Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

Teachers Retirement Association of Minnesota

A Pension Trust Fund of the State of Minnesota

Retirement Systems of Minnesota
60 Empire Drive
Suite 400
Saint Paul, MN 55103-4000
651.296.2409
800.657.3669
TTY 800.627.3529
www.tra.state.mn.us

Laurie Fiori Hacking
Executive Director

Report Prepared by the Administrative Division

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers Retirement Association, Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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Presented to

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Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
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Alan H. Winkle

Alan H. Winkle
Program Administrator

Letter of Transmittal

Laurie Fiori Hacking
Executive Director

Teachers Retirement Association
60 Empire Drive • Suite 400 • St Paul MN 55103-4000
651.296.2409 • 800.657.3669 • 651.297.5999 FAX • 800.627.3529 TTY

December 31, 2006

Members of the Board of Trustees
Teachers Retirement Association
60 Empire Drive, Suite 400
Saint Paul, MN 55103

Dear Trustee:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Teachers Retirement Association (TRA) for the fiscal year ended June 30, 2006, our 75th year of service. This report includes the following six sections:

- *Introduction* with the Letter of Transmittal, organizational chart, and recognition awards earned for 2005;
- *Financial* contains the Independent Auditor's Report, Management's Discussion and Analysis, the financial statements of the TRA and Required Supplementary Information;
- *Investments* highlights our asset management and investment performance and provides various investment schedules;
- *Actuarial* contains the certification and results of the actuarial valuation performed by The Segal Group as of July 1, 2006;
- *Statistical* provides both current and historical financial and membership data, and
- *Plan Statement* with membership information and plan provisions for TRA members.

A system of internal controls is in place to help monitor and safeguard assets, ensure transactions are carried out in accordance with Minnesota statutes, and promote efficient operations. The Minnesota Office of the Legislative Auditor annually conducts a financial and legal compliance audit of the Association. Management believes that the accompanying statements, schedules, and tables are fairly presented. We are solely responsible for the content of this report, including its financial statements, which should be helpful in understanding information about TRA and comparing our operating results with those of other teacher retirement systems.

Readers are encouraged to refer to the Management Discussion and Analysis on pages 14-17 for an overview of additions to and deductions from the TRA Fund and additional financial reporting detail for the fiscal year.

TRA Profile

Although the TRA Board of Trustees has a broad scope of authority in the operations and management of TRA, the pension fund is also governed by federal laws and state statutes. For financial reporting purposes, TRA is considered a pension trust fund of the State of Minnesota, and TRA financial results are incorporated into the Comprehensive Annual Financial Report of the State of Minnesota.

As of June 30, 2006, TRA had 573 reporting employer units, 79,164 active members and a total of 44,683 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits. TRA follows the provisions of statements promulgated by the Governmental Accounting Standards Board (GASB) including GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. TRA's Comprehensive Annual Financial Report also complies with Minnesota Statutes, Section 356.20. Transactions are reported on the accrual basis of accounting. Contributions from employers and members are recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is made.

We contract for actuarial services from the firm Buck Consultants of Chicago, Illinois. However, the annual actuarial valuation of the pension fund is prepared by The Segal Company, the actuary jointly retained by the six largest Minnesota public pension plans to prepare actuarial reports for all the statewide retirement plans for legislative review. The Minnesota Office of the Attorney General provides legal counsel to our Board of Trustees. All financial transactions, including the disbursements from the pension fund, are processed through the centralized controls of the Minnesota Accounting and Procurement System, under the supervision of the state departments of Finance and Administration.

TRA's Economic Condition

All TRA assets are invested under the authority and direction of the State Board of Investment (SBI). TRA invested assets have two main components: the Active Fund (assets of TRA active and inactive members) and the assets for TRA retirees and benefits recipients invested into the Minnesota Post Retirement Investment Fund (MPRIF). The MPRIF (Post Fund) consists of the assets of not only TRA benefit recipients, but also the benefit recipients of the other two major statewide public pension associations: the Minnesota State Retirement System and the Public Employees Retirement Association. The SBI has developed strategic asset allocation and other investment policies to represent the long-term funding needs of our members and benefit recipients. The SBI, along with its Investment Advisory Council (IAC), continually reviews its policies to ensure sufficient assets are available to finance promised benefits. The executive directors of the three statewide retirement systems are members of the IAC and represent their members in advising the SBI on investment-related matters.

Investment Results

Capital markets were mixed during fiscal year 2006. The U.S. stock market increased 9.6 percent, as measured by the Russell 3000. Strong corporate profits, and favorable GDP growth outweighed concerns about tensions in the Middle East, continued rate hikes by the Federal Reserve, and oil price increases.

International stock markets displayed continued strength for the third year in a row. The Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States (ACWI Ex U.S.), which represents the developed and emerging international markets outside the U.S., returned 27.9 percent for the fiscal year.

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, declined 0.8 percent during the fiscal year. The Federal Reserve raised interest rates eight times over the course of the fiscal year. Relatively strong economic growth over the past year, coupled with increasing inflation expectations resulted in continued increases of the interest rates.

Within this investment environment, the retirement assets under the SBI's control produced the following results:

- The Basic Retirement Funds (including the TRA Active Fund) for active members increased 12.6 percent during fiscal year 2006. Over the latest ten-year period, the fund has experienced an annualized return of 8.8 percent.
- The Minnesota Post Retirement Investment Fund (Post Fund) for retired members increased 12.0 percent for fiscal year 2006. Overall, the Post Fund provided a ten year annualized return of 8.3 percent.
- The lifetime post-retirement benefit increase will be 2.50 percent for eligible retirees on January 1, 2007. The increase represents the maximum inflation component payable in the Post Fund's annual adjustment formula. The federal Consumer Price Index for inflation (CPI-W) for fiscal year 2006 was 4.47 percent. For the fifth straight year, no investment-based component will be paid. As of June 30, 2006, the liabilities of the Post Fund exceed its assets, leaving a deficit of an estimated $4.1 billion. The deficit of the Post Fund must be fully recovered before any future investment-based adjustment is given. Benefit recipients should expect inflation-only annual benefit adjustments, capped at 2.5 percent, until the deficit is recovered.

Economic Conditions and Outlook

Payroll employment in Minnesota grew rapidly in the last quarter of the fiscal year ended June 30, 2006. However, this surge in hiring was not sufficient to bring job growth in the state up to the U.S. average for the entire fiscal year. Payroll employment in the state grew at a 1.4 percent annual rate in fiscal year 2006, 0.1 percent less than the national average. Minnesota added just over 66,000 jobs in fiscal year 2006, 33,000 of those jobs was added in the last quarter of the fiscal year. Only 21,000 jobs were added statewide in all of fiscal year 2005. Minnesota's unemployment rate remained below the U.S. average throughout the fiscal year, averaging 4.0 percent, 0.8 percent less than the U.S. average rate of 4.8 percent. The strong employment growth in the last quarter of the fiscal year was also evident in the unemployment statistics. By June 2006, Minnesota's unemployment rate had fallen to 3.6 percent. The U.S. rate for June 2006 was 4.6 percent.

Minnesota's personal income growth during fiscal year 2006 also failed to keep pace with the U.S. averages. Personal income grew by 5.3 percent between the second quarter of 2005 and the second quarter of 2006. The U.S. average growth rate was 7.2 percent. In fiscal year 2005, Minnesota personal income grew by 3.8 percent, again well below the U.S. average growth rate of 5.4 percent. In calendar year 2005, per capita personal income in Minnesota was $37,322, 8.2 percent more than the U.S. average. Minnesota ranked ninth among all states in personal income per capita.

Weakness in the housing and auto sectors is expected to cause real GDP growth to slow during fiscal year 2007. Global Insight's November baseline called for growth at a 2.6 percent annual rate. In fiscal year 2006, real GDP grew at an annual rate of 3.4 percent. The Minnesota outlook for fiscal year 2007 reflects that national slowdown. Employment growth in Minnesota is expected to be slightly weaker than the U.S. average, growing by 0.9 percent compared to the projected 1.1 percent national growth, and 0.5 percent less than in fiscal year 2005. The forecast calls for only 26,000 jobs to be added to Minnesota payrolls by the end of the fiscal year. Employment in the construction sector is a particular concern. The slump in home building is expected to cut employment in both construction and the lumber and wood products industries. The largest increases in employment come from the hospitality, professional business services, and health and education sectors. Minnesota's agricultural sector is experiencing another strong year and farm incomes for the 2006 crop year should provide a modest boost to state personal income in fiscal year 2007.

Major Initiatives

The number of new retirements increased slightly during fiscal year 2006 to about 2,300 as the beginning of the "Baby Boom" generation born between 1946 and 1964 began to retire. During fiscal year 2006, TRA completed the final phase of the five-year Functional Redesign of Strategic Technologies (FROST) Project. Key functionality implemented during the year included member on-line account access, revised member annual statements, 1099-R tax reporting, and improved actuarial member and retiree data. The online functionality provides the ability for members to generate benefit estimates using actual salary and service credit data as posted on their account. We believe the new system provides the technical infrastructure to process the growing number of retirements projected to occur over the next 15 years. Still we recognize that technology is only one component to our success in advising members with retirement decisions. One common refrain we hear from recently retired teachers is how important the individual and group pre-retirement counseling sessions were to them in understanding the complex and uncertain aspects of one of the most important decisions of their life. With the increasing number of members approaching retirement, one of our challenges will be to maintain the high standard of personal services already provided.

Legislation

The 2006 Minnesota Legislature passed major public pension legislation affecting TRA. The legislation included the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA on June 30, 2006. With the merger, the benefit promises to nearly 14,000 MTRFA retired, active and inactive members were secured from the prospects of a looming default. The legislature transferred the MTRFA assets, liabilities and members to TRA and provided TRA with additional contributions and direct aid payments over a 30-year period to amortize the liabilities assumed.

The legislature also provided a benefit increase to most TRA members in the form of an improved formula multiplier (increasing from 1.7 percent to 1.9 percent) for years of service provided after June 30, 2006. The benefit improvement will help improve the level of Minnesota's initial benefit structure as compared to similarly situated states. It will also help Minnesota school districts employers in recruiting and retaining talented teachers in furthering the goals of the state's educational system.

The MTRFA merger and other legislation had a significant financial and actuarial effect on TRA as compared to last year's report. Further details about these changes can be read in the Management Analysis and Discussion beginning on page 14, the Notes to the Financial Statement on page 21, and the comments of the actuary on page 60.

Awards and Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers Retirement Association for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. This was the eighth consecutive year that the Association has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

For the first time, TRA was awarded the Public Pension Coordinating Council's 2006 Public Pension Principles Achievement Award. This award is presented biannually and recognizes the achievement of high professional standards in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

The preparation of this report is possible only through the combined efforts of our employees, employer units, and professional consultants. It is intended to provide a complete and reliable portrayal of the financial status of the pension fund as a basis for making management decision and determining responsible stewardship over the assets held in trust for the members of the Association. A copy is mailed to each public school administrator in the state and posted on the TRA web site. Our sincere appreciation is extended to all who assisted in and contributed towards the completion of this publication.

Respectfully submitted,

Laurie Fiori Hacking

Laurie Fiori Hacking
Executive Director

John Wicklund

John Wicklund
Assistant Executive Director
Administration

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As of December 1, 2006

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Elected Member
St. Cloud, MN

Vice President

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Elected Member
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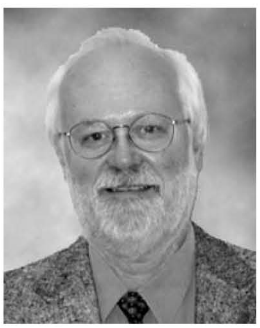

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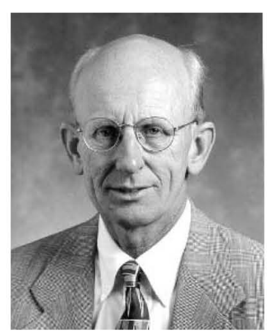
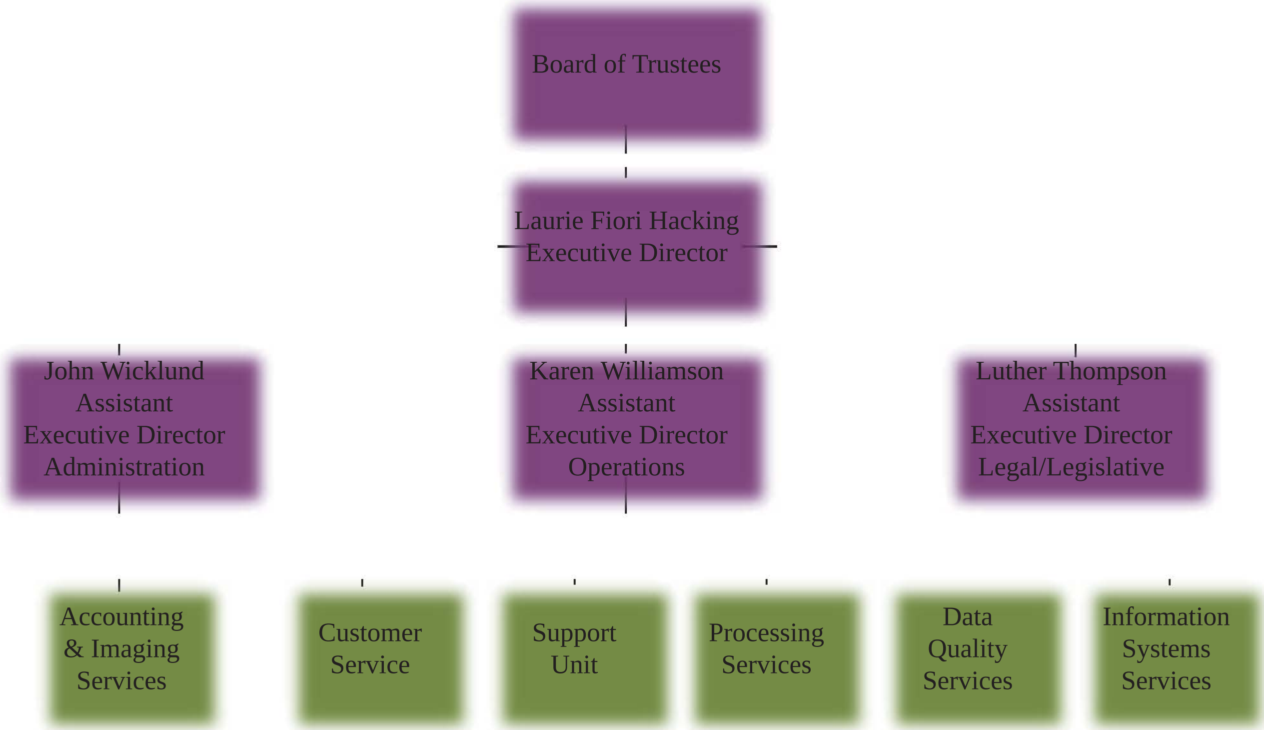


Luther Thompson
Assistant Director
Legal and
Legislative Services

Administrative Organization

As of December 2006



Consulting Services

Actuary

Buck Consulting
Chicago, Illinois

The Segal Company
Englewood, Colorado

Auditor

Office of the Legislative Auditor
Saint Paul, Minnesota

Investment

Minnesota State Board of Investment
Saint Paul, Minnesota

Legal Counsel

Office of the Attorney General
Saint Paul, Minnesota

Medical Advisor

Minnesota Department of Health
Minneapolis, Minnesota

Mission Statement

TRA provides retirement, disability and death benefits to Minnesota college faculty, administrators, public school teachers, retirees, their families and beneficiaries.

