

FINANCIAL SECTION

Saint Paul Teachers' Retirement Fund Association

Management's Discussion and Analysis

The following Management Discussion and Analysis provides an overview of the financial performance and actuarial status of the St. Paul Teachers' Retirement Fund Association (hereinafter SPTRFA, Plan, System, or Fund) for fiscal year ended June 30, 2025. It is intended to assist the reader in understanding the Plan's financial statements and financial activities during the year. The financial report can be found in full in Appendix A.

Overview

SPTRFA is a nonprofit organization formed in 1909, incorporated under Minnesota Statutes chapter 317A. Under the oversight of a ten-member Board of Trustees, SPTRFA staff manages two tax-qualified, defined benefit pension programs, a Basic Plan and a Coordinated Plan. The plans cover licensed personnel, the majority of whom are employed by Independent School District No. 625 (SPPS), the central administrative body for public schools within the City of St. Paul.

Basic Plan members do not participate in Social Security through their employment with SPPS. The Coordinated Plan, which commenced in 1978, provides retirement benefits for members who simultaneously participate in Social Security. While there are annuitants receiving benefits under the Basic Plan provisions, there are no Basic Plan members remaining in active status.

Under State law, annual payroll contributions to the Fund are a direct operating obligation of the school district and members. While SPTRFA provides an employment-based benefit, the terms are not collectively negotiated, are not administered through SPPS, and SPTRFA is not a component unit of SPPS. Historically, the Fund's assets and liabilities were not included in the SPPS financial statements. However, Governmental Accounting Standards Board (GASB) statements now require SPPS to reflect their portion of the Fund's net pension liabilities beginning with their 2015 financial statements. Notwithstanding this reporting requirement, SPPS remains liable only for its statutorily mandated contributions and not the Fund's net pension liabilities.

The financial section of this report consists of four parts: (1) the Independent Auditor's Report; (2) the Management's Discussion and Analysis (this section); (3) the Basic Financial Statements, which include the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, and their accompanying notes; and (4) the Required Supplementary Information, which consists of various schedules and accompanying notes.

Financial Section Overview

1. Independent Auditor's Report

The Independent Auditor's Report is an official opinion issued by the Office of the State Auditor (OSA) regarding the accuracy of SPTRFA's financial statements. It serves as a primary communication tool between the OSA and users of SPTRFA's financial statements, providing assurance to stakeholders about the reliability of the financial information presented.

2. Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) offers an objective and reader-friendly analysis of the Plan's financial activities, comparing the current and prior years. The report includes an overview of the financial statements, a financial summary, a detailed analysis of the financial

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activities, and identifies any known facts, decisions, or conditions that may significantly impact the plan, primarily through a summary of the actuarial and market valuation.

3. Basic Financial Statements

- a) The Statement of Fiduciary Net Position presents information about assets and liabilities, the difference of which is the net position restricted for pensions. The level of net position reflects the resources available to pay member benefits when due. Over time, increases and decreases in this metric assist in measuring SPTRFA's financial condition.
- b) The Statement of Changes in Fiduciary Net Position presents the results of Fund operations during the year and the additions or deductions from plan net position. It provides more detail to support the net change that has occurred to the prior year's net position value on the Statement of Fiduciary Net Position.
- c) The Notes to the Financial Statements provide additional information essential to gain a full understanding of SPTRFA's accounting policies, benefit plans, deposits and investments, securities lending, contributions, risk management, funded status/progress, and finally, a narrative description of the actuarial measurement process.

4. Required Supplementary Information

- a) The Required Supplementary Information schedules provide historical financial data to allow for a comparison of key data over time. These schedules contain results for the most recent ten fiscal years:
 - Schedule of Changes in Net Pension Liability and Related Ratios
 - Schedule of Employer and Non-Employer Contributions
 - Schedule of Investment Returns
- b) The Notes to the Required Supplementary Information provide actuarial assumptions and changes to significant plan provisions and actuarial methods/assumptions.

Other Pension Information Section Overview

The Other Pension Information Section follows the financial section. The Other Pension Information section consists of additional schedules and accompanying notes as prescribed by GASB Statement 67. These additional schedules are comprised of additional financial data such as net pension liability, deferred outflows and inflows of resources, and pension income or expenses for each contributing entity. Participating employer units are required to report this information in their financial statements.

Financial Summary

Statement of Net Position

The Statement of Net Position provides a snapshot of the financial position of the Plan at the end of fiscal year. The statement details the Plan's total assets, total liabilities, and resulting net position, the difference between total assets and total liabilities as of the last day of the fiscal year, June 30.

