June 2013 Newsletter | Online at www.sptrfa.org

SPTRFA

St. Paul Teachers' Retirement Fund Association

What's News

Spring is a time FOR CHANGE.

The Fund's actuarial firm, Gabriel, Roeder, Smith, recently completed the Association' quadrennial experience study resulting in revisions to actuarial factors which the SPTRFA must incorporate into all future estimate and benefit calculations. The Bill was signed by the Governor on May 23, 2013. Access the entire Bill on our website: www.sptrfa.org, or read a summary of the bill on the reverse side of this June 2013 Newsletter.

Are actuarial changes unique to the St. Paul Teachers' Retirement Fund Association?

No. All of the Minnesota public pension plans are similarly affected by actuarial changes, with the largest effects seen in early retirement choices due to the increase in life expectancy of Fund participants. While actuarial changes have occurred in the past, this is the most significant change in the last two decades.

Is my SPTRFA benefit affected?

Actuarial Changes will NOT affect your benefit, if:

- You are already receiving an SPTRFA pension benefit, or
- You are eligible to draw your pension (generally age 55), have or will terminate prior to June 15, 2013, and apply for your SPTRFA pension benefit to be effective on or before June 16, 2013.

Continued article on reverse side.

Investment Portfolio Update

You can read "News from the Director," online at http://www.sptrfa.org

The SPTRFA's Investment Portfolio enjoyed an outstanding Quarter, the three-quarter mark for our current Fiscal Year. Assets rose 13% during the nine month stretch. Barring a major retreat in this Spring quarter, the portfolio should outperform its annual target of 8%. For the twelve month period, ended March 31, the Fund's assets were ahead 9.5%.

Equity markets, both domestic and abroad carried the portfolio rising mid-teens to 20% for the nine months of this Fiscal Year. This strong equity showing was in sharp contrast to the bond portfolio which continues to struggle with gradually rising interest rates threatening. Grinding out a small gain (approximately 3%) it lends support to the Board's decision to move its fixed income portfolios from passive index funds toward active and geographically diverse management for expected stronger returns. During the first quarter, the Fund added approximately 2.5% each to Inflation Protected Treasuries (TIPS) and a slightly larger allocation to a high yield fixed income portfolio as part of this portfolio realignment.

Global portfolios, that allow managers to move opportunistically within domestic and non-domestic holdings, represent an expanded theme of the Fund. These broader mandates have strongly contributed to the overall investment return during this year and reflect an opportunistic environment where managers are able to effectively move among a broader range of strategies and regions to capture yield and growth. The global returns generated nine month high 'teens' returns.

Continuing to perform well within the portfolio were the Fund's small and mid-cap portfolios. Small cap manager Dimensional Fund Advisors and the Boston Company both generated over 20% for the fiscal YTD. The Fund's largest position, represented by the S&P Index Fund was up 15%. Equity index funds, as opposed to bond index funds, have demonstrated solid returns and are not expected to benefit from rising interest rates that plague fixed income vehicles.

The Board is actively engaged in reviewing its manager complement and making judicial changes, such as the move toward more global exposure and active fixed income strategies. It will consider investments in energy and real estate seeking to strengthen its commitment to the real assets category. This area is expected to perform well as an inflation hedge. Private equity holdings have been incrementally added with a long term goal of making this "alternative" category attain 10% of the total portfolio. However, liquidity needs of the Fund caution against a heavier weighting.

The primary goal of the Fund is to achieve competitive returns, with an annualized target of 8%, and to achieve that through a diversified, uncorrelated mix of investment strategies designed to dampen risk and volatility within the portfolio. The Fund's longer term returns have achieved a better than 9% annualized return. Over the more recent three year period, the portfolio has actually grown by greater than 10% annually. While this will prove a tough return hurdle going forward, we remain optimistic about the long term strength of investment markets generally.

Omnibus Pension Bill Update

SPTRFA's legislation initiative, aimed at removing the System's 6.4% funding deficiency through a combination of further cost savings, contribution increases by both the School District and active teachers and an expanded annual supplemental State aid program, has been approved after a somewhat turbulent journey. Somewhat disappointingly, the Legislature, in its wisdom, amendmened the final version to include a study as to the merits of merging our System with the State Teachers (TRA) and capping the additional State aid at two years. The original language called for the added State aid package ($7million/year) to extend for a period potentially sufficient to attain full funding. The cap of two years ($14 million in total) is intended to provide a sufficient window to cover the merger study period and to further adequately assess the System's future.

The Bill, presented to the Governor, incorporated a variety of important steps to address the Plan's near term challenges and long term liabilities. It includes further contribution increases by both the employer and active employees, phased in over the next four years. It also revises Plan provisions to reduce costs in the Return to Work program, as well as modifying the table governing reduced benefits for early retirement while equalizing with TRA the multiplier for determining future retirement benefits starting in 2015. The package completes the Board's initiatives toward improving Plan sustainability which began with companion legislation approved in both the 2010 and 2011 legislative sessions.

This latest initiative experienced a circuitous path through the Legislative maze. It was clearly a study in "how a Bill becomes law". Starting with securing approval from the Commission on Pensions and Retirement (LCPR), chaired by our sponsor, Senator Sandy Pappas (DFL-Saint Paul). Other stops along the way included: the Senate's Local Government Committee, Senate Rules, and eventually Senate Finance, where again the Bill earned the support from the majority DFL legislators, before the Senate's favorable floor action on the Bill.

On the House side, things moved more swiftly. House Government Operations Committee gave its favorable nod to the Bill on a "voice" vote. After positive consideration by House Ways and Means, the proposal, through the persistent efforts of Representative Mary Murphy (DFL-Hermantown), went to the House floor for debate and approval on a roll call vote, 73 yeas and 49 nays. The House proposal remained unchanged from the language which had left the Pension Commission and was engrossed.

On the Senate side, during Finance Committee consideration, Senator Richard Cohen (DFL-St. Paul) while giving approval, on a voice vote, chose to include two modifications: an amendment to study possible merger of the three separate teacher systems, the State's TRA, Duluth Teachers and St. Paul; and, a second change revising the State aid funding provision. The differences in the two bills then required resolution by a Joint Conference Committee, which approved it ahead of favorable floor action in both Chambers just ahead of the close of this Session May 20!

The Member News is published by the St. Paul Teachers' Retirement Fund Association, 1619 Dayton Avenue - Room 309, St. Paul, MN 55104. PH: 651-642-2550. Its purpose is to provide relevant and accurate information to SPTRFA members about their retirement system and related topics. The newsletter is also available online at www.sptrfa.org.

Spring Changes

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Actuarial factor changes WILL minimally affect your benefit if:

- You draw an unreduced benefit by delaying receipt of your pension until you reach your SPTRFA normal retirement age (between Ages 65–66, depending on hire date), or
- You qualify for and retire under the "Rule of 90" or other unreduced benefit provision, or
- You choose to draw an early pension at Age 62 or later, when the reductions for early retirement have remained fairly stable.

For participants choosing to draw their pension before Age 62, the changes may have a more significant benefit effect. The earlier you choose to retire, the larger the impact of the changes on your benefit. All other things being equal, you would receive a larger benefit if drawn at a later age than if you chose to receive your benefit at an earlier age, since earlier retirement requires more years of benefit to be paid out by the fund.

Will my estimated pension benefits change again?

Yes. Pension benefit estimates are generated based on projections of the future, including assumptions about your future service and salary earned with St. Paul Public Schools. Prior to drawing your benefit, any statutory or actuarial changes, as well as projected versus actual SPPS career length and earnings will affect the actual payment.

Pension benefits paid are dependent on your actual SPPS service, salaries earned, and laws and actuarial tables in effect at the time you draw your pension.

Learn how actuarial concepts affect your pension benefit. Go online to: **www.sptrfa.org**