and Expected Future Assets	\$ 1,296,405	1,328,442
b. Current and Expected Future Benefit Obligations	1,513,026	1,577,289
c. Funding Ratio	85.68%	84.22%

**Reconciliation of Members**  
*Actuarial Valuation Summary Data as of July 1, 2006*

	Members Not Yet Retired		
	Active Members *	Deferred Retirement	Other Non-Vested
Total on June 30, 2005	4,349	1,368	1,687
Total on June 30, 2006	4,202	1,447	1,671
	Members Receiving a Benefit		
	Retired	Disabled	Survivors
Total on June 30, 2005	2,208	32	265
Total on June 30, 2006	2,302	25	297

\* Includes members on leave of absence