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The following table, Condensed Statement of Fiduciary Net Position, provides condensed information from the basic financial statements. The figure compares the asset, liability, and net position amounts from the current year to the previous year. The table shows the amount and percentage each category increased or decreased from the previous year.

Condensed Statement of Fiduciary Net Position				
As of June 30, 2025, and 2024				
(Dollars in thousands)				
	2025	2024	Change	Percentage Change
Assets				
Cash	\$ 5,808	13,085	(7,277)	(55.6%)
Receivables	15,347	16,792	(1,445)	(8.6%)
Investments at fair value	1,451,130	1,329,353	121,777	9.2%
Securities lending collateral	957	673	284	42.2%
Total Assets	1,473,242	1,359,903	113,339	8.3%
Liabilities				
Accounts payable	848	728	120	16.5%
Security purchases payable	37,501	23,465	14,036	59.8%
Securities lending collateral	957	673	284	42.2%
Total Liabilities	39,306	24,866	14,440	58.1%
Net Position Restricted for Pensions	\$ 1,433,936	1,335,037	98,899	7.4%

Total assets are generally comprised of cash, receivables, investments at fair value, and securities lending collateral. Total assets at the end of fiscal year 2025 were \$1,473.2 million, an increase of \$113.3 million or 8.3 percent. Total liabilities include accounts payable, security purchases payable, and securities lending collateral. Total liabilities at the end of fiscal year 2025 were \$39.3 million, an increase of \$14.4 million or 58.1 percent.

The security lending collateral represents cash on deposit to cover the value of securities loaned to brokerage firms for which they pay a fee to the Fund's custodian. These firms are obligated to return such securities at a future point in time. The Fund and custodian share the lending proceeds. This strategy, commonly employed by institutions, provides the Fund with a source of additional income to offset the Plan's annual cost of custodial bank services. The collateral is shown as both an asset and a liability.

The net position restricted for pensions (net position) is the difference between the total assets and total liabilities. The net position measures the amount of funds that are available, to pay current and future pension benefits, which is the only obligation these funds can be used to meet. The net position increased from \$1,335.0 million as of June 30, 2024, to \$1,433.9 million as of June 30, 2025. This was an increase \$98.9 million, or 7.4 percent.

Statement of Changes in Net Position

The Statement of Changes in Net Position provides a summary of the changes in the net position for the Plan over the course of the fiscal year. The statement highlights how the net position has been affected by various additions and deductions to the financial position of the agency.

The following table, Condensed Statement of Changes in Fiduciary Net Position, summarizes the additions and deductions to net position. The table reflects a fiscal year 2025 increase in the Plan's net position of \$98.9 million, or a 7.4 percent increase, in the Net Position from the previous year.

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Condensed Statement of Changes in Fiduciary Net Position

For Fiscal Year Ended June 30, 2025, and 2024

(Dollars in thousands)

		2025	2024	Change	Percentage Change
Additions					
Employer and Employee Contributions	\$	67,577	67,645	(68)	(0.1%)
State of Minnesota Aid		17,203	31,412	(14,209)	(45.2%)
Net Investment Activity		141,807	147,279	(5,472)	(3.7%)
Net Security Lending Income		45	64	(19)	(29.7%)
Total Additions		226,632	246,400	(19,768)	(8.0%)
Deductions					
Benefits and Refunds		126,715	127,305	(590)	(0.5%)
Administrative Expenses		1,018	811	207	25.5%
Total Deductions		127,733	128,116	(383)	(0.3%)
Net Increase (Decrease) in Net Position Restricted for Pensions	\$	98,899	118,284	(19,385)	(16.4%)
Net Position Restricted for Pensions- Beginning of Year	\$	1,335,037	1,216,752	118,284	9.7%
Net Position Restricted for Pensions- End of Year	\$	1,433,936	1,335,037	98,899	7.4%

Additions to the plan are received from two primary sources, contributions and investment income. Deductions from the plan are due to benefit payments and refunds as well as administrative expenses. If Plan additions are more than deductions, there is an increase to the Net Position. If Plan deductions are more than additions, there will be a decrease to the Net Position.

Contributions into the Plan include total employer and employee contributions of \$67.6 million. Total employer and employee contributions decreased by \$68 thousand, or 0.1 percent. In addition to ongoing amortization aid of \$14.8 million, the State of Minnesota made a one-time supplemental contribution of \$17.2 million, which was \$13.3 million, or 89.6 percent, less than the one-time contribution received in the previous fiscal year.

Investment activity, which fluctuates based on market returns, experienced net gains of \$141.8 million. This was \$5.5 million, or 3.7 percent, less than was earned the previous year. This return did exceed the assumed rate of return of 7.0 percent. Investment returns provide a meaningful source of benefit funding over the long term but may be volatile from year to year.

