

SPTRFA NEWS

Democracy depends on Education – Education depends on Teachers

WINTER 2014



The Radio Operators – Horace Mann 1922

Aeronautics Training – Johnson Sr. High 2014

MEMO TO OUR MEMBERS FROM The Team at SPTRFA

Photo credits: Kid's Radio, courtesy of MN Historical Society, Aeronautics Training, courtesy of SPPS.

On behalf of the entire SPTRFA Staff and our Board of Trustees, we want to thank each of you for your service in support of educating our future leaders and citizens. Never has this task been more important. Each of us at SPTRFA takes great pride in playing a part in this by serving you.

Our mission is clear: 1) provide a *secure retirement* for the teachers of St. Paul, 2) *assist our Members* in understanding and planning for their retirement, and 3) *preserve the Retirement Fund* for the benefit of current and future Members. This mission serves as our North Star – guiding our decisions and actions every day.

To that end, we are pleased to report that your Fund ended the **2014 fiscal year** with **assets of \$1,045,435,000 and an 18.5% (net) return on investments, significantly exceeding our annual return target of 8% (see our long-term performance on page 2).**

As a result of our investment return, Fund assets increased \$112.3 million, even after paying \$105.7 million in benefits to members. As well, we have meaningfully improved our funded status. This, combined with the passage of critically important pension legislation in the last session, represents significant progress in maintaining the health of our Fund for both current and future retirees.

**SPTRFA Posts Strong Investment Results:
18.5% for FY '14**

As steward of the Fund's assets, we must remain vigilant to preserve the assets of the Fund, meet our long-term investment objectives, hold down costs, and ensure that we remain focused on matching our assets and liabilities.

We are also on a mission to provide you with relevant educational information regarding your retirement benefits as well as general information concerning financial literacy and retirement planning matters. We will regularly incorporate educational postings on our website, Twitter feeds, and newsletters. Please take a moment to check us out.

In addition to our normal content, this newsletter includes the first installment of our "Recommended Financial Reading." We've also included important information regarding the differences between a defined benefit and a defined contribution retirement plan.

Inside there is also important information concerning the many ways you can contact us or stay up to date with SPTRFA retirement information. We look forward to hearing from you.

It's an honor to serve the teachers of St. Paul.

Serving the retirement needs of St. Paul Teachers since 1909

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Remembering Franklin Delano Jondal, St. Paul Teacher and SPTRFA Board Member 1933 – 2014

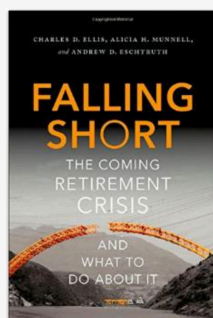
Veteran St. Paul teacher and former SPTRFA Board member, Frank Jondal, passed away on September 30. Among many things, he will be remembered for his unwavering commitment to education and teachers' retirement security as well as his wonderful sense of humor.

Frank was an active St. Paul teaching professional for 33 years, and served as Chair of the Math Department at Johnson High School.

He was also a member of the SPTRFA Board of Trustees for 18 years.

It was a privilege to have served with him.

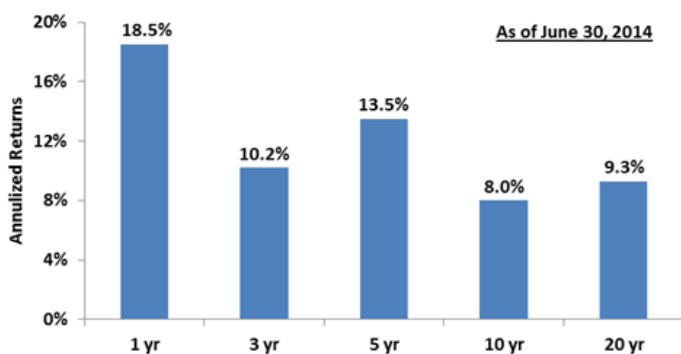
Recommended Financial Reading List



Charles Ellis, Alice Munell, and Andre Eschtruth take a hard look at America's looming Retirement Crisis and

provide recommendations for a path forward. *Falling Short* provides an excellent history of retirement policy in the United States as well as a much-needed discussion regarding the shortfalls of the defined contribution plan approach to retirement savings.

SPTRFA Annualized Returns - Net of Fees



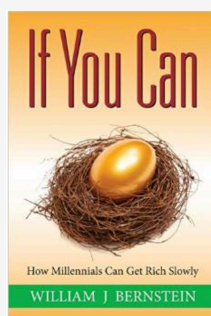
Portfolio Update

Volatility returned to the markets during the second half of the year, with particularly large spikes in August and October, as investors reacted to weakness in Europe and China, instability in the Middle East, and the end of the Fed's bond purchasing program. The departure of legendary bond investor Bill Gross from PIMCO and uncertainty over the timing of U.S. interest rate increases gave investors additional reasons for concern.

Turmoil alternated periodically with optimism as U.S. markets experienced new all-time new highs in October and November, when investors turned to our markets as a relative safe haven amongst global instability. Notably, the \$1.1 trillion Japanese Government Investment Pension Fund doubled its target allocation to foreign stocks (with the U.S. a significant beneficiary), U.S. unemployment rates showed improvement, U.S. corporations generally continued to demonstrate strength, and consumers started to benefit from plummeting oil prices.

With this as a backdrop, SPTRFA's portfolio returned 6.7% (est. net) for the calendar year to date and .65% (est. net) for FY '15 year to date.

Like many others in the investment community, we expect to see a positive investment environment in 2015, but one marked by continued volatility, as global macro news will likely continue to drive investor behavior. In the face of this, we continue to focus on the benefits of a diversified portfolio with a tilt toward the relative stability of U.S. markets.