Our mission is to enhance the quality of life for Minnesota teachers and their beneficiaries and to assist them in planning for an independent and financially secure retirement.

To this end we are committed to offering quality customer services by providing retirement counseling, maintaining member data, administering funds, communicating accurate information and delivering benefits.

Our Values

Accuracy	Ensure that all information received, maintained and provided is clear and accurate.
Quality	Make high-quality services accessible to our customers.
Timeliness	Provide timely receipt and dissemination of information.
Efficiency	Make efficient use of technological and human resources in a team environment
Employee Excellence	Provide ongoing employee development that encourages cooperation and mutual respect, focuses on common goals and recognizes superior performance.

Teachers Retirement Association of Minnesota

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Auditor's Report

OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report

Members of the Board of Trustees
Teachers Retirement Association of Minnesota, and
Ms. Laurie Hacking, Executive Director
Teachers Retirement Association of Minnesota

We have audited the accompanying basic financial statements of the Teachers Retirement Association of Minnesota (TRA) as of and for the year ended June 30, 2006, as listed in the Table of Contents. These financial statements are the responsibility of TRA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRA as of June 30, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes I.E and I.F to the financial statements, legislation was passed on May 26, 2006, terminating and consolidating the Minneapolis Teachers Retirement Association into TRA at June 30, 2006. Consistent with generally accepted accounting principles, the beginning plan net assets of TRA at July 1, 2005, were restated to include the beginning plan net assets of the Minneapolis Teachers Retirement Association, and the activities of the Minneapolis Teachers Retirement Association for the fiscal year ended June 30, 2006, were incorporated into TRA's activities for the year to reflect the consolidation.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 20, 2006, on our consideration of TRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

Room 140 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Members of the Board of Trustees
Ms. Laurie Hacking, Executive Director
Teachers Retirement Association of Minnesota
Page 2

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents are not required parts of the basic financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the Schedule of Contributions From the Employer and Other Contributing Entities, and the Schedule of Funding Progress on page 34 are not in conformity with accounting principles generally accepted in the United States because the actuarial asset valuation method for the postretirement portion of the plans' investments is not market related, as required by the Governmental Accounting Standards Board. We believe the "actuarial required contribution rate" in the Schedule of Contributions From the Employer and Other Contributing Entities is understated and the "actuarial value of plan assets" and the "funded ratio" in the Schedule of Funding Progress are overstated. Since the valuations were performed using actuarial assumptions prescribed in state statute, the amounts of the overstatements and understatements cannot be determined until actuarial valuations are recomputed using a market related asset valuation method for the postretirement portion of the plans' investments.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise TRA's basic financial statements. The Supporting Schedules in the Financial Section and the Introduction, Investments, Actuarial, and Statistical Sections, and the Plan Statement, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supporting Schedules in the Financial Section, the Introduction, Investments, Actuarial, and Statistical Sections, and the Plan Statement have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

December 20, 2006

Management Discussion and Analysis

June 30, 2006

This discussion and analysis of the Teachers Retirement Association (TRA) of Minnesota provides an overview of TRA financial activities for the fiscal year ended June 30, 2006. We encourage you to consider the information presented here in conjunction with the transmittal letter beginning on page 4 and the additional information presented in the financial statements and required supplementary information.

Financial Highlights

- The 2006 Minnesota Legislature (Minnesota Laws (2006) Chapter 277, Article 3, Section 9), merged the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA effective June 30, 2006. For financial statement purposes, the MTRFA assets and related fiscal year 2006 income and expense activity were combined with TRA on the accompanying financial statements. The fiscal year 2006 beginning balance of TRA's Net Assets Held in Trust increased by $745 million reflecting the beginning balance of the MTRFA on July 1, 2005 thereby creating a restated beginning balance of $16.67 billion. (See Note F on page 22).
- The Net Assets Held in Trust for Pension Benefits increased in value by about $1.09 billion during fiscal year 2006 for a total of about $17.76 billion. TRA generated revenues of about $2.34 billion during the fiscal year. Plan benefits and other expenses totaled about $1.25 billion during the fiscal year.
- TRA assets are accounted for with two legally separate retirement funds. The TRA Active Fund consists of monies held in trust for TRA active, inactive and members in deferral status. Retirees of TRA participate in the Minnesota Post Retirement Investment Fund (MPRIF) administered by the Minnesota State Board of Investment (SBI.) The fair value of the TRA Active Fund at June 30, 2006, was about $ 7.41 billion. TRA's fair value of assets in MPRIF was $10.35 billion, for a combined total of approximately $17.76 billion.
- Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund for the 2006 fiscal year were 12.6 percent and 12.0 percent, respectively generating net investment income of about $1.952 billion. This total includes $1.893 billion from TRA and $0.059 billion from MTRFA.
- Contributions paid by members and employers during fiscal year 2006 totaled about $356.1 million. The total is composed of $326.8 million for TRA and $29.3 million from MTRFA. The fiscal year 2005 combined total was $350.9 million, representing an increase of $5.2 million or 1.5 percent.
- Pension benefits paid to retirees and beneficiaries during fiscal year 2006 was $1.22 billion. The total consisted of about $1.1 billion from TRA and $0.12 billion from MTRFA. The fiscal year 2005 combined total was $1.17 billion, producing a total increase of about $52 million during the year or an increase of about 4.5 percent.
- Refunds of member contributions plus interest during fiscal year 2006 were $11.9 million. The total is composed of $10.8 million from TRA and $1.1 million from MTRFA. The fiscal year 2005 combined total was $7.8 million, representing an increase of $4.1 million or 52 percent.
- Administrative expenses of TRA during fiscal year 2006 were $11.91 million. The total was composed of $10.19 million from TRA and $1.72 million from MTRFA. The fiscal year 2005 combined total was $11.60 million. The increase was about $0.31 million, or 2.7 percent.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of TRA. The financial report consists of:

- the basic financial statements, comprised of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets;
- the notes to the basic financial statements; and
- required and other supplementary information.

The Statement of Plan Net Assets (page 18) presents information on the assets and liabilities of TRA, with the difference between the two reported as net assets. The Statement of Plan Net Assets reflects the inclusion of the assets and liabilities of the former MTRFA as of June 30, 2006. The net assets of TRA reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the TRA's financial position is improving or deteriorating.

The Statement of Changes in Plan Net Assets (page 19) presents information detailing the changes in net assets that occurred during the current fiscal year. For fiscal year 2006, the amounts presented also incorporate the income and expense activity of MTRFA prior to its abolishment on June 30, 2006. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a school district, even though not yet paid by fiscal year end, will be reflected as revenue. Earned benefits or refunds accruals will be reflected as an expense, even though they may not have been paid to the member until after fiscal year end.

The notes to the financial statements (pages 20-33) provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes also contain pertinent information about the nature of the merger of the Minneapolis Teachers Retirement Fund Association into TRA as of June 30, 2006.

The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedule of Funding Progress (page 34) includes historical trend information about the TRA plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due. The Schedule of Contributions From the Employer and Other Contributing Entities (page 34) presents historical trend information about the annual required contributions of employers and the actual contributions made by employers. Notes to the Required Supplemental Schedules may be found on page 35.

Other supporting schedules are also presented. The Schedule of TRA Administrative Expenses (page 38) presents the overall cost of administering the Association. The Schedule of Changes in Plan Net Assets, is presented by reserve accounts on pages 36-37. The Schedule of Professional Consultant Expenses (page 40) further details this category of administrative expense. The Schedule of Investment Management Expenses (page 39) provides summary information of professional investment money management expenses, includes TRA's share of the investment management fees of the Minnesota Post Retirement Investment Fund (MPRIF). These expenses are shown as a reduction of investment income on the Statement of Changes in Plan Net Assets.

Financial Analysis of the TRA Fund

Plan Assets

Total plan assets of the TRA Fund as of June 30, 2006, were $19.8 billion and were mostly comprised of cash, investments and contributions due from employers. Total plan assets increased $1.1 billion (5.9 percent) from the June 30, 2005, total of $18.7 billion. The primary reasons for the increase were strong investment performance during fiscal year 2006 and increased fair value of participation in the Minnesota Post Retirement Investment Fund (MPRIF) relating to the approximately 4,000 former MTRFA benefit recipients transferred to MPRIF on June 30, 2006.

Plan Liabilities

Total liabilities as of June 30, 2006, were $2.06 billion, an increase of 2.1 percent from the June 30, 2005 liability amount of $2.01 billion. The primary reason for the increase was a higher value of liabilities within the securities lending program. In both years, the liability amounts were mostly comprised of obligations under security lending arrangements and long-term bonds payable for the building co-owned by the Association.

Net Assets

Association assets exceeded liabilities on June 30, 2006, by $17.76 billion. The amount is higher than the June 30, 2005, amount of $16.67 billion by $1.09 billion or 6.5 percent. Strong investment performance and the addition of increased assets in TRA's share of MPRIF are the primary reasons for the increase. As a mature public pension plan, TRA relies heavily on investment earnings to help pay benefits and expenses since annual employee and employer contributions are currently less than one-third of the amount needed to fund current cash outflows. As result of its annual deductions, the TRA Fund requires strong investment performance each year in order to experience an increase in its level of net assets.

Revenues: Additions to Plan Net Assets

Total additions to the TRA Fund during fiscal year 2006 were $ 2.34 billion, a 16.5 percent increase from the $2.01 billion in fiscal year 2005. Most of the increase is due to higher investment income in 2006 as compared to fiscal year 2005. A primary reason for the increase in net investment income were higher investment returns

Plan Net Assets

Dollar Amounts in Thousands

	2006	2005	Change
Cash and Investments	$ 19,791,097	$ 18,580,564	$ 1,210,533
Receivables	18,821	95,678	(76,857)
Other	11,470	11,638	(168)
Total Assets	19,821,388	18,687,880	1,133,508
Total Liabilities	2,056,861	2,014,061	42,800
Plan Net Assets	$ 17,764,527	$ 16,673,819	$ 1,090,708

Changes in Plan Net Assets

Dollar Amounts in Thousands

	2006	2005	Change
Additions			
Member Contributions	$ 177,085	$ 174,803	$ 2,282
Employer Contributions	179,021	176,049	2,972
Net Investment Income	1,951,778	1,629,197	322,581
Other	32,677	27,487	5,190
Total Additions	$ 2,340,561	$ 2,007,536	$ 333,025
Deductions			
Monthly Benefits	$ 1,224,212	$ 1,171,538	$ 52,674
Refunds of Contributions	11,872	7,846	4,026
Administrative Expenses	11,913	11,604	309
Other	1,856	1,622	234
Total Deductions	$ 1,249,853	$ 1,192,610	$ 57,243
Change in Plan Net Assets	$ 1,090,708	$ 814,926	$ 275,782

in fiscal year 2006 compared to fiscal year 2005 and recognition of assets into MPRIF for the MTRFA benefit recipients transferred on June 30, 2006.

Total employee and employer contributions for fiscal year 2006 increased about $5.2 million from the previous fiscal year for a combined fiscal year 2006 total of about $356.1 million.

A positive net investment return of $ 1.95 billion was achieved for fiscal year 2006. This amount increased by $0.32 billion from fiscal year 2005 when a net investment gain of $1.63 billion occurred. Investment returns for the TRA Active Fund and the Minnesota Post Retirement Investment Fund were 12.6 percent and 12.0 percent, respectively, for fiscal year 2006. During fiscal year 2005, the comparable investment returns were 11.0 percent (Active Fund) and 10.5 percent (Post Fund).

Expenses - Deductions From Plan Net Assets

The primary expenses of TRA include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the system. Benefits expenses have increased from $1.17 billion to $1.22 billion, or about $52.7 million (4.5 percent). The increase is due to several factors including new retirements and a cost-of-living adjustment of 2.50 percent on January 1, 2006 for most TRA benefit recipients and a 2.0 percent increase for former MTRFA benefit recipients prior to the effective date of the merger. Member refunds of $11.9 million increased by about $ 4.1 million during fiscal year 2006 from the fiscal year 2005 total of $7.8 million. Administrative expenses increased by 2.7 percent during the fiscal year - from $11.6 million in fiscal year 2005 to about $11.9 million for fiscal year 2006. Overall, fund expenses for fiscal year 2006 increased $57.2 million from fiscal year 2005.

Actuarial Highlights

The financial health of a public pension plan is not exclusively assessed by analyzing the Basic financial statements. These financial statements should also be reviewed in conjunction with the Schedule of Funding Progress and the Schedule of Contributions From the Employer and Other Contributing Entities (page 34) to determine if TRA is becoming stronger or weaker over time.

TRA's funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding is structured so that the burden of paying retirement costs is shared equitably by present and future generations of members and taxpayers. As of June 30, 2006, the accrued liability funding ratio for TRA was 92.05 percent, a decrease from the comparable funding ratio of 98.51 percent as of June 30, 2005. The funded ratio decrease for fiscal year 2006 resulted primarily due to the assumption of MTRFA unfunded liabilities.

TRA's unfunded liability on June 30, 2005 was $0.268 billion. The June 30, 2006 unfunded liability increased to $1.643 billion, an increase of $1.375 billion. To fund the greater liabilities assumed, a combination of contribution rate changes and direct state and local aids were authorized by the Minnesota legislature. The unfunded liability, by state law, must be extinguished by June 30, 2037.