Deductions primarily include annuity benefit payments. To a lesser extent, refund payments to members who terminated their employment with SPPS and elect to receive a refund of their contributions, with statutory interest. These payments together totaled \$126.7 million. Total benefit and refund payments decreased from \$127.3 million in fiscal year 2024 to \$126.7 million, or a 0.5 percent decrease.

Administrative expenses are the cost to administer the Plan. Administrative expenses consist of employee salary and benefits, professional services, and other expenses necessary to operate the Plan. These expenses increased by \$0.2 million or 25.5 percent.

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The net increase in net position restricted for pensions increased by \$98.9 million. This increase improved the net position of the Plan from \$1,335.0 million on June 30, 2024, to an ending net position on June 30, 2025, of \$1,433.9 million.

Detailed Analysis of the Basic Financial Statements

SPTRFA's financial condition is affected by four primary components: contributions, investments income, benefit payments, and administrative expenses. The formula $C + I = B + E$ is commonly used in pension fund accounting and actuarial calculations to describe this relationship, with the variables defined as:

C: Contributions – The money paid into the pension fund by employers, employees, and the State.

I: Investment Income – The returns generated from investing the pension fund's assets.

B: Benefit Payments – The payments made to retirees or beneficiaries from the pension fund.

E: Expenses – The administrative and operational costs of managing the pension fund.

Contributions and investment income are shown on the Changes in Fiduciary Position statement as additions. Benefit payments and expenses are shown as deductions. If there are more additions each year, there will be a Net Increase in the Net Position Restricted for Pensions and assets will be greater than the prior year. More deductions than additions result in a Net Decrease in the Net Position Restricted for Pensions and assets will be less than the prior year.

Contributions

Contributions that are received from employers and employees are a function of both the applicable statutory contribution rates in effect and the total amount of covered payroll subject to those rates. Consistent and adequate employer and employee contributions are critically important to the long-term health of the Plan. Pension rates are set by the Minnesota legislature. Additional information on contributions can be found in the Basic Financial Statements Note 4 – Contribution Requirements.

For fiscal year 2025, the coordinated plan contribution rates for members increased by 0.25 percent while the employer contribution rate remained unchanged. Union contracts conveyed a 4 percent increase in the 2024-25 school year for active teachers. The result was an increase in licensed teacher earnings of about \$3 million. The reduction in contribution rates and increased earnings resulted in a net reduction in employee and employer contributions of approximately \$68 thousand.

In addition to employer and employee contributions, the Plan has benefited from continued supplemental funding from the State of Minnesota that is intended to address, in part, historic underfunding of employer contributions. Minnesota Statutes 354A.12 provide for annual contributions in the amount of \$14.8 million until either the Plan is 100 percent funded or June 30, 2048, whichever occurs earlier. Minnesota Statutes 423A.02 provides for an annual supplemental contribution in the amount of \$838 thousand until either the Plan is 100 percent funded or June 30, 2048, whichever occurs earlier. Minnesota 2024 Session Laws also provided for an additional one-time state aid payment of \$1.5 million to be paid in October 2024, that was made to offset the decrease in employee contribution rates. This one-time contribution was less than a \$15.7 million one-time contribution authorized by Minnesota 2023 Session Laws resulting in a net reduction in total State aid received during the year of \$14.2 million.

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Although the current trend for SPTRFA contributions is positive, the adequacy of contributions as a source of funding is critically important and must be monitored closely. Changes in demographics or other factors that may result in a reduction in the number of active members contributing would have a negative impact on the financial stability of the Plan. At the same time, an increase in the number of contributing teachers or higher contribution rates would have a positive impact on the Plan.

Investment Income

Investment income is a historically significant contributor to the Plan's overall funding. A defined benefit plan accumulates assets in advance of benefit obligations, covering those obligations primarily through contributions and prudent investment growth. The level of supportable benefits and long-term financial health of the Fund depend on the efficient and prudent investment of contributions from members, employers, and certain funds received from the State.

Investment returns are dependent on market conditions and, therefore, are variable from year to year. In fiscal year 2025, SPTRFA's investment portfolio returned approximately 10.5 percent (net of fees). The plan assumes that long-term investment returns will be 7.0 percent. The portfolio's investment performance impacts the Fund's overall funded ratio in any given year – returns more than 7.0 percent contribute to an improvement in the plan's funding ratio, while returns below 7.0 percent contribute to a decline in the plan's funding ratio.

Cyclical, economic, market-driven, and tactical risks associated with investing plan assets in the capital markets are inherent. SPTRFA is a conservative, long-term investor, seeking attractive risk-adjusted returns over a full market cycle, with an emphasis on appropriate diversification and long-term capital preservation. The following chart reflects the Fund's current asset allocation model.

Asset Class	Target Allocation
Domestic Equity	30%
Fixed Income	30%
International Equity	20%
Real Assets	10%
Private Equity & Alternatives	10%
TOTAL	100%

Beginning in fiscal year 2023, the Plan's statutory investment return target was moved to 7.0 percent. Investment returns will vary over time and return targets may or may not be achieved in any given year, particularly in periods of market turmoil. Investment returns, both negative and positive, typically vary from the statutory investment return assumption each year. Maintaining a focus on the long-term is critical, as this is the relevant time frame in which pension systems operate for the benefit of their members. As such, the Plan's 3-year, 5-year, and 10-year rate of returns are indicators in the ability of the Plan to pay future benefits. Total portfolio returns (net of fees) for the 3-year, 5-year, and 10-year periods were 10.80 percent, 10.34 percent, and 8.05 percent respectively.

Loaned securities generate gross revenue as interest paid by the security borrower. The Plan holds collateral from the borrower while the security is on loan and incurs an interest cost payable to the

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borrower. The Changes in Fiduciary Net Position shows the net difference between the interest earned from the borrower and interest paid on the collateral, which resulted in securities lending income of \$45 thousand. As a risk control measure, the SPTRFA Board of Trustees affirmatively limits the amount of the Fund's securities that can be on loan at any given time to no more than 35 percent of Fund assets.

For additional information on investment activity, please refer to Basic Financial Statements Note 3.

Benefit Payments

Plan deductions primarily include annuity benefit payments, which make up 99.0 percent of all benefit payments. Total expenditures for annuity benefits (not including refunds) decreased from \$126.2 million to \$125.5 million during fiscal year 2025, or 0.6 percent.

The net decrease in annuity benefit payments was from three primary sources. First, the one-time post-retirement increase for annuitants paid on January 1, 2024, was not renewed for the current year. The one-time payment had resulted in an additional \$2.7 million payment for fiscal year 2024. Second, annuitants were granted a 1.0 percent post-retirement annual increase beginning January 2025. Finally, total participants receiving benefits under the Fund, including disabled retirees, beneficiaries, and alternate payees, increased 0.7 percent during fiscal year 2025 from 4,378 to 4,411.

For additional information on benefit provisions, please refer to Basic Financial Statements Note 1.

Administrative Expenses

Administrative expenses refer to the costs incurred that are not directly related to benefit payments. These expenses are necessary for the overall administration and smooth operation of the Plan. Common examples include professional services, salaries and benefits of administrative staff, and other expenses necessary to operate the Plan.

Administrative expenses are significantly less than benefit payments, making up 0.8 percent of all deductions. Administrative expenses increased by \$207 thousand, or 25.5 percent, over the previous year. Most of the increase was due to the increase in employee compensation paid during the year. Compensation costs increased as the result of one additional full-time staff bringing the total staff to 7 full-time employees. The remaining increase was the result of the purchase of new accounting software package to replace the older system that was no longer supported.

Other Known Facts, Decisions, or Conditions

Actuarial and Market Valuation Summary

The actuarial valuation results (which attempts to mitigate the impact of market volatility by smoothing results over five years) provide an important element in understanding the long-term health of the Plan. The table below provides metrics commonly used to assess the ability of the Fund to meet its obligations. A table reflecting results on a market value basis, which does not reflect any actuarial smoothing of results, is provided for comparative purposes as well.

The actuarial funded ratio of the Plan compares the actuarial value of assets (smoothed over a rolling five-year period) against the actuarially accrued liability. The actuarial funded ratio increased from

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67.2 percent as of June 30, 2024, to 69.7 percent as of June 30, 2025. The Plan's funded ratio on a market value basis, which does not involve any smoothing factor, increased from 69.1 percent as of June 30, 2024, to 72.2 percent as of June 30, 2025. Currently, the funded status of the Plan is expected to be 100 percent or greater within its statutory amortization period ending June 30, 2048.

Below are summary comparative statistics from July 1, 2025, and July 1, 2024, valuations

Summary of Actuarial Valuation Results	2025	2024
Covered payroll	\$ 321,336,000	\$ 319,667,000
Statutory contributions (ch. 354A)	26.98%	25.67%
Required (ch. 356)	22.48%	23.52%
Sufficiency/Deficiency	4.50%	2.15%
Market value of assets	\$ 1,433,936,000	\$ 1,335,037,000
Actuarial value of assets	\$ 1,384,185,000	\$ 1,299,643,000
Actuarial accrued liability	\$ 1,986,406,000	\$ 1,933,107,000
Unfunded liability	\$ 602,201,000	\$ 633,464,000
Funded ratio	69.68%	67.24%

Summary of Market Value Results	2025	2024
Covered payroll	\$ 321,336,000	\$ 319,667,000
Statutory contributions (ch. 354A)	26.98%	25.67%
Required (ch. 356)	21.12%	22.78%
Sufficiency/Deficiency	5.86%	2.89%
Market value of assets	\$ 1,433,936,000	\$ 1,335,037,000
Actuarial value of assets	\$ 1,384,185,000	\$ 1,299,643,000
Actuarial accrued liability	\$ 1,986,406,000	\$ 1,933,107,000
Unfunded liability	\$ 552,470,000	\$ 598,070,000
Funded ratio	72.19%	69.06%

An experience analysis provides a comparison of actual experience to projected experience based on the actuarial assumptions over the past year. Overall, the Fund had an experience gain of \$32.6 million.

The Fund had an experience gain due to investments. The investment return on a market value of assets basis was 10.5 percent (net of fees) for the year ended June 30, 2025, more than the 7.0 percent assumption. However, only one-fifth of this asset gain was recognized in the actuarial value of assets, due to smoothing. Investment gains and losses from previous years were also recognized this year. The net result is a gain of \$37.9 million on the actuarial value of assets. The investment return on an actuarial value of assets basis was 10.0 percent for the year ended June 30, 2025.

The actuarial accrued liability increased more than expected. Salaries increased more than expected for continuing actives, resulting in an actuarial loss of \$11.5 million. Other demographic experience produced an additional gain of \$10.5 million, and retirement experience produced an actuarial loss of \$4.3 million.

For additional information on the actuarial valuation, please refer to the actuarial section of the annual financial report.

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Statement of Fiduciary Net Position

As of June 30, 2025

Assets		
Cash	\$	5,808,008
Receivables		
Accounts Receivable		1,758,687
Investment Activity Receivables		13,588,197
Total Receivables		15,346,884
Investments At Fair Value		
Cash And Cash Equivalents		108,261,951
Domestic Equity		
Domestic Equity		161,350,890
Preferred Equity		152,222
Commingled		227,830,419
Mutual Fund		10,965,440
Fixed Income		
Us Govt Issues		115,421,399
Foreign Issues		12,786,050
Corporate Issues		92,161,698
Municipal Issues		1,980,902
Commingled		75,132,757
Mutual Fund		101,219,475
Global Equity		
Foreign		20,441,485
Commingled		188,866,343
Mutual Fund		93,835,925
Real Assets		73,073,182
Alternatives		167,650,268
Total Investments At Fair Value		1,451,130,406
Securities Lending Collateral		956,410
Total Assets		1,473,241,708
Liabilities		
Accounts Payable		375,149
Investment Fees Payable		472,688
Security Purchases Payable		37,501,057
Securities Lending Collateral		956,410
Total Liabilities		39,305,304
Net Position Restricted for Pensions	\$	1,433,936,404

The accompanying notes are an integral part of the financial statements. The audited financial statements can be found in appendix A.

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Statement of Change in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2025

<u>Additions</u>	
Contributions	
Employer	\$ 42,980,183
Members	24,596,788
State of Minnesota	17,202,607
Total Contributions	84,779,578
Investment Income	
From Investing Activity	
Net Appreciation (Depreciation) in Fair Value of Investments	127,558,986
Interest	11,851,445
Dividends	8,236,300
Less Investment Expense	(2,839,395)
Total Investing Activity Income (Loss)	141,807,336
From Securities Lending Activity	
Securities Lending Income	1,806,300
Borrower Rebates	(1,742,904)
Management Fee	(18,622)
Total Securities Lending Activity Income	44,774
Net Investment Income (Loss)	141,852,110
Total Additions	226,631,688
<u>Deductions</u>	
Benefits and Refunds	
Retirement	112,056,405
Survivor	12,911,964
Disability	507,540
Refunds	1,239,031
Total Benefits and Refunds	126,714,940
Administrative Expenses	
Staff Compensation	610,075
Professional Services	269,600
Other Administration	138,045
Total Administrative Expenses	1,017,720
Total Deductions	127,732,660
Net Increase (Decrease) in Net Position	98,899,028
Net Position Restricted for Pensions- Beginning of Year	1,335,037,376
Net Position Restricted for Pensions- End of Year	\$ 1,433,936,404

The accompanying notes are an integral part of the financial statements. The audited financial statements can be found in appendix A.

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