Renowned financial writer, William Bernstein, provides a no-nonsense primer on investing and saving for retirement. A concise guide intended to help investors avoid the "the Five Horsemen of Personal Finance Apocalypse: failure to save, ignorance of financial theory, unawareness of financial history, dysfunctional psychology, and the rapacity of the investment industry."

Available for free at the author's website: www.efficientfrontier.com

An Overview of New GASB RULES for Public Pension Plans

New accounting rule changes for reporting public pension costs from the Governmental Accounting Standards Board (GASB) will be implemented in 2014-15. These GASB changes will require that school districts and other local governments, such as cities and counties, show their share of pension costs on their balance sheets. Previously, the costs and financial status of public pension plans were reported only in the pension plans' annual reports and in regular reports to the Legislature. Under prior rules, school districts and local governments only reported their annual contributions to the pension systems.

There is concern that these new accounting rules will cause confusion and raise false alarm regarding the financial well-being of public pension plans and school districts as the new GASB numbers can create a distorted picture of the systems' long-term financial soundness.

Importantly, the underlying economics and health of the plans are not affected - these liabilities have always existed and are not new. Furthermore, the new rules do not change what school districts and local governments owe in annual contributions to the retirement systems. And, the new disclosures should have no impact on budgeting practices.

SPTRFA Data FYE Overview

Summary as of June 30, 2014

	Total Members	Basic Members	Coordinated Members
Active Members	3,959	7	3952
Retiree Members	3,157	1,697	1,460
Vested-terminated	1,829	16	1,813
Non-vested	1,161	6	1,155
Disabled	33	5	28
Survivor/Beneficiaries	339	283	56
Total:	10,442	2,014	8,464

	SPTRFA Contributions		Benefit Amounts Paid FYE
Employee	\$ 16,564,000	Retiree	\$ 94,935,305
Employer	24,532,000	Disability	665,416
State Aid	10,665,000	Survivor	10,141,860
Total:	\$ 51,761,000	Total:	\$ 105,742,581

A summary of the 2014 financial and actuarial information and SPTRFA Annual Report in its entirety will be made available to view, print, or download online at, <http://www.sptrfa.org>; printed copies by request only.

Defined Benefit v. Defined Contribution Plans

Your defined benefit plan (DB plan) is a professionally managed retirement plan that provides for a **guaranteed lifetime income** at the time of retirement.

A defined contribution plan (DC plan) shifts the investment responsibility entirely to **you**, with benefits available at retirement **limited solely to the amounts contributed during working years and any investment returns** earned on those contributions. Unlike a DB plan, there is **no guarantee** that you will have enough retirement income to last your lifetime.

In order to fund a benefit similar to the average SPTRFA retiree's benefit payment, you would need over **\$500,000 in a 401(k) or 403(b)** account at the time of your retirement.

And yet, at retirement, the median 401(k) plan participant has only \$110,000 saved for their retirement. *Falling Short*

And,

-DB plans can deliver the same retirement income at approx. 43% of the cost of a DC plan. *National Institute for Retirement Security*

-DB plans are professionally managed – their returns tend to outpace individuals investors by 1-1.7% annually. *Towers Watson and Morningstar*

- DC plan participants typically fail to contribute adequate amounts, rebalance their portfolios, and properly diversify their assets. *Falling Short*

1099-R Forms to be Mailed in January

1099-R tax forms will be mailed to retired members in late January. This form discloses the total amount and taxable portion of your annuity payments as well as federal and state income tax withheld for the 2014 calendar year. You will need this information for your 2014 income tax returns.

If you have moved or plan on moving, please be sure to update your mailing information with SPTRFA. The post office will not forward tax forms; the form will be returned to us. Update your address online at www.sptrfa.org by completing a [Change of Address Form](#), email us at info@sptrfa.org or call 651-642-2550.

2015 Cost of Living (COLA) Adjustments

A post-retirement increase of 1 percent will go into effect on January 1, 2015 for SPTRFA benefit recipients in pension payment status during the entire 2014 calendar year. Members who retired between January 1 and October 1, 2014 will receive a prorated increase. If you are eligible for a post-retirement increase on January 1, it will be identified in our Letter to Retirees in December, which will detail the increase to your monthly benefit and provide pertinent tax withholding information. State and federal tax tables are available on our website under Forms and Publications.

Member Benefit Facts – FYE 2014

- New retirements totaled 169 members
- 76 retirees and survivors passed away

Averages for Coordinated Plan Members:

Monthly benefit: \$1,720

Retirement age: 62

Years of service credit: 16.25

Important Dates

- Member Statements: mailed end of Dec 2014
- 1099-Rs: mailed no later than Jan. 31, 2015
- COLA Adjustment: 1% - Jan. 1, 2015
- Annual Meeting of the Members: Jan. 15, 2015

Benefit Payment Dates

January 2
February 2
March 2
April 1
May 1
June 1
July 1
August 3
September 1
October 1
November 2
December 1

Annual Meeting of the Members

SPTRFA's annual meeting is scheduled for Thursday, January 15, 2015 at 4:00 p.m. Location: Auditoriums A&B at St. Paul Public School District HQ, 360 Colborne Street, St. Paul, MN.

The agenda includes the election of Trustees, reports on membership, revenues and expenditures, investments, and Board of Trustee committees.

Professional Services

The Association is audited annually by the *Office of the State Auditor*.

Additionally, professional services are provided to the Association by: Gabriel, Roeder Smith & Co. (actuarial services); Oppenheimer, Wolff & Donnelly, LLP (legal services); and Asset Consulting Group (investment performance services).

Stay in Touch with US

www.sptrfa.org



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