SPTRFA

Member 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 where members work. 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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Retiring in June 2007?

For members planning to retire at the end of the school year, please call the SPTRFA office to schedule a retirement counseling appointment. Scheduling your appointment at least 60 days prior to retiring will give you the greatest scheduling flexibility.

Some topics covered during your appointment include application, direct deposit of benefit and income tax withholding.

Items to bring to your appointment are photocopies of:

- Your birth certificate
- Your spouse's birth certificate
- Your marriage certificate

Please note that these items can also be submitted when you send in your retirement paperwork.

To be included in the early notification incentive, you need to notify the Saint Paul Public Schools (SPPS) by March 1, 2007 of your intention to retire at the end of the school year. However, it is not necessary to have an appointment with the SPTRFA before March 1, 2007.

All questions on severance, insurance and health coverage should be directed to the SPPS Benefits Department at (651) 767-8212.

Even if you have already notified the SPPS of your intent to retire in June 2007, you must still notify SPTRFA to complete the necessary retirement paperwork to begin your monthly benefit.

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!

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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

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

Statement of Changes in Plan Net Assets

Financial Summary for the Fiscal Year Ended June 30, 2006

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

Required Contributions and Funding Ratios

Actuarial Valuation Summary Data as of July 1, 2006 — In Thousands

	2005	2006
A. Contributions % of Payroll		
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. Funding Ratios		
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*