



# Member News

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

June 2007

## 2007 Legislative Session

Watching a bill go through the legislative process, said Bismarck, was like watching sausage being made. Sometimes, he neglected to note, you are the sausage!

The SPTRFA went into this Session with a number of proposals. Because the joint Legislative Commission on Pensions and Retirement (LCPR) was not convened until very late in the process, many pension-related initiatives were laid over for possible consideration in 2008. SPTRFA goals yet to be considered are reviewed at the end of this article.

One of our initiatives, modifying our post-retirement increase formula, succeeded both at inciting debate and in becoming law. Chapter 134, the Omnibus Pension Bill, was signed by Governor Pawlenty on May 25th. Article 7 of that bill is dedicated to changes for the SPTRFA.

Sincere thanks go to our authors and advocates at the Legislature, on whose leadership and advice we relied implicitly, and throughout:

- ◆ Senator Sandra Pappas
- ◆ Representative Paul Thissen
- ◆ Senator Don Betzold
- ◆ Representative Mary Murphy

The Legislature authorized a two-year pilot for the SPTRFA, which, after review, may become permanent. Increases under the new method will closely match those provided each year by the Social Security Administration (SSA). The table at right highlights differences in the old and new methods.

This proposal breaks new ground in Minnesota pension policy, and was initiated for several reasons:

- ◆ Legal Counsel determined that 2006 changes by the Legislature put our old formula at odds with IRS regulations.
- ◆ The Legislative Auditor recommended that increases be pegged to inflation, not the ups and downs of investment markets.
- ◆ A CPI-based COLA gives better protection to benefit purchasing power; a primary goal for defined benefit plans.
- ◆ Many of our retirees, and 90% of our active members, are covered under Social Security. Benefit increases for both programs should be similar.
- ◆ The current formula impedes progress in reducing our fund liabilities.

## Other Funding and Policy Items

The SPTRFA offered several other changes for consideration this year. One proposal was also approved by the Legislature, repealing Minn. Stat. § 354A.12, subd. 3(d), a "punitive" statute that imposed an assessment on retired and active members in the event that our administrative costs in any year exceeded those for the State TRA as a percentage of active payroll. This was bad law when first enacted in the early 1990's. It became obsolete over time, as our administrative costs are the lowest for all public plans in Minnesota.

*Legislative continued on Page 2*

Old Method	New Method
Annual increase of 2% each year.	Annual increases equal to CPI-w index of consumer prices
Additional increases equal to investment returns (5-yr basis) in excess of 8.5% "break-even" target.	Excess investment "dividend" is discontinued. CPI matched up to 2.5% in all cases. May go higher, to a maximum of 5%, if returns exceed target
New retirees must wait 18 months to be eligible for increase.	New retirees receive partial increase in first year, pro-rated on full calendar quarters in pay status.
Permanent and compounding.	Same

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Proposals laid over for possible consideration in 2008 included:

- ◆ Additional State funding of \$5.4 million per year to reduce unfunded liabilities that have grown to \$420 million.
- ◆ Moving the amortization target date out to a full 30 years, as has been done for other plans.
- ◆ Eliminating the benefit offset for post-retirement earnings over the current \$12,900 maximum.
- ◆ Giving pension funds the flexibility to hire their own actuaries to produce required annual plan valuations.

Bad ideas sometimes become law when no one is looking. Good ideas gather momentum each time they are considered. We plan to bring them up again in 2008.

## Considering a Leave ?

Certain categories of leaves of absence include the option to obtain retirement service credit.

If you are granted a leave of absence by your employer, *it is your responsibility* to make sure your leave is properly classified and documented by your employer. The SPTRFA will send you a letter providing information on the eligible service period, contributions required, and the date the payment is due.

Your Pension Facts handbook has more information on leaves eligible for retirement service credit. Watch for the next **SPTRFA Extra!** at [www.sptrfa.org](http://www.sptrfa.org) for more information on this topic in the next few weeks. If you still have questions, please give us a ring.

## Outstanding Indeed

SPTRFA President John Kunz of Highland Park Senior High is one of two Minnesota recipients of the 2007 William Gardner PreK-12 Outstanding Educator Award, selected by the University of Minnesota's College of Education and Human Development Alumni Society.

Congratulations John !

Investment Returns Periods ending March 31, 2007	Annualized Rates of Return vs. Benchmarks		
	Last Quarter	1 Year	5 Years
<b>Domestic Equity</b>	<b>2.3%</b>	<b>9.8%</b>	<b>9.7%</b>
S&P 500 Index Benchmark	0.6%	11.8%	6.3%
<b>Domestic Fixed Income</b>	<b>1.7%</b>	<b>7.2%</b>	<b>5.6%</b>
LB Aggregate Index Benchmark	1.5%	6.6%	5.4%
<b>International Equity</b>	<b>3.8%</b>	<b>19.6%</b>	<b>18.4%</b>
MSCI EAFE Index Benchmark	4.1%	20.2%	15.8%
<b>Real Estate</b>	<b>3.7%</b>	<b>17.9%</b>	-
NCREIF Total Index Benchmark	3.6%	16.6%	-
<b>Total Fund</b>	<b>2.6%</b>	<b>12.2%</b>	<b>11.2%</b>
Composite Benchmark	1.9%	12.3%	10.7%

## On the Investment Front

The total return for the first quarter of 2007 was 2.6%. On a trailing 12 month basis, the fund was up 12.2% ; well in excess of the 8.5% actuarial "break-even" point, and ranking in the top decile for public plans tracked by Callan Associates.

Domestic equity markets lost momentum as concern over job growth, inflation and sub-prime mortgage impacts took center stage. Bonds returned over 6.5%, for the previous 12 months, as recent Federal Reserve actions fueled investor confidence. International equities and real estate performed very well, returning 20% and 18% respectively for the year ended March 31, 2007.

The SPTRFA office will be closed for the **Independence Day** holiday on Wednesday, July 4, 2007 and the **Labor Day** holiday on Monday, September 3, 2007.

The *Member News* is published by the St. Paul Teachers' Retirement Fund Association (SPTRFA), 1619 Dayton Avenue - Room 309, Saint Paul, Minnesota 55104-6206, telephone (651) 642-2550. Its purpose is to provide timely and accurate information to SPTRFA members about their retirement system. SPTRFA's office hours are 8:00 a.m. to 4:30 p.m., Monday through Friday, with the exception of designated holidays. The *Member News* can be provided in an alternate format.