Post Retirement Fund

When members retire, an amount equal to the present value of expected future benefits is transferred from the TRA Active Fund to the Minnesota Post Retirement Investment Fund (MPRIF or Post Fund) to pay those benefits. The Post Fund is composed of retiree assets from TRA, along with the assets for benefit recipients from the Minnesota State Retirement System (MSRS) and the Public Employee Retirement Association (PERA). Due to large post retirement benefit increases granted to benefit recipients during the 1990's and early 2000's, coupled with the subsequent severe downturn in the investment markets during 2001-2003, the Post Fund is now about 84 percent funded with total assets of about $22.0 billion and liabilities of about $26.0 billion. TRA's share of the $4.0 billion deficit is about $2.02 billion. Since contributions from active members can not be used to supplement the Post Fund deficit, TRA must rely on investment returns in the Post Fund greater than the investment earnings assumption of 8.5 percent over an extended period of time in order to recover the existing deficit. TRA management believes the deficit will require many years to recover. If investment markets do not meet the assumed investment earnings assumption, the funding deficit in the Post Fund will become worse.

The Standards for Actuarial Work approved by the Legislative Commission on Pensions and Retirement (LCPR) as required by Minnesota Statute Section 3.85, subdivision 10 require our actuary to calculate the actuarial value of assets of the Post Fund (see pages 63 and 65) assuming the Post Fund is fully funded. The funding ratios found throughout this Comprehensive Annual Financial Report are calculated in accordance with this statute and standards. If TRA would consider its share of the Post Fund deficit when determining funding ratios, the current 92.05 percent funded ratio would decline to about 85.91 percent.

Summary

Due to the long-term nature of defined benefit plans, one must review the financial performance of TRA over a period of years and not an isolated point in time. Although the funding ratio of the TRA Fund decreased from 98.5 percent to 92.0 percent for the fiscal year, the primary reason for the decline was the merger of MTRFA into TRA authorized by the 2006 Minnesota Legislature. The increased actuarial accrued liability (from $0.268 billion to $1.643 billion) will be closely monitored. The 2006 Legislature provided additional revenue sources of employee, employer, and direct funding aids designed to amortize the unfunded liability of the Association over a 30-year period. We have concerns with the MPRIF funding deficit that we plan to address with the legislature this next session. The Board of Trustees will strive to improve the financial position of the Association through the State Board of Investment's prudent investment program and long-term strategic planning for Association operations.

Request for Information

The financial report is designed to provide the Board of Trustees, members and other users of the financial report with a general overview of the Association's finances and to demonstrate its accountability with the money it holds in trust. If you have any questions about this report, the merger of MTRFA into TRA, or require additional financial or actuarial information, please contact the Teachers Retirement Association, 60 Empire Drive, Suite 400, Saint Paul, Minnesota 55103.

Teachers Retirement Fund
Statement of Plan Net Assets
As of June 30, 2006

Assets		
Cash and short-term investments		
Cash	$	5,818,941
Building Account Cash		39,074
Short-term investments		77,372,580
Total Cash and Short-term Investments	$	83,230,595
Receivables		
Employer Contributions	$	14,578,966
Due from the Post Fund		3,921,019
Investment Income		314,004
Bond Interest		6,038
Prepaid Expenses		636
Total Receivables	$	18,820,663
Investments (at fair value)		
Equity in the Post Fund	$	10,350,059,985
Fixed Income Pool		1,679,142,236
Minneapolis Pool		4,117,786
Alternative Investments Pool		842,143,569
Indexed Equity Pool		1,162,967,309
Domestic Equity Pool		2,460,056,098
Global Equity Pool		1,172,999,774
Total Investments	$	17,671,486,757
Securities Lending Collateral	$	2,036,380,670
Building		
Land	$	171,166
Building and Equipment		11,820,116
Reserve for Building Depreciation		(1,476,539)
Deferred Bond Charge		145,857
Reserve for Deferred Bond Charge Amortization		(25,148)
Total Building	$	10,635,452
Capital Assets Net of Accumulated Depreciation	$	834,195
Total Assets	$	19,821,388,332
Liabilities		
Current		
Accounts Payable	$	9,061,238
Accrued Compensated Absences		640,362
Accrued Expenses - Building		46,824
Bonds Payable		220,000
Bonds Interest Payable		51,297
Securities Lending Collateral		2,036,380,670
Total Current Liabilities	$	2,046,400,391
Long Term		
Retainage Payable		31,500
Bonds Payable		10,430,000
Total Liabilities	$	2,056,861,891
Net Assets Held in Trust for Pension Benefits	$	17,764,526,441

(A Schedule of Funding Progress for the plan is presented on page 34.)
The accompanying notes are an integral part of this statement.

Teachers Retirement Fund
Statement of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 2006

Additions		
Contributions		
Employee	$	177,084,906
Employer		179,021,626
Earnings Limitation Savings Account (ELSA)		3,182,223
Total Contributions	$	359,288,755
Investment Income		
Net Appreciation in Fair Value of Investments	$	1,295,522,501
Interest		64,801,952
Dividends		613,115,552
Less Investment Expenses		(27,792,381)
Net Investment Income	$	1,945,647,624
From Securities Lending Activities		
Securities Lending Income	$	90,396,590
Securities Lending Expenses:		
Borrower Rebates		(82,386,514)
Management Fees		(1,879,334)
Total Securities Lending Expenses		(84,265,848)
Net Income from Securities Lending		6,130,742
Total Net Investment Income	$	1,951,778,366
Other Income	$	29,494,099
Total Additions	$	2,340,561,220
Deductions		
Retirement Benefits Paid	$	1,221,029,801
Earnings Limitation Savings Account (ELSA)		3,182,223
Refunds of Contributions to Members		11,872,504
Administrative Expenses		11,912,701
Interest Paid to the Post Fund		1,856,275
Total Deductions	$	1,249,853,504
Net Increase (decrease)	$	1,090,707,716
Net Assets Held in Trust for Pension Benefits		
Beginning of Year (restated)	$	16,673,818,725
End of Year	$	17,764,526,441

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2006

I. Summary of Significant Accounting Policies

A. Organization

The Teachers Retirement Association (TRA) is an administrator of a multi-employer, cost-sharing retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (coordinated with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. Assets of the fund may be used to pay benefits to both Basic and Coordinated members without legal restriction.

B. Participating Members and Employers

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members.

State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within 90 days of first employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU. A teacher employed by MnSCU and electing coverage by DCR is not a member of TRA except for purposes of Social Security coverage.

A schedule of employer units and membership is presented in *Figure 1*.

C. Benefit Provisions

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon the death of eligible members. All benefits vest after three years of eligible service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60 months of allowable service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan. Coordinated members are covered by Social Security while Basic members are not. All new TRA members must participate in the Coordinated Plan.

Two methods, or tiers, are used to compute benefits for Coordinated and Basic members who were first hired prior to July 1, 1989. Under Tier I, the annuity accrual rate for Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year prior to

Figure 1

Employer Units

June 30, 2006

Independent school districts	348
Joint powers units	37
Colleges and universities	39
State agencies	6
Charter schools	142
Professional organizations	1
Total Employer Units	573

Membership

June 30, 2006

Retirees, disabilitants and beneficiaries receiving benefits	44,683
Terminated employees with deferred vested benefits	11,773
Total	56,456
Current employees	
Vested	61,741
Non-vested	17,423
Total	79,164

TRA

July 1, 2006. Under Tier II, the annuity accrual rate for Coordinated members is 1.7 percent of average salary for each year of service prior to July 1, 2006. All members first hired beginning July 1, 1989 and after are Coordinated members and only eligible for Tier II benefits.

Beginning July 1, 2006, improved formula multipliers for Coordinated members are applicable for years of service provided after June 30, 2006. The formula multiplier increase is 0.2 percent per year (1.7 percent to 1.9 percent) for post-June 30, 2006 years of service.

Former Minneapolis Teachers Retirement Fund Association (MTRFA) members with Basic Program eligibility retain the plan provisions of the Basic Program as defined in the MTRFA Articles of Incorporation and Bylaws as they existed at merger. Approximately 200 former MTRFA active members retain Basic Program coverage.

A full annuity is available when age plus years of service equals at least 90 for members whose annuity is calculated under Tier I. For members first hired after June 30, 1989, full retirement annuity benefits are only available upon reaching their normal Social Security retirement age, not to exceed 66 years of age. A reduced retirement annuity is also available to vested members retiring at age 55 or later.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated members who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service. Pension benefits are funded from member and employer contributions and income from investment of fund assets.

D. Reporting Entity

TRA functions as a statutory entity created by the Laws of 1931, Chapter 406. The Association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, TRA is considered a pension trust fund of the state of Minnesota and is included in the State's Comprehensive Annual Financial Report with its fiduciary funds.

The State of Minnesota acts as a fiduciary and trustee of TRA's funds. The Board of Trustees has significant independence in the operations and management of the Association, though the State Legislature actually determines the contribution rates for members and employers. The Board of Trustees is responsible for TRA's administration, but the State Board of Investment (SBI) is responsible for investing plan assets.

E. Merger with the Minneapolis Teachers Retirement Fund Association (MTRFA)

The Laws of Minnesota (2006) Chapter 277, Article 3, Section 9 established Minnesota Statute Section 354.70 authorizing and defining the merger of the Minneapolis Teachers Retirement Association Fund (MTRFA) into TRA. The MTRFA (the Fund) was a single-employer defined benefit plan administered by the MTRFA (the Association) and covered eligible employees of Minneapolis Special School District No. 1. The Association was originally incorporated under Minnesota Laws (1909) Chapter 343 and was governed by Minnesota Statutes Chapters 354A, 317A, and applicable sections of Minnesota Statutes Chapters 356 and 356A at the time of merger. The Association filed Articles of Dissolution with the Minnesota Secretary of State on June 30, 2006.

All assets and liabilities for the 13,783 active, inactive, and retired MTRFA members were transferred to TRA as of June 30, 2006. Prospectively, they are considered TRA members. TRA's actuarial consultant, the Segal Company, estimated the actuarial accrued liability (required reserves) of the former MTRFA benefit recipients at $1.427 billion. The Minnesota Legislature, in the merger authorization, specified the required reserves necessary to fund the future benefit payments for MTRFA retirees to be transferred to the Minnesota Post Retirement Investment Fund (MPRIF or Post Fund). Under the legislation, the required reserves necessary to be funded were to be calculated using the estimated June 30, 2006 funding ratio of the Post Fund, which was estimated at 81.5 percent. A portion of the required reserves remained unfunded so the MTRFA benefit recipients would have an equal share of the existing deficit in MPRIF. As with the existing unfunded liability in MPRIF, future investment gains in MPRIF above the assumed actuarial rate of return will amortize the unfunded deficit associated with the MTRFA benefit recipient transfer. The transfer of former MTRFA retirees into MPRIF is summarized below:

Actuarial Accrued Liability:	$ 1,427,000,000
Reserves Necessary for Transfer:	
Actual MTRFA Assets Available for Transfer	$ 712,586,000
Additional Transfer from the TRA Active Fund	$ 450,419,000
Unfunded Amount for Post Retirement Fund	$ 263,995,000
Total Required Reserves: Former MTRFA	$ 1,427,000,000

In accordance with Minnesota Statute 354.70, the required reserves and transfer amounts above will be adjusted to reflect actual liability and funded results. The adjustment will occur in February 2007 upon verification of the former MTRFA component of the final actuarial valuation results. The net investment income in the Statement of Changes in Plan Net Assets includes the assets transferred reflecting the merger of the MTRFA benefit recipients into MPRIF.

The available assets from MTRFA at merger were transferred to MPRIF. No MTRFA assets were available to cover the actuarial accrued liabilities assumed for MTRFA active and inactive members. The additional liability assumed from the MTRFA members is largely responsible for the large increase in TRA's unfunded actuarial accrued liability observed on page 59. The actuarial accrued liability is expected to be amortized over a 30-year period through increased employee, employer, and direct state and local aid contributions.

F. Basis of Accounting

TRA financial statements for its defined benefit fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the year in which they are due pursuant to Minnesota Statute. Expenses including benefit payments and refunds are recorded when the liability is due and payable according to Minnesota Statute.

TRA and the State of Minnesota implemented the following new accounting standard issues by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2006:

Statement No. 44: Economic Condition Reporting: The Statistical Section.

The guidance of the Accounting Principles Board (APB) Statement Number 16 was referenced for accounting and financial reporting in presenting the merger of MTRFA into this comprehensive annual financial report. For financial reporting purposes, the MTRFA merger has been treated as a pooling of interests. TRA's beginning balance on the Statement of Changes in Net Plan Assets on July 1, 2005 was restated to include the beginning balance of the Minneapolis Teachers Retirement Fund Association (MTRFA) as follows:

TRA Beginning Balance: July 1, 2005	$ 15,928,603,867
MTRFA Statement of Plan Net Assets July 1, 2005	745,214,858
Restated Beginning Plan Net Assets:	$ 16,673,818,725

On the Statement of Changes in Plan Net Assets, MTRFA income and expense categories during the fiscal year were combined with those of TRA. A supplemental statement of MTRFA income and expense activity is presented in *Figure 2* on page 23 to assist the reader in ascertaining the financial activity of MTRFA during the fiscal year prior to the final merger on June 30, 2006.

Figure 2

Schedule of Changes in Plan Net Assets
Combining Statement for TRA and MTRFA

For the Fiscal Year Ended June 30, 2006

Additions	TRA	MTRFA	TOTAL
Contributions			
Employee	$ 164,485,993	$ 12,598,913	$ 177,084,906
Employer	162,302,969	16,718,657	179,021,626
Earnings Limitation Savings Account (ELSA)	3,182,223	-	3,182,223
Total Contributions	$ 329,971,185	$ 29,317,570	$ 359,288,755
Investment Income			
Net Appreciation in Fair Value of Investments	$ 1,248,370,590	$ 47,151,911	$ 1,295,522,501
Interest	64,801,952	-	64,801,952
Dividends	600,025,425	13,090,127	613,115,552
Less Investment Expense	(26,204,990)	(1,587,391)	(27,792,381)
Net Investment Income	$ 1,886,992,977	$ 58,654,647	$ 1,945,647,624
From securities lending activities			
Securities lending income	$ 89,083,594	$ 1,312,996	$ 90,396,590
Securities lending expenses:			
Borrower rebates	(81,259,900)	(1,126,614)	(82,386,514)
Management fees	(1,814,117)	(65,217)	(1,879,334)
Total Securities Lending Expenses	(83,074,017)	(1,191,831)	(84,265,848)
Net income from Securities Lending	6,009,577	121,165	6,130,742
Total Net Investment Income	$ 1,893,002,554	$ 58,775,812	$ 1,951,778,366
Other Income	8,229,859	21,264,240	29,494,099
Total Additions	$ 2,231,203,598	$ 109,357,622	$ 2,340,561,220
Deductions			
Retirement Benefits Paid	$ 1,093,102,522	$ 127,927,279	$ 1,221,029,801
Earnings Limitation Savings Account (ELSA)	3,182,223	-	3,182,223
Refunds of Contributions to Members	10,822,975	1,049,529	11,872,504
Administrative Expenses	10,185,744	1,726,957	11,912,701
Interest Paid to the Post Fund	1,856,275	-	1,856,275
Total Deductions	$ 1,119,149,739	$ 130,703,765	$ 1,249,853,504
Net Increase (decrease)	$ 1,112,053,859	$ (21,346,143)	$ 1,090,707,716
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	$ 15,928,603,867	$ 745,214,858	$ 16,673,818,725
End of Year	$ 17,040,657,726	$ 723,868,715	$ 17,764,526,441

G. Investment Policies and Valuation Methodology

1. Pursuant to Minnesota Statutes, Chapter 11A, the state's retirement fund assets are commingled in various pooled investment accounts, administered by the State Board of Investment (SBI). As of June 30, 2006, the TRA Fund's share of the Active Member Funds administered by SBI at fair value was approximately 33.6 percent ($7.41 billion - TRA and $22.03 billion - total). The TRA share of the net assets of the Minnesota Post Retirement Investment Fund (Post Fund) at fair values totaled 47.3 percent ($10.35 billion - TRA and $21.90 billion - total). *Figure 3* on page 25 provides specific totals of TRA investments by category.

2. Minnesota Statutes, section 11A.24, broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short-term obligations of specified high quality; restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments.

3. Information about the primary government's (State of Minnesota) investments, including credit risk classification, can be obtained from the Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota 55155. Information on investment activity, investment management fees and a listing of specific investments owned by the pooled asset accounts can be obtained from SBI, Suite 355, 60 Empire Drive, Saint Paul, Minnesota 55103.

4. As described in Note E, the assets of the Minneapolis Teachers Retirement Fund Association (MTRFA) were merged into TRA as of June 30, 2006. During the fiscal year, the MTRFA Board of Trustees had investment responsibility for the MTRFA assets prior to the asset transfer date. At the transfer date, actual assets available for transfer from the MTRFA consisted of approximately $712.58 million.

   MTRFA investments were reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange were valued at the last reported sales price at current exchange rates.

   MTRFA investments were governed by state law and its own Articles of Incorporation. Permissible investments included, but were not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes.

   In December 2005, the MTRFA transferred the actively managed domestic equities into index funds. This raised the percentage of MTRFA assets invested in index funds to over 80 percent at December 31, 2005, from approximately 60 percent at June 30, 2005.

   Final enactment of the merger occurred on May 26, 2006. On May 31, 2006, the MTRFA notified its investment managers that the MTRFA would cease to exist on June 30, 2006. The investment managers were instructed to begin a liquidation process so that the assets would be in cash by June 16, 2006. The MTRFA transferred $712.58 million to TRA's participation in the Minnesota Post Retirement Investment Fund (MPRIF) on June 21, 2006, as described in Note E. The remaining assets, except as described in Note N, largely consisting of checking account balances of the MTRFA, were transferred to TRA on June 30, 2006.

5. Investments in the pooled accounts are reported at fair value. *Figure 3* on page 25 provides a summary of the cost and fair values of the investments

Figure 3

TRA Investment Portfolio
June 30, 2006

Basic (Active) Fund	**Cost**	**Fair**
Pooled Accounts		
Fixed Income	$ 1,781,009,388	$ 1,679,142,236
Domestic Equity	2,581,868,027	2,460,056,098
Indexed Equity	1,050,599,553	1,162,967,309
Global Equity	1,044,839,762	1,172,999,774
TRA Minneapolis Equity	4,117,786	4,117,786
Alternative Investments	722,459,816	842,143,569
Total	$ 7,184,894,332	$ 7,321,426,772
Short-Term Pooled Cash	77,372,580	77,372,580
Post Fund Account	12,371,205,127	10,350,059,985
Total Invested	$19,633,472,039	$17,748,859,337

as of June 30, 2006, as reported on the Statement of Plan Net Assets. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued using the last reported trade price. The fair value of real estate investments is based on independent yearly appraisals. Investments that do not have an established market are reported at estimated fair value.

The TRA Minneapolis Equity Account was created to account for the settlement of investment activity related to the external money managers of the former Minneapolis Teachers Retirement Fund Association (MTRFA). Upon completion of the post-merger investment settlement with the former MTRFA money managers, proceeds will be transferred to other pooled investments in accordance with SBI policies.

Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date.

Net Investment Income is summarized on the Statement of Changes in Net Plan Assets. The summarized amounts show a net investment income of $1,945,647,624 for fiscal year 2006. On page 26, *Figure 4* shows the various components of these composite amounts, including TRA's share of the Minnesota Post Retirement Investment Fund.

The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts (see page 39). TRA's share of these expenses totaled are:

TRA Active Fund	$ 13,112,860
MN Post Retirement Fund	14,679,521
Total	$ 27,792,381

A detailed schedule of fees and commissions by brokerage firm, along with the number of shares traded, total commissions, and commissions per share may be obtained by writing:

Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103-3555

H. Securities Lending

Governmental Accounting Standards Board (GASB) Statement 28 Disclosures

TRA does not own specific securities, but instead owns shares in pooled funds invested by SBI that is authorized to use securities lending transactions in accordance with Minnesota Statutes, section 356A.06, subdivision 7, and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company, Boston, Massachusetts, to act as agent in lending securities to broker-dealers and banks.

Figure 4

Net Investment Income

Investment Income	Fiscal Year 2006
Net Appreciation in Fair Value	$ 201,589,245
Net Gain on Sales of Investment Pools	217,166,770
Interest	64,801,952
Dividends	613,115,552
MN Post-Retirement Fund: Distributed Income	876,766,486
Less Investment Expenses	(27,792,381)
Net Investment Income	$ 1,945,647,624

During the fiscal year, State Street lent, at the direction of the SBI, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Under Minnesota Statutes, Section 11A.24, borrowers were required to deliver collateral for each loan in amounts at least equal to the market value of the loaned securities.

SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During fiscal year 2006, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a separate investment pool. As of June 30, 2006, such investment pool had an average duration of 50 days and an average weighted maturity of 463 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2006, SBI had no credit risk exposure to borrowers. TRA's portion of the cash collateral held and the fair value of securities on loan from SBI as of June 30, 2006, were $2,036,380,670 and $1,997,868,414 respectively. Cash collateral is reported on the Statement of Plan Net Assets as an asset. Liabilities resulting from these securities lending transactions are also reported on the Statement of Plan Net Assets.

I. Investment Risk

Government Accounting Standards Board (GASB) Statement 40 Disclosures

The Minnesota State Board of Investment (SBI) is responsible for the investing of TRA assets under the authority of Minnesota Statutes, Section 11A.24. The following disclosures apply to TRA investments. Cash deposit disclosures are included in Note N.

Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The State Board of Investment (SBI) has policies designed to minimize credit risk. They may invest funds in governmental obligations provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. They may invest funds in corporate obligations provided the issue is rated among the top four quality categories by a nationally recognized rating agency. They may also invest in unrated corporate obligations or in corporate obligations that are not rated among the top four quality categories provided that:

- The aggregate value of these obligations may not exceed 5 percent of the fund for which the state board is investing;
- Participation is limited to 50 percent of a single offering; and
- Participation is limited to 25 percent of an issuer's obligations.

SBI may also invest in bankers acceptances, deposit notes of U.S. banks, certificates of deposit, mortgage securities, and asset backed securities rated in the top four quality categories by a nationally recognized rating agency. Commercial paper must be rated in the top two categories.

TRA's share of the SBI's exposure to credit risk, based on S & P Quality Ratings, is as follows:

Quality Rating	Fair Value (in thousands)
BBB or Better	$5,023,316
BB or Lower	128,605
Not Rated	161,441

Interest rate risk is the risk that changes in interest rates of debt instruments could adversely affect the fair value of an investment. The State Board of Investment does not have a policy on interest rate risk. TRA's share of the debt securities are held in external investment pools and have the following weighted average maturities:

Security	Weighted Average Maturity (in Years)
External Cash Equivalent Pools	0.14
Cash Equivalents	0.84
U.S. Agencies	3.68
Corporate Debt	6.31
Municipal Bonds	7.27
U.S. Treasuries	7.55
Asset-Backed Securities	16.16
Mortgage-Backed Securities	24.75

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect the fair value of an investment. Government obligations, including guaranteed or insured issues of the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, must pay interest and principal in U.S. dollars. The principal and interest of obligations of corporations, including those corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof, must also be paid in U.S. dollars. TRA's share of investments as of June 30, 2006, were distributed among the following currencies as shown in *Figure 5* on page 28.

J. Accrued Compensated Absences

Employees of TRA accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in collective bargaining agreements. Accumulated amounts for compensated absences are accrued when incurred. Such leave is liquidated in cash primarily at the time of termination of employment. We estimate that $53,901 is considered a short-term liability. The total, $640,362 is shown as a liability on the Statement of Plan Net Assets. The total decreased by $35,711 during fiscal year 2006.

Figure 5

Assessment of Currency Risk
International Investment Securities at Fair Value

Currency	Cash	Debt	Equity
Australian Dollar			$ 38,110,743
Canadian Dollar			53,465,600
Euro			319,628,778
Hong Kong Dollar			32,091,052
Indian Rupee			9,037,075
Japanese Yen			222,861,021
New Taiwan Dollar			16,340,467
Norwegian Krone			10,599,407
Pound Sterling			213,135,948
Singapore Dollar			9,365,105
South African Rand			15,245,434
South Korean Won			21,197,723
Swedish Krona			20,059,689
Swiss Franc			70,384,855
Other	$ 13,556,650	$ 1,684,960	$ 37,949,127
Total	$ 13,556,650	$ 1,684,960	$ 1,089,472,024

K. Capital Assets

Capital assets are capitalized at the time of acquisition at cost. Assets with a cost in excess of $2,000 are capitalized. Depreciation is computed on a straight-line method over the useful life of the related assets. The estimated useful lives by major category are: computer equipment (3 years), general office equipment (5 years) and modular office furniture (10 years).

Capital assets are presented on the June 30, 2006, Statement of Plan Net Assets. The year-end balance plus changes during the year are:

	June 30 2006	June 30 2005	Change
Cost Value	$ 2,697,124	$ 3,400,912	$ (703,788)
Accumulated Depreciation	1,862,929	2,717,493	854,564
Net Capital Asset Value	834,195	$ 683,419	$ 150,776

L. Administrative Expenses and Budget

The annual budget of TRA operations is developed by TRA management and approved by the Board of Trustees. The budget is also sent to the Minnesota Department of Finance for policy analysis and is included in the Governor's Biennial Budget presentation to the legislature. The legislature adopts appropriation and expenditure limitations resulting in an approved budget for the Association.

TRA administrative costs are not financed through any specific type of contribution or other income of the Fund. Administrative costs are budgeted in the annual determination of the necessary rate for total employee and employer contributions (page 70, line B3).

M. Retainage

In accordance with Minnesota Statutes, TRA retains 10 percent of professional/technical billings from vendors until successful completion of the contractual obligations. As of June 30, 2006, TRA has a long-term liability of $31,500 established to represent contractual payments reasonably expected to be paid upon successful completion of the contract. The schedule on page 39 details the retainage held. On June 30, 2005, the long-term liability of retainage was $1,465,697. The fiscal year 2006 decrease was $1,434,197.

N. Cash

Cash on deposit consists of year-end receipts not processed as of the investment cutoff on June 30. TRA cash funds are held in the state treasury where they are commingled with other state funds. Minnesota Statutes, section 9.031, requires that deposits be secured by depository insurance and collateral shall be in amounts sufficient to ensure that deposits do not exceed 90 percent of the sum of the insured amount and the market value of the collateral. Throughout fiscal year 2006, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all TRA deposits.

As part of cash, TRA management has opted to include $1,532,178 of funds that on June 30, 2006 were contained in a liquidating trust established by the Board of Trustees of the Minneapolis Teachers Retirement Fund Association (MTRFA) prior to the merger. The trust provides for the payment of certain administrative expense items, which TRA contends have already been paid and reported as administrative expenses on the Statement of Changes in Plan Net Assets.

The State of Minnesota, on behalf of TRA, has initiated legal proceedings to revoke the trust and deliver its assets to TRA. TRA management believes that the proceeds of the trust will be released to TRA during 2007. Upon receipt of the trust proceeds, TRA will transfer the monies to the State Board of Investment on behalf of active TRA members.

O. Accounts Receivable

Amounts classified as accounts receivable consist primarily of member and employer contributions received after the fiscal year end on salaries earned prior to June 30, 2006. Under Minnesota Statutes, section 354.52, subdivision 4, TRA employers must remit contributions within 14 days after the member is paid.

If contributions are not remitted in a timely manner, interest at a rate of 8.5 percent, compounded annually, is assessed. If contributions are not received within 60 days of notification by TRA, the Commissioner of Finance is authorized to deduct the balance due TRA from state aids or appropriations due to that employer unit.

P. Improved Money Purchase (IMP)

Some TRA members first hired prior to July 1, 1969, are eligible for the Improved Money Purchase (IMP) savings clause of Minnesota Statutes, section 354.55, subdivision 17. Eligibility is limited to those teachers who did not formally elect a specific retirement provision by June 30, 1972. Under the savings clause, eligible members obtain the higher of two benefit provisions: 1) The Defined Benefit Provisions described in Note C, or 2) an IMP annuity based on their accumulated employee contributions plus compounded interest and an employer match of 120 percent.

Beginning with fiscal year 1999, many retiring members discovered that their IMP benefit was higher than the High-Five Average Formula benefit. This phenomenon occurred as strong annual investment returns during the 1990s generated high interest rates compounding on large employee contribution balances accumulated after long teaching careers. The effect becomes less pronounced in periods of low or negative investment performance.

TRA has identified those members who remain eligible for the IMP provision. For these members, the actuarial valuation presented estimates retirement benefit amounts under both the IMP provision and the High-Five average salary formula. The liability presented for that member is the higher of the two methods.

As of June 30, 2006, approximately 500 active members are eligible for the IMP provision. Assuming IMP eligibility remains limited to the existing, closed group of members, TRA management believes the actuarial impact of the remaining IMP-eligible members will not adversely harm the overall financial integrity of the fund.

Q. Earnings Limitation Savings Account (ELSA)

Teachers under age 65 who resume teaching service for a TRA-covered employer after retirement are subject to an annual earnings limitation based on the cost-of-living index used by Social Security. If a member earns more than the limitation, which changes each January 1, the annuity payable during the following calendar year will be offset one dollar for each two dollars earned in excess of the limitation. The calendar year 2005 limit was $12,000 and the calendar year 2006 limit was $12,480.

The 2000 Legislature modified the way in which the earning limits are handled. Previously, any pension benefits withheld due to excess earnings reverted back to the TRA Fund. Under the new law, the pension offset amounts are redirected to a separate savings account, called the Earnings Limitation Savings Account (ELSA), and later distributed to the retiree. At age 65 or one year after termination of teaching, whichever is later, the retiree receives a lump-sum payment of the total offset amount in their ELSA account. Six percent interest compounded annually accrues on ELSA accounts.

As of June 30, 2006, TRA had 1,158 retirees who had exceeded the earnings limitation since the program's inception and had an ELSA account established. The total dollar value of ELSA accounts totaled $13.42 million. The total dollar amount of pension benefits withheld due to excess earnings during fiscal year 2006 was $3.18 million. ELSA assets are invested in the TRA Active Fund until distribution. Distributions of ELSA accounts for 56 retirees occurred during fiscal year 2006 and totaled $576,802 and are included as a deduction in the Statement of Changes in Plan Net Assets as a component of Refund of Contributions to Members.

R. Participating Pension Plan

All 90 employees of the Teachers Retirement Association are covered by the defined benefit plan administered by TRA. All TRA employees participate in the Coordinated Plan. TRA employees are eligible for the plan provisions described in Note 1, C.

Minnesota Statutes Section 354.42 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. During fiscal year 2006, Coordinated members were required to contribute 5.0 percent of their annual covered salary. Employer contribution rates matched the rates paid by the member of 5.0 percent for Coordinated members. Total covered payroll salaries for all TRA employees during fiscal year 2006 was approximately $4.5 million. Total covered payroll salaries for the entire membership of TRA for fiscal year 2006 was approximately $3.43 billion.

Employer pension contributions for TRA employees for the years ending June 30, 2006, 2005 and 2004 were $231,074, $233,924 and $225,214, respectively, equal to the required contributions for each year as set by state statute.

S. Ownership of Office Building

The 1999 Legislature enacted authorization permitting TRA, the Public Employees Retirement Association (PERA), and the Minnesota State Retirement System (MSRS) to purchase land and construct a 130,000 square foot office building to house the administrative offices of these three state entities. Ownership of the facility is prorated based on the amount of square footage each retirement system occupies in the building. TRA's ownership share is 40 percent. The building is located on 4.3 acres of land at 60 Empire Drive in Saint Paul. The land was purchased in 1999 for $428,988, of which TRA's share is $171,166. TRA has occupied the 4th Floor of the building since September 2001.

In June 2000, the State of Minnesota, under the authority of the Commissioner of Finance, issued 30-year revenue bonds totaling $29 million to pay for the construction of the facility. Each owner (retirement system) is responsible for principal and interest payments based on its ownership percentage. These bonds are backed by the assets of the three retirement systems, excluding equity interest in the Minnesota Post-Retirement Investment Fund (MPRIF). At fiscal year end, TRA's share of the bonds payable is $10,650,000. The bond payable decreased by $210,000 during the year. Interest expected to be paid over the remaining term of the bonds is $9,490,930. In *Figure 6*, TRA's share of the long-term bond repayment schedule including interest is summarized.

TRA's share of bond issuance costs are shown on the Statement of Plan Net Assets as Deferred Bond Charges and will be amortized over the 30-year life of the bonds.

TRA is depreciating its share of the facility over 40 years. The following depreciation schedule (*Figure 7*) summarizes the asset valuation of the office building.

Figure 6

Schedule of Building Debt Service Payments

(TRA Share @ 40%)

June 30, 2006

Fiscal Year	Principal	Interest	Total Principal and Interest
2007	$ 220,000	$ 615,560	$ 835,560
2008	$ 230,000	$ 603,735	$ 833,735
2009	$ 240,000	$ 591,373	$ 831,373
2010	$ 250,000	$ 578,473	$ 828,473
2011	$ 270,000	$ 565,035	$ 835,035
2012	$ 280,000	$ 550,455	$ 830,455
2013	$ 300,000	$ 535,195	$ 835,195
2014	$ 310,000	$ 518,695	$ 828,695
2015	$ 330,000	$ 501,490	$ 831,490
2016	$ 350,000	$ 483,010	$ 833,010
2017	$ 370,000	$ 463,235	$ 833,235
2018	$ 390,000	$ 442,145	$ 832,145
2019	$ 420,000	$ 419,720	$ 839,720
2020	$ 440,000	$ 395,570	$ 835,570
2021	$ 470,000	$ 370,050	$ 840,050
2022	$ 500,000	$ 342,438	$ 842,438
2023	$ 530,000	$ 313,063	$ 843,063
2024	$ 560,000	$ 281,925	$ 841,925
2025	$ 600,000	$ 249,025	$ 849,025
2026	$ 630,000	$ 213,775	$ 843,775
2027	$ 670,000	$ 176,763	$ 846,763
2028	$ 720,000	$ 137,400	$ 857,400
2029	$ 760,000	$ 94,200	$ 854,200
2030	$ 810,000	$ 48,600	$ 858,600
	$ 10,650,000	$ 9,490,930	$ 20,140,930

Figure 7

Office Building and Equipment Depreciation Schedule

(TRA Share at 40%)
June 30, 2006

Historical Cost	$ 11,820,116
FY 2006 Depreciation Amount	(295,733)
Prior Year Accumulated Depreciation	(1,180,806)
Net Asset Value of Building and Equipment	$ 10,343,577

T. Operating Lease

TRA is committed under a lease agreement assumed in the MTRFA merger as described in Note E, for the lease of office space in Minneapolis through January 31, 2009. TRA and the State of Minnesota are attempting to sublet the space in order to mitigate future obligations.

For accounting purposes, this lease is classified as an operating lease. Lease expenditures for fiscal year 2006 totaled $57,472. Minimum rental payments are required as follows.

Minimum Rental Payments

Fiscal Year Ended June 30		Amount
2007	$	53,296
2008		56,453
2009		34,072
Total	$	143,821

II. Contributions Required and Made

Minnesota Statutes, Chapter 354 sets the rates (page 70) for employee and employer contributions. These rates, expressed as level percentages of annual covered payroll, are determined to accumulate sufficient assets for paying benefits. Level percentage of payroll contribution rates are calculated using the entry age normal actuarial funding method. TRA also uses the level percentage of payroll method to amortize the fund's unfunded liability over a closed period ending June 30, 2037.

Contributions totaling $356,106,532 ($177,084,906 employee and $179,021,626 employer) were made in accordance with the actuarially determined contribution requirements. On page 70, statutory contributions are projected as insufficient to meet the required contributions.

The deficiency as a percent of covered payroll is 0.80 percent. This translates into a contribution deficiency of about $29 million projected for fiscal year 2007. On July 1, 2007, the TRA employer contribution rates will increase by 0.50 percent as authorized by Minnesota Laws (2006) Chapter 277, Article 3, Section 9. The Minnesota Legislative Commission on Pensions and Retirement annually reviews the adequacy of TRA's statutory contributions.

III. Reserve Accounts

A. Minnesota Post Retirement Investment Fund (Post Fund)

For all retiring members, the reserves required to pay the cost of their annuity are transferred to the MPRIF where the funds are invested along with funds from the other statewide retirement systems. Annual adjustments in annuities are calculated in accordance with Minnesota Statutes Section 11A.18, subd. 9. The adjustment formula consists of both an inflation component and an investment component.

The MPRIF is a legally required reserve account under Minnesota Statutes Section 11A.18 and by definition, is fully funded. TRA's share of the MPRIF investments is shown at fair value, and is calculated based on each fund's level of participation in the pooled investments. Participation in the MPRIF is determined by the actuarially required reserve level in accordance with Minnesota Statutes Section 11A.18, subd. 7. It includes a 6 percent assumed income distribution and any mortality gains or losses incurred during the year. As of June 30, 2006, TRA's share of the net assets of the MPRIF, at participation, is $12.37 billion and at fair value is $10.35 billion (see page 25, *Figure 3*). The deficit of $2.02 billion, under Minnesota Statutes, is assumed to be recovered by future investment gains of the MPRIF and does not receive additional reserve transfers from the TRA Active Fund.

The annual benefit adjustment formula contains both an inflation adjustment and an investment component (page 49). Annuitants and other individuals receiving benefits as of July 1, 2005, are eligible to receive the full January 1, 2007, benefit increase shown in *Figure 8* on page 33.

Figure 8

January 1, 2007 Benefit Increase	
Inflation-Based Benefit Increase	2.500%
Investment-Based Benefit Increase	0.000%
Total Benefit Increase	2.500%

Benefit recipients whose effective date of retirement is after July 1, 2005, but before June 2, 2006, receive a prorated amount of the January 1, 2007 benefit increase.

Effective with the January 1, 2011 benefit increase, the maximum annual adjustment will be limited to 5.0 percent.

B. Member Reserves

Accumulated member contributions, without interest, less the amounts refunded are recorded in the member reserve. Accumulated member contributions for current retirees are transferred to the Post Fund upon retirement. Employees who terminate their employment prior to retirement may elect to receive a refund of their contributions plus interest or wait for a deferred benefit.

Amounts from ELSA Accounts (Note 1, Q) are considered as a member reserve since these funds are reserved to specific retirees participating in ELSA.

C. Benefit Reserves

Employer contributions and investment income are recorded in the Benefit Reserve Designation. Administrative expenses, survivor and disability benefits, investment management fees, and interest paid to the Post Fund for late reserve transfers are paid from the benefit reserve.

Required Supplemental Schedules
Schedule of Contributions From the Employer and Other Contributing Entities (Unaudited)

Dollar Amounts in Thousands

Year Ended June 30	Actuarially Required Contrib. Rate (A)	Actual Covered Payroll (B)	Actual Employee Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution	Percentage Contributed
1997	12.78%	2,359,011	154,161	147,321	191,670	130.10%
1998	9.55%[2]	2,422,957	124,096	107,296	151,323	141.03%
1999	8.39%[2]	2,625,254	132,040	88,219	130,526	147.96%
2000	8.36%[2]	2,704,575	138,696	87,406	134,419	153.79%
2001	7.92%[2][3]	2,812,000	145,075	77,635	139,799	180.07%
2002	7.85%[2]	2,873,771	152,331	73,260	142,222	194.13%
2003	7.57%[2][4]	2,952,887	155,577	67,957	149,481	219.96%
2004	8.37% [2]	3,032,483	159,140	94,679	151,029	159.52%
2005	8.46% [2]	3,121,557	160,982	103,103	157,693	152.95%
2006	9.05% [5]	3,430,645	177,085	133,389	179,022 [1]	134.21%
2007	12.16% [6]					

[1] Includes contributions of direct aids to MTRFA from the State of Minnesota, the City of Minneapolis, and the Minneapolis School District.

[2] Actuarially Received Contributions calculated according to the parameters of GASB 25 using a 30-year amortization of the negative unfunded actuarial accrued liability.

[3] Actuarially Required Contribution Rate prior to change in Actuarial Assumptions and Asset Valuation Method is 7.31%.

[4] Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is 8.11%.

[5] Actuarially Required Contribution Rate shown is the contribution rate stated in the TRA July 1, 2005 actuarial valuation.

[6] Actuarially Required Contributions calculated according to parameters of GASB 25 (30-year amortization period), and post-merger of the Minneapolis Teachers Retirement Fund Association.

Schedule of Funding Progress (Unaudited)

Dollar Amounts in Thousands

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A / B)	Actual Covered Payroll (Previous FY) (C)	UAAL as Percentage of Covered Payroll (B - A) / (C)
07/01/97	11,103,759	10,963,637	(140,122)	101.28%	2,359,011	-5.94%
07/01/98	12,727,546	12,046,312	(681,234)	105.66%	2,422,957	-28.12%
07/01/99	14,011,247	13,259,569	(751,678)	105.67%	2,625,254	-28.63%
07/01/00	15,573,151	14,802,441	(770,710)	105.21%	2,704,575	-28.50%
07/01/01	16,834,024	15,903,984	(930,040)	105.85%	2,812,000	-33.07%
07/01/02	17,378,994	16,503,099	(875,895)	105.31%	2,873,771	-30.48%
07/01/03	17,384,179	16,856,379	(527,800)	103.13%	2,952,887	-17.87%
07/01/04	17,519,909	17,518,784	(1,125)	100.01%	3,032,483	-0.04%
07/01/05	17,752,917	18,021,410	268,493	98.51%	3,121,571	8.60%
07/01/06	19,035,612	20,679,111	1,643,499	92.05%	3,430,645	47.91%

Teachers Retirement Association

Notes to the Required Supplemental Schedules (Unaudited)

June 30, 2006

Valuation date	July 1, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll assuming payroll increases of 5.00 percent per annum
Remaining amortization period	30 years remaining as of July 1, 2006 (changed from prior valuation)
Asset valuation method	**TRA Active Fund** Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets and the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year). **Minnesota Post Retirement Fund** Assets valued at required reserves per Minnesota Statute and policy.

Actuarial assumptions

Investment rate of return:

Pre-retirement	8.50 percent per annum
Post-retirement	6.00 percent per annum
Projected salary increases	Select and ultimate rates by age, with ultimate rates of 5.00 percent - 6.00 percent
Inflation rate	5.00 percent per annum

Plan membership

Pensioners and beneficiaries receiving benefits	44,683
Terminated vested members entitled to, but not yet receiving benefits	11,773
Other terminated non-vested members	21,956
Active members	79,164
Total	157,576

Teachers Retirement Fund

Schedule of Changes in Plan Net Assets (Unaudited)

For Fiscal Year Ended June 30, 2006

	Member
Additions	
Contributions:	
Employee Contributions	$ 176,211,128
Employer Contributions	0
Earnings Limitation Savings Account (ELSA)	3,182,223
Total Contributions	179,393,351
Investment Income:	
Net Appreciation in FMV	0
Interest	0
Dividends	0
Investment Management Fees	0
Net Investment Income (Loss)	0
From Securities Lending Activities:	
Securities Lending Income	0
Securities Lending Borrower Rebates	0
Securities Lending Management Fees	0
Net Income from Securities Lending	0
Other Income	0
Total Additions (Subtractions)	$ 179,393,351
Deductions	
Benefits Paid	$ 0
Earnings Limitation Savings Account (ELSA)	0
Refunds of Member Contributions	11,780,749
Administrative Expenses	0
Interest Paid Post Fund	0
Total Expenses	$ 11,780,749
Net Increase (Decrease)	$ 167,612,602
Other Changes in Reserves	
Annuities Awarded	$ (103,803,361)
Other Transfers	(3,605,246)
Change in Assumptions	0
Mortality Loss (Gain)	0
Total Other Changes	$ (107,408,607)
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	1,704,913,063
End of Year	$ 1,765,117,058

Note: Reserve amounts rounded to nearest dollar.

Reserves for 2006

Post Fund	Benefit	Total June 30, 2006
$ 0	$ 873,778	$ 177,084,906
0	179,021,626	179,021,626
0	0	3,182,223
0	179,895,404	359,288,755
997,024,941	298,497,560	1,295,522,501
0	64,801,952	64,801,952
0	613,115,552	613,115,552
(14,679,521)	(13,112,860)	(27,792,381)
982,345,420	963,302,204	1,945,647,624
50,637,088	39,759,502	90,396,590
(46,223,337)	(36,163,177)	(82,386,514)
(1,020,850)	(858,484)	(1,879,334)
3,392,901	2,737,841	6,130,742
0	29,494,099	29,494,099
$ 985,738,321	$ 1,175,429,548	$ 2,340,561,220
$ 1,079,765,020	$ 141,264,781	$ 1,221,029,801
3,182,223	0	3,182,223
0	91,755	11,872,504
0	11,912,701	11,912,701
0	1,856,275	1,856,275
$ 1,082,947,243	$ 155,125,512	$ 1,249,853,504
$ (97,208,922)	$ 1,020,304,036	$ 1,090,707,716
$ 1,174,768,874	$ (1,070,965,513)	$ 0
0	3,605,246	0
712,586,000	(712,586,000)	0
(728,728)	728,728	0
$ 1,886,626,146	$ (1,779,217,539)	$ 0
8,560,642,761	6,408,262,901	16,673,818,725
$10,350,059,985	$ 5,649,349,398	$ 17,764,526,441

Administrative Expenses (Unaudited)

For the Fiscal Year Ended June 30, 2006

Personal Services		
Salaries	$	5,328,971
Employer Contributions to Teachers Retirement Association		231,074
Employer Contributions to Social Security		382,561
Insurance Contributions		1,016,508
Employee Training		18,134
Workers' Compensation		3,350
Subtotal	$	6,980,598
Communication		
Duplicating and Printing Expense	$	117,910
Postage		310,595
Telephone		74,019
Subtotal	$	502,524
Office Building Maintenance		
Lease of Office and Storage Space	$	91,807
Building and Operating Expenses		483,598
Rental of Office Machines/Furnishings		32,615
Repairs and Maintenance		178,983
Building Depreciation		295,733
Deferred Bond Charge Amortization		5,029
Bond Interest Expense		625,748
Subtotal	$	1,713,513
Professional Services		
Actuarial Services	$	148,806
Audit Fees		87,135
Computer Support Services		659,631
Legal Fees		238,487
Medical Services		56,197
Systems Development (FROST)		669,400
Subtotal	$	1,859,656
Other Operating Expenses		
Department Head Expenses	$	1,218
Depreciation of Office Furniture and Equipment		277,588
Dues and Subscriptions		13,338
Insurance Expense		185,374
Miscellaneous Administrative Expenses		13,645
Office Relocation		12,938
State Indirect Costs		27,292
Stationery and Office Supplies		212,214
Travel - Director and Staff		60,293
Travel - Trustees		51,186
Board Substitute Teachers		1,324
Subtotal	$	856,410
Total Administrative Expenses	$	11,912,701

Schedule of Investment Management Expenses (Unaudited)

For the Fiscal Year Ended June 30, 2006

Investment Pool Managers	
Bond Pool Managers	$ 1,579,069
Bond Managers (MTRFA)	228,694
Custodian (MTRFA)	66,872
Equity Pool Managers	9,498,087
Equity Managers (MTRFA)	1,290,025
Financial Control Systems	50,653
Investment Advisory Committee (MTRFA)	1,800
Investment Board	337,337
MPRIF Managers	14,679,521
Pension Consulting	7,203
Richards & Tierney	53,120
Total Investment Expenses	$ 27,792,381

Schedule of Retainage Payable (Unaudited)

As of June 30, 2006

Vendor	Buck Consultants	BearingPoint	Total
Balance as of 07/01/05	$24,281	$ 1,441,416	$ 1,465,697
Retained 07/01/05-06/30/06	6,563	57,140	63,703
Paid 07/01/05-06/30/06	—	(1,498,556)	(1,498,556)
Accrued 06/30/06	656	—	656
Balance as of 06/30/06	$31,500	$ —	$ 31,500

Schedule of Professional Consultant Expenses (Unaudited)

For the Fiscal Year Ended June 30, 2006

MIS Programmers/Analysts		
BearingPoint	$	669,400
Ceridian (MTRFA)		92,819
Computer Horizons		107,280
CoreComm Internet (MTRFA)		431
Geek Squad (MTRFA)		159
Keystone		418,790
Total MIS Programmers/Analysts Expenses	$	1,288,879
Actuarial		
Buck/Mellon Consultants	$	81,350
Mercer (MTRFA)		13,737
Segal Company (LCPR)		38,718
Segal Company (MTRFA - LCPR)		15,000
Total Actuarial Expenses	$	148,805
Legal		
Attorney General	$	69,624
Best & Flanagan (MTRFA)		2,136
Fredrikson & Byron (MTRFA)		13,167
Greene Espel		1,627
Moss & Barnett (MTRFA)		105,031
Paradigm Reporting & Captioning		1,380
Pat Carl & Associates		2,759
Robert D Butterbrodt (MTRFA)		42,763
Total Legal Expenses	$	238,487
Audit		
Berwyn Group	$	6,988
Financial Advisors (MTRFA)		5,000
Legislative Auditor		44,148
Office of the State Auditor (MTRFA)		30,999
Total Audit Expenses	$	87,135
Medical		
Criminal Justice Associate (MTRFA)	$	2,500
Dr. David Johnson (MTRFA)		4,512
Dr. Ronald Vessey (MTRFA)		8,685
MN Department of Health		40,500
Total Medical Expenses	$	56,197
Total Consultant Expenses	$	1,819,503

Teachers Retirement Association of Minnesota

Investments

Investments

Investments

Investments

Investments

Investments

State Board of Investment Letter

MINNESOTA STATE BOARD OF INVESTMENT

60 Empire Drive
Suite 355
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us

December 1, 2006

Fiscal Year 2006 Investment Report: State Board of Investment

INVESTMENT AUTHORITY

The assets of the Teacher Retirement Association are invested along with the assets of the Public Employees Retirement Association and the Minnesota State Retirement System under the direction and authority of the State Board of Investment in accordance with Minnesota Statutes, Chapters 11A and 356A. The SBI includes Minnesota's governor, auditor, secretary of state and attorney general. The Legislature has established a 17-member Investment Advisory Council to advise the SBI and its staff on investment-related matters. TRA's executive director is a member of the Council.

INVESTMENT POLICY

Investment policy stipulates that the SBI will operate within standard investment practices of the prudent person. The SBI will exercise the judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence exercise in the management of their own affairs. This work is not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived from this activity (Minnesota Statutes, section 11A.09). The SBI is authorized to own government obligations, corporate obligations, various short-term obligations, corporate stocks, venture capital interests, mutual funds, resource investments and real estate interests subject to specific boundaries (Minnesota Statutes, Section 11A.24). Particularly, pension fund assets are to be invested for the exclusive benefit of the fund members (Minnesota Statutes, Section 356.001, subd. I).

INVESTMENT OBJECTIVES

Pension fund assets are managed and accounted for separately in the SBI's Basic Funds and the Post Retirement Investment Fund. The SBI reviews the performance of all the assets in each fund and as two funds combined.

TRA's pension contributions from employees and employers are invested in the SBI's Basic Funds. TRA does not own any underlying assets, but instead owns a share of the asset class pools of the Basic Funds. Since these assets normally accumulate in the Basic Funds for thirty or more years, SBI's objective is to take advantage of the long investment time horizon offered by public and private investments in order to meet its actuarial return target of 8.5 percent annually and ensure that sufficient funds are available to finance promised benefits at the time of retirement.

When a member retires, TRA transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (MPRIF). The assets of the MPRIF, which include the eight plans that participate in the Basic Fund and the Legislative and Survivors' Retirement Fund, finance monthly annuity payments paid to retirees. Monies in the MPRIF are generally invested somewhat more conservatively, but still heavily in equities, to take advantage of the 15-year to 20-year time horizon associated with the length of time a typical retiree can be expected to draw benefits. The actuarial return target for the MPRIF is 6 percent.

COMBINED FUNDS

The combined funds, while not existing under statute, represent the assets of the active and retired public employees who participate in the defined benefit plans of TRA, PERA, and MSRS. The SBI looks at the combined funds for comparison purposes only, since most public pension plans do not separate the assets of their active employees and retirees. The long-term objectives of the combined funds are to:

- Provide returns on an annualized basis that are 3 to 5 percentage points greater than inflation over the latest 20-year period;
- Outperform a composite market index weighted in a manner that reflects the actual asset mix of the combined funds over the latest 10-year period.

As of June 30, 2006, the combined funds returned 6.7 percentage points above the Consumer Price Index over the last 20 years and outperformed the Composite Index by 0.3 percentage points over the past 10 years.

INVESTMENT PRESENTATION

Data reported in the investment section of this comprehensive annual financial report is presented in conformance with the mandatory presentation standards of the Chartered Financial Analysts (CFA) Institute. Investment returns were prepared using a time-weighted rate of return methodology. This performance measure includes the effect of income earned as well as realized and unrealized portfolio market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Investment Summary

Prepared by TRA management with data obtained from the State Board of Investment's Fiscal Year 2006 Annual Report

The assets of the Minnesota Teachers Retirement Association (TRA) are invested under the direction and authority of the State Board of Investment (SBI). The investment portfolio for the active members of TRA has a fair value of approximately $7.41 billion. In addition, TRA's share of the assets of the Minnesota Post Retirement Investment Fund (Post Fund), from which retiree benefits are paid, is approximately $10.35 billion, at fair value.

The four-member SBI Board consists of Governor Tim Pawlenty (Chair), Secretary of State Mary Kiffmeyer, Attorney General Mike Hatch, and State Auditor, Patricia Anderson. Howard Bicker serves as SBI's Executive Director.

The Legislature has established a 17-member Investment Advisory Council (IAC) to advise the SBI and its staff on investment-related matters.

- The mission statement of the Investment Advisory Council is: The IAC fulfills its statutory duty to the SBI by providing advice and independent due diligence review of the investment policy and implementation recommendations that guide the SBI's investment of assets.
- SBI appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and Saint Paul corporate investment community.

Investment Advisory Council

As of December 2006

Michael Troutman, Chair
Strategic Planning and Development
Board of Pensions Evangelical
Lutheran Church in America

Malcolm W. McDonald, Vice Chair
Director and Corporate Secretary
(Retired)
Space Center, Inc.

Frank Ahrens, II
Governor's Appointee
Active Employee Representative

Jeffery Bailey
Director-Benefits Finance
Target Corporation

David Bergstrom
Executive Director
MN State Retirement System

John E. Bohan
Vice Pres., Pension Investments
(Retired)
Grand Metropolitan-Pillsbury

Kerry Brick
Manager, Pension Investments
Cargill, Inc.

Douglas Gorence
Chief Investment Officer
U of M Foundation Investment
Advisors

Laurie Fiori Hacking
Executive Director
Teachers Retirement Association

Peggy Ingison
Commissioner
MN Department of Finance

Heather Johnston
Governor's Appointee
Active Employee Representative

P. Jay Kiedrowski
Senior Fellow
Humphrey Institute
University of Minnesota

Hon. Kenneth Maas
Governor's Appointee
Retiree Representative

Judith W. Mares
Chief Investment Officer
Alliant Tech Systems, Inc.

Gary R. Norstrem
Treasurer (Retired)
City of Saint Paul

Daralyn Peifer
Chief Investment Officer
General Mills, Inc.

Mary Vanek
Executive Director
Public Employees Retirement
Assn.

Richards & Tierney, Inc. of Chicago are general consultants to the SBI. Pension Consulting Alliance of Studio City, California, serves as a special project consultant. Investment performance methodology is reported in compliance with the mandatory requirements of the Chartered Financial Analyst (CFA) Institute. All investments made by SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapters 11A and 356A.

- The Commissioner of Finance and the executive directors of TRA, the Minnesota State Retirement System and the Public Employees Retirement Association are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.
- The Council has formed three committees organized around broad investment subjects relevant to SBI's decision-making: Asset Allocation, Stock and Bond Managers and Alternative Investments.
- All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to SBI for action.

Basic Retirement Funds

Investment Objectives

The pension contributions of active TRA members are invested through the Basic Retirement Funds (Basic Funds) administered by SBI. SBI has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement. All assets in the Basic Retirement Funds, including TRA, are managed externally by outside money management firms retained by contract.

The Basic Funds invest the pension contributions of most Minnesota public employees, including TRA members, during their working years. Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic Funds must generate investment returns of at least 8.5 percent on an annualized basis over time.

Normally, pension assets will accumulate in the Basic Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits SBI to take advantage of long run return opportunities offered by common stocks and other investments in order to meet its actuarial return target.

SBI measures the performance of the Basic Funds relative to a composite of market indices that is weighted in a manner that reflects their long-term asset allocation policy. The Basic Funds are expected to exceed the composite index over a ten-year period. Performance is measured net of all fees and costs to assure that SBI's focus is on its true net return.

Asset Allocation

The allocation of assets among stocks, bonds, and alternative investments can have a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. Consequently, SBI has focused considerable attention on the selection of an appropriate long-term asset allocation policy for the Basic Funds. It should be noted that the unfunded allocation to alternative investments in the Basic Funds is held in domestic stocks until it is needed for investment. As a result, the actual amount invested in domestic stocks was above its long-term target.

During Fiscal Year 2004, the Board provisionally revised its long term asset allocation targets for the Basic Funds. Upon the Post Retirement Fund achieving its alternative investment target, the Basic Funds' allocation target may increase from 15 percent to 20 percent by decreasing the fixed income target from 24 percent to 19 percent. Additionally, the Basic Funds will invest in yield-oriented investments as part of its allocation to alternative investments.

Basic Funds Asset Mix
June 30, 2006

	Actual Mix	**Policy Mix**
Domestic Stocks	49.0%	45.0%
International Stocks	15.8%	15.0%
Bonds	23.1%	24.0%
Alternative Assets	11.2%	15.0%
Unallocated Cash	0.9%	1.0%
Total	100.0%	100.0%

Total Return Vehicles

SBI invests the majority of the Basic Funds' assets in *common stocks* (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of *private equity* alternative assets (e.g., venture capital) is similar.

SBI recognizes that this sizable policy allocation to common stock and private equity likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility.

Diversification Vehicles

Other asset classes are included in the Basic Funds both to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

Real estate and resource (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. In periods of rapidly rising prices, these "hard" assets have appreciated in value at a rate at least equal to the inflation rate. Further, even under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, their inclusion in the Basic Funds serves to dampen return volatility.

Yield oriented alternative investments provide the opportunity for higher long term returns than those typically available from bonds yet still generate sufficient current income. Typically, these investments (e.g., subordinated debt, mezzanine or resource income investments such as producing properties) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such, they will help reduce the volatility of the total portfolio, but should also generate higher returns relative to more traditional bond investments.

The allocation to *bonds* acts as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect principal and generate significant capital gains. And, like real estate and resource funds, under normal financial conditions, bonds help to diversify the Basic Funds and thereby control return volatility.

Rate of Return Results

The Basic Funds produced a total rate of return for fiscal year 2006 of 12.6 percent. Over the last five years, the Basic Funds have generated an annualized return of 6.4 percent. The current fair value of the total Basic Funds is about $22.0 billion. TRA's share of the fund is approximately 33.7 percent or $7.41 billion.

As stated earlier, the Basic Funds are expected to exceed the return of a composite of market indices over a ten-year period. Performance relative to this standard will measure two effects:

- The ability of the managers selected by SBI, in aggregate, to add value to the returns available from the broad capital markets.
- The impact of SBI's rebalancing activity. (SBI rebalances the total fund when market movements take the stock or bond segments above or below

Basic Funds Performance vs. Composite Index

	2002	2003	2004	2005	2006	3 Yr.	5 Yr.	10 Yr.
Basic Fund	-8.2%	1.9%	16.6%	11.0%	12.6%	13.4%	6.4%	8.8%
Composite Index	-8.1%	2.4%	16.3%	10.9%	12.6%	13.2%	6.4%	8.5%

their long-term asset allocation targets. The policy imposes a low risk discipline of *buy low-sell high* between asset classes on a total fund basis.)

For the ten-year period ending June 30, 2006, the Basic Funds out-performed the composite index by 0.3 percentage point annualized. The Fund matched the composite index over the last five years, and matched the composite index over the most recent fiscal year. Actual returns relative to the total fund composite index over the last five years are shown in the graph on the previous page.

Post Retirement Fund

When a member retires, TRA transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (Post Fund). The Post Fund includes the assets of retired public employees covered by nine statewide retirement plans: the eight plans which participate in the Basic Funds as well as the Legislative and Survivors Retirement Fund.

The assets of the Post Fund finance monthly annuity payments paid to retirees. On June 30, 2006, the Post Fund had a market value of about $21.9 billion. TRA retirees' portion of this value is approximately $10.35 billion or 47 percent. The Post Fund generated an investment return of 12.0 percent for fiscal year 2006.

All assets in the Post Retirement Fund are managed externally by outside money management firms retained by contract.

Investment Objectives

The investment time horizon of the Post Fund is 15-20 years and corresponds to the length of time a typical retiree can be expected to draw benefits. While this is shorter than the time horizon of the Basic Funds, it is still sufficiently long to allow SBI to take advantage of the long-run return opportunities offered by common stock in order to meet its actuarial return target as well as to finance retirement benefit increases.

SBI measures the performance of the Post Fund relative to a composite of market indices that is weighted in a manner that reflects its long-term asset allocation policy. The Post Fund is expected to exceed the composite index over a ten-year period. Performance is measured net of all fees and costs to assure that SBI's focus is on true net return.

Post Fund Asset Mix
June 30, 2006

	Actual Mix	Policy Mix
Domestic Stocks	47.2%	45.0%
International Stocks	15.3	15.0
Bonds	23.7	25.0
Alternative Assets	8.7	12.0
Unallocated Cash	5.1	3.0
Total	100.0%	100.0%

Asset Allocation

The current long-term asset allocation policy and actual asset mix of the Post Fund at the end of fiscal year 2006 is presented in the following table. The asset allocation policy is under constant review. During Fiscal Year 2004, the SBI revised its long term asset allocation targets for the Post Fund. The allocation target for alternative investments was increased from 5 percent to 12 percent, while decreasing domestic equity from 50 percent to 45 percent and decreasing fixed income from 27 percent to 25 percent. Additionally, the Post Fund will invest in private equity, real estate, and resource investments as well as yield-oriented investments as part of its allocation to alternative investments. Finally, unvested portions of alternative investments will be invested in domestic equities instead of bonds.

The majority of the Post Fund's assets are invested in *common stocks* (both domestic and international). A large allocation is consistent with the moderately long time horizon of the Post Fund and the advantageous long-term, risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio.

SBI recognizes that this sizable allocation will be likely to produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long-run return benefits of this policy are expected to compensate for the additional volatility. The asset allocation is under constant review.

The Board includes other asset classes in the Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility. Including private equity in the Post Fund is intended to enhance returns and reduce the risk of the total portfolio.

Real estate and resource (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. In periods of rapidly rising prices, these assets have appreciated in value at a rate at least equal to the inflation rate. Further, even under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, their inclusion in the Post Fund also serves to dampen return volatility.

The bonds in the Post Fund act as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long term bonds, are expected to protect principal and generate significant gains. And, under normal financial conditions, bonds diversify the Post Fund, thereby controlling return volatility on a year-to-year basis.

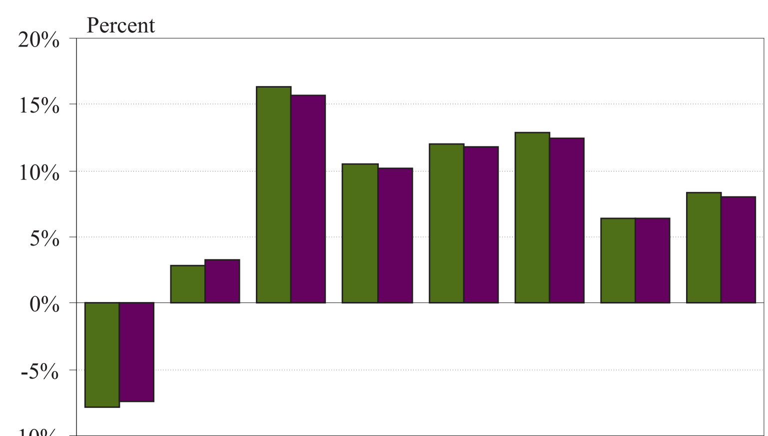
Yield oriented alternative investments provide the opportunity for higher long term returns than those typically available from bonds, yet still generate sufficient current income to be compatible with the objectives of the Post Fund. Typically, these investments (e.g., subordinated debt, mezzanine or resource income investments such as producing properties) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such, they will help reduce the volatility of the total portfolio, but should also generate higher returns relative to more traditional bond investments.

Investment Management and Performance

In order to gain greater operating efficiency, the Post Fund shares with the Basic Funds the same domestic stock, bond and international stock managers. The Post Fund is expected to exceed the return of a composite of market indices over a ten-year period. The Post Fund's performance exceeded its composite market index by 0.3 percentage point for the most recent ten year period since July 1, 1996. The fund matched the composite index over the last five years and exceeded the composite index by 0.2 percentage point for the 2006 fiscal year.

Actual returns relative to the total fund composite index over the last five years are shown in the graph below.

Post Fund Performance vs. Composite Index



	2002	2003	2004	2005	2006	3 Yr.	5 Yr.	10 Yr.
Post Fund	-7.8%	2.8%	16.3%	10.5%	12.0%	12.9%	6.4%	8.3%
Composite Index	-7.4%	3.3%	15.7%	10.2%	11.8%	12.5%	6.4%	8.0%

The Basic Funds and the Post Fund share many of the same stock and bond managers. This is accomplished by grouping managers together, by asset class, into several investment pools. The individual funds participate in the investment pools by purchasing units which function much like shares of a mutual fund.

This investment management structure allows SBI to gain greater operating efficiency within asset classes and to keep money management costs as low as possible for all participants. Investment management fees are summarized on the schedule on page 39. Further information on investment activity, management fees and commissions paid, and a listing of specific investments owned by the pooled accounts can be obtained from the Minnesota State Board of Investment, Suite 355, 60 Empire Drive, Saint Paul, MN 55103.

Benefit Increase Formula

The retirement benefit annual increase formula of the Post Fund is based on a combination of two components as specified in Minnesota Statute:

- ***Inflation Component***. Each year, retirees receive an inflation-based adjustment equal to 100 percent of inflation, up to a maximum of 2.5 percent specified in statute. The inflation component is granted regardless of investment performance. The cap is necessary to maintain the actuarial soundness of the entire plan. It is the difference between the return assumption for the Basic funds (8.5 percent), and the return assumption for the Post Fund (6.0 percent).
- ***Investment Component***. Each year, retirees also receive an investment-based adjustment, provided net investment gains are above the amount needed to finance the Post Fund's 6 percent actuarial assumption and the inflation adjustment described previously. Investment gains and losses are spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an investment-based adjustment is granted.

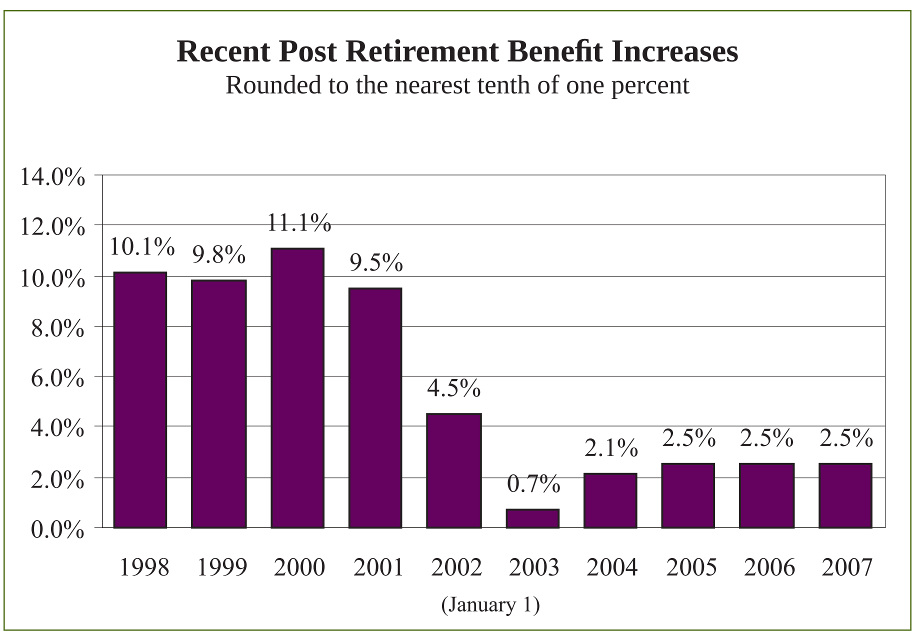
The Post Fund will provide a benefit increase of 2.50 percent for fiscal year 2006 payable January 1, 2007. As noted earlier, this increase is comprised of two components:

- *Inflation component* of 2.50 percent. The increase is the maximum inflation component allowable under Minnesota statute. The actual Consumer Price Index for wage earners (CPI-W) for the twelve months ending June 30, 2006, was 4.47 percent. (CPI-W is the same inflation index used to calculate increases in Social Security payments.)
- *Investment component* of 0.000 percent. This represents a portion of the market value increase that exceeds the amount needed to cover the actuarial assumed rate of return (6.0% beginning fiscal year 1998) and the inflation adjustment.

Effective with the benefit adjustment of January 1, 2011, the maximum benefit increase will be limited to a maximum of 5.0 percent, combined for the inflation and investment components. The maximum inflation component of 2.5 percent will remain.

As of June 30, 2006, the Post Retirement Fund had total assets of about $22.0 billion at fair value. Total liabilities (present value of expected future benefit payments to current benefit recipients) are an estimated $26.0 billion. The estimated $4.0 billion deficit must be recovered in full before an investment-based component will be paid. Consequently, until strong positive investment gains occur over an extended period of time to absorb the existing deficit, a positive investment component should not be expected.

Benefit increases granted for the past ten years are shown in the graph.

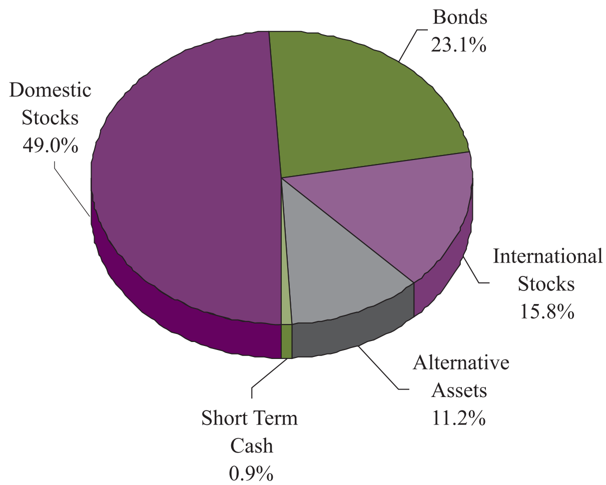


TRA

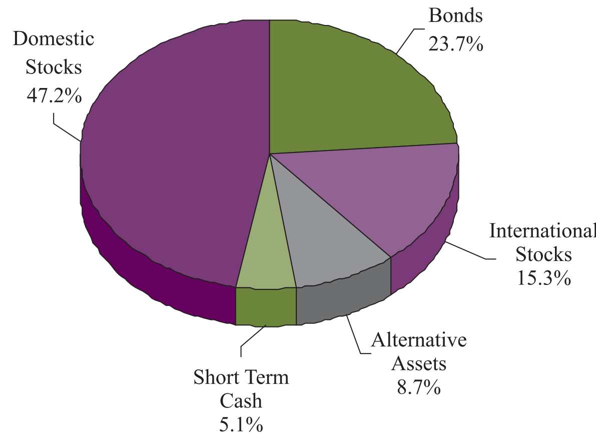
Teachers Retirement Fund
Portfolio Distribution

June 30, 2006

Basic Fund
(Active Members)



Post Fund
(Retirees)



Teachers Retirement Fund
Performance of Asset Pools (Net of Fees)

June 30, 2006

	Rates of Return (Annualized)			
	FY 2006	**3-Year**	**5-Year**	**10-Year**
Domestic Stock Pool	**8.9%**	**12.5%**	**3.2%**	**8.0%**
Domestic Equity Asset Class Target* (*Reflects Wilshire 5000 as reported prior to FY 2000, the Wilshire 5000 Investable from 7/1/1999 thru 9/30/03; and the Russell 3000 since 10/1/2003.)	9.6%	12.6%	3.5%	8.0%
Bond Pool	**-0.2%**	**2.7%**	**5.4%**	**6.6%**
Lehman Aggregate	-0.8%	2.1%	5.0%	6.2%
International Stock Pool	**28.2%**	**24.7%**	**11.1%**	**7.3%**
Composite Index	27.9%	25.3%	11.2%	6.4%
Alternative Assets (Real Estate, Private Equity, Resource Pool and Yield Oriented Pool)	**43.7%**	**28.7%**	**16.2%**	**17.2%**
Inflation (No Established Index for Alternative Assets)	3.5%	3.1%	2.5%	2.5%

All investment performance methodology is reported in compliance with the mandatory requirements of the Chartered Financial Analysts (CFA) Institute, as described on page 43.

Teachers Retirement Fund
List of Largest Assets Held

June 30, 2006

Composite Holdings of Top Ten Equities
By Fair Value

Security	$ Fair Value (Millions)	% of Portfolio
Exxon Mobil Corp	$220.3	0.66%
General Electric Co.	187.1	0.56%
Citigroup, Inc.	175.1	0.52%
Bank America Corp	158.3	0.47%
Microsoft Corp	135.5	0.40%
Procter and Gamble Co	107.0	0.32%
Pfizer, Inc.	104.4	0.31%
Johnson & Johnson.	103.8	0.31%
Aetna	99.3	0.30%
Prime Property	92.2	0.28%

Composite Holdings of Top Ten Bond Holdings
By Fair Value

Security	Coupon	$ Fair Value (Millions)	% of Portfolio
FNMA TBA JUL 30 SINGLE FAM	5.000%	$119.8	0.95%
UNITED STATES TREAS NTS	4.875%	94.0	0.74%
UNITED STATES TREAS NTS	3.750%	48.9	0.39%
UNITED STATES TREAS BDS	8.125%	46.4	0.37%
FNMA TBA JUL 30 SINGLE FAM	6.500%	46.0	0.36%
FNMA TBA AUG 15 SINGLE FAM	4.500%	45.9	0.36%
FNMA TBA JUL 30 SINGLE FAM	6.000%	43.1	0.34%
UNITED STATES TREAS NTS	4.375%	38.3	0.30%
UNITED STATES TREAS NTS	3.125%	37.1	0.29%
UNITED STATES TREAS BDS	6.000%	35.9	0.28%

TRA's assets are commingled in various pooled investment accounts administered by the State Board of Investment (SBI). TRA does not own specific values of the underlying assets. The percentages and fair value shown are those attributable to the TRA Fund based on TRA's participation in the SBI's Basic Funds and Minnesota Post Retirement Investment Fund. Information on investment activity, a listing of specific investments owned by the pooled accounts and a schedule of fees and commissions can be obtained from SBI.

Summary of Investments*

As of June 30, 2006

	Book		Fair	
	Book Value	Total Book Value	Fair Value	Total Fair Value
Fixed Income Investments				
Fixed Income Pool	$ 1,781,009,388		$ 1,679,142,236	
Total Fixed Income Investments		$ 1,781,009,388		$ 1,679,142,236
Equity Investments				
TRA Minneapolis Pool	$ 4,117,786		$ 4,117,786	
External Indexed Equity Pool	1,050,599,553		1,162,967,309	
Global Equity Pool	1,044,839,762		1,172,999,774	
External Domestic Equity Pool	2,581,868,027		2,460,056,098	
Total Equity Investments		$ 4,681,425,128		$ 4,800,140,967
Alternative Investments				
Alternative Investment Pool	$ 722,459,816		$ 842,143,569	
Total Alternative Investments		$ 722,459,816		$ 842,143,569
Short Term Investment				
Short Term Cash Equivalents	$ 77,372,580		$ 77,372,580	
Total Short Term Investment		$ 77,372,580		$ 77,372,580
Total Investments		$ 7,262,266,912		$ 7,398,799,352

*Regular TRA Fund, does not include investments in the Minnesota Post Retirement Investment Fund.

General Information Regarding Investment of Funds

TRA's investments are made by SBI and external managers as prescribed by law, and are made only in such securities as are duly authorized legal investments in accordance with Minnesota Statutes, section 11A.24. State Street Bank and Trust of Boston acts as custodian of securities for the Basic Funds and the Post Fund. Wells Fargo, Saint Paul, Minnesota, is the current custodian of short term investments of SBI. Examination and verification of securities held by the custodians is performed periodically by the Minnesota Office of the Legislative Auditor.

Teachers Retirement Association of Minnesota

Actuarial

Actuarial

Actuarial

Actuarial

Actuarial

Actuarial

Actuary's Certification Letter

SEGAL

THE SEGAL COMPANY
6300 S. Syracuse Way Suite 750 Englewood, CO 80111-7302
T 303.714.9900 F 303.714.9990 www.segalco.com

DIRECT DIAL NUMBER
416-969-3968

E-MAIL ADDRESS
tlevy@segalco.com

December 6, 2006

Board of Trustees
Teachers Retirement Association Fund
60 Empire Drive
Suite 400
St. Paul, MN 55103-1855

Members of the Board:

We have completed the annual valuation of the Teachers Retirement Association Fund (TRA) as of July 1, 2006. Effective June 30, 2006, the Minneapolis Teachers' Retirement Fund Association (MTRFA) merged into TRA, which is reflected in the valuation results as of July 1, 2006. The purpose of this valuation is to determine the financial status of the Plan. To achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Section 356.215 of Minnesota Statutes.

The financing objective of the Fund is to establish contribution rates that remain approximately level (as a percent of payroll) from generation to generation. The objective also includes meeting the required deadlines for full funding. The current funding level (the ratio of actuarial assets to the actuarial accrued liability) is 92.05%.

The valuation uses the Entry Age Normal Cost method, with normal cost expressed as a level percentage of earnings. The required contribution under Chapter 356 consists of the normal cost, a supplemental contribution that will amortize the unfunded accrued liability as a level percent of pay amount and an allowance for administrative expenses.

The results of the valuation indicate that the TRA is behind schedule to meet the required date for full funding. The contribution deficiency is 0.80% of payroll, which is a result of the statutory contribution of 11.31% of payroll being less than the actuarial required contribution of 12.11% of payroll.

The actuarial valuation was based upon applicable statutory provisions and Standards for Actuarial Work in effect on July 1, 2006. Primary actuarial assumptions include a pre-retirement interest rate of 8.50%, a post-retirement interest rate of 6.00% (the 8.50% interest less 2.50% COLA), and other assumptions regarding mortality, disability, retirement, salary increases, and withdrawal that are consistent with the latest experience analysis. Actual plan costs will vary to the extent that actual plan experience varies from these assumptions.

The valuation was performed by using the actuarial cost method and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience, with changes recommended by the

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Teachers Retirement Association Fund
December 6, 2006 ***(Italicized comments added January 25, 2007)***
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The valuation was performed by using the actuarial cost method and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience, with changes recommended by the actuary, adopted by the TRA Board, and approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the TRA comprehensive annual financial report, set by GASB Statement No. 25.

These assumptions meet the parameters set by the Governmental Accounting Standards Board Statement Number 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ***except as otherwise noted.***

Supporting schedules and trend data schedules shown in the Actuarial Section of this financial report were prepared by The Segal Company.

The Schedule of Funding Progress shown in the Financial Section of this financial report was prepared by The Segal Company. Segal determined the amount of Annual Required Contributions shown in the Schedule of Contributions from Employers and the State of Minnesota in the Financial Section of this financial report.

Subsequent to the issuance of this actuarial certification, the Office of the Legislative Auditor included an explanatory paragraph in their report that the Schedule of Employer Contributions and the Schedule of Funding Progress as determined in the actuarial valuation are not in conformity with GASB 25 because the actuarial asset valuation method for the postretirement portion of the plans' investments is not market related. The method used to value these assets is specified in statutory provisions that appear to be in conflict with the requirements of GASB.

Although we have reviewed the data for reasonableness and consistency, we have relied on the basic employee data and asset figures. This employee and asset information form the basis for our valuation and, to the extent that actual data differs from that submitted for purposes of the valuation, results may vary from those shown in the report.

We certify that to the best of our knowledge and belief this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectively submitted,

Thomas D. Levy, FSA, MAAA, EA
Senior Vice President and Chief Actuary

/bkm/jls

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Summary of Actuarial Assumptions and Methods

(Assumptions adopted by the Legislative Commission on Pensions and Retirement on February 22, 2002)

Mortality Rates

Healthy Pre-Retirement	Male	1983 Group Annuity Mortality Table for males set back 12 years
	Female	1983 Group Annuity Mortality Table for females set back 10 years
Healthy Post-Retirement	Male	1983 Group Annuity Mortality Table for males set back 6 years
	Female	1983 Group Annuity Mortality Table for females set back 3 years
Disabled:	Male	1965 Railroad Retirement Board (RRB) rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Healthy Post-Retirement mortality table. For ages 65 and later, the Healthy Post-Retirement mortality table.
	Female	1965 Railroad Retirement Board (RRB) rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Healthy Post-Retirement mortality table. For ages 65 and later, the Healthy Post-Retirement mortality table.

Summary of Rates: Shown below for selected ages:

	Rate (%)								
	Pre-Retirement Mortality		Withdrawal		Disability		Retirement		
							Rule of 90		Salary
Age	Male	Female	Male	Female	Male	Female	Eligible	Other	Increases
20	0.03	0.01	3.70	4.50	0.00	0.00	0.00	0.00	6.00%
25	0.03	0.01	3.20	4.50	0.00	0.00	0.00	0.00	6.00
30	0.04	0.02	2.70	4.50	0.00	0.00	0.00	0.00	6.00
35	0.04	0.03	2.50	3.90	0.01	0.01	0.00	0.00	6.00
40	0.05	0.03	2.35	2.75	0.03	0.03	0.00	0.00	5.70
45	0.07	0.05	2.10	2.10	0.05	0.05	0.00	0.00	5.20
50	0.10	0.07	1.85	1.85	0.11	0.10	0.00	0.00	5.00
55	0.17	0.10	0.00	0.00	0.22	0.16	50.00	9.00	5.00
60	0.31	0.16	0.00	0.00	0.33	0.25	50.00	50.00	5.30
65	0.52	0.25	0.00	0.00	0.00	0.00	50.00	50.00	5.70
70	0.77	0.42	0.00	0.00	0.00	0.00	35.00	35.00	5.70
71	0.84	0.47	0.00	0.00	0.00	0.00	100.00	100.00	5.70

Summary of Retirement Rates:

Age	All TRA and MTRFA Coordinated Members Eligible for Rule of 90	All TRA and former MTRFA Coordinated Members Not Eligible for Rule of 90	Age	Former MTRFA Basic Members Eligible for 30 and Out Provision	Former MTRFA Basic Members Not Eligible for 30 and Out Provision
55 & under	50.0	9.0	55 & under	40.0	5.0
60	50.0	12.0	60	25.0	25.0
65	50.0	50.0	65	40.0	40.0
70	35.0	35.0	70	60.0	60.0
71	100.0	100.0	75	60.0	60.0

Withdrawal Rates: Select and ultimate rates were based on recent plan experience as of June 30, 2000. Ultimate rates after the third year are shown in the rate table. Select rates are as follows:

	First Year	Second Year	Third Year
Male	45.00%	12.00%	6.00%
Female	40.00%	10.00%	8.00%

Salary Increases: Reported salary for prior fiscal year, with new hires annualized, increased according to the ultimate table shown in the rate table to current fiscal year and annually for each future year. During a ten-year select period, 0.30 x (10-T) where T is completed years of service is added to the ultimate rate.

Retirement Age: Graded rates beginning at age 55 as shown in rate table. Members who have attained the highest assumed retirement age will retire in one year

Percent Married: 85 percent of male members and 65 percent of female members are assumed to be married. Assume members have no children.

Age of Spouse: Females three years younger than males.

Net Investment Return:

Pre-Retirement: 8.50 percent per annum

Post-Retirement: 6.00 percent per annum

Administrative Expenses: Prior year administrative expenses expressed as percentage of prior year payroll.

Allowance for Combined Service Annuity: Liabilities for active members are increased by 1.40 percent and liabilities for former members are increased by 4.00 percent to account for the effect of some Participants having eligibility for a Combined Service Annuity.

Return of Contributions:	All employees withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.
Interest on Member Contributions:	Members and former members who are eligible for the money purchase annuity are assumed to receive interest credits equal to the Pre-Retirement interest rate. All other members and former members receive the interest crediting rate as specified in statutes.
Special Consideration:	Married members assumed to elect subsidized joint and survivor form of annuity as follows: Males: 15% elect 50% J&S option 25% elect 75% J&S option 55% elect 100% J&S option Females: 20% elect 50% J&S option 10% elect 75% J&S option 30% elect 100% J&S option
Benefit Increases After Retirement:	Payment of earnings on retired reserves in excess of 6.00 percent accounted for by 6.00 percent post-retirement assumptions.
Asset Valuation Method:	Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets and the asset return expected during the fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Actuarial Cost Method:	Entry Age Normal Cost Method. Entry age is the age at the time the participant commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are expressed as a level percentage of payroll, with Normal Cost determined as if the current benefit accrual rate had always been in effect.
Payment on the Unfunded Actuarial Accrued Liability:	A level percentage of payroll each year to the statutory amortization date (June 30, 2037), assuming payroll increases of 5.00 percent per annum.
Changes in Actuarial Assumptions and Cost Methods:	There have been no changes made to the actuarial cost methods since the prior valuation. Effective June 30, 2006, the Minneapolis Teachers Retirement Fund Association (MTRFA) merged into the Teachers Retirement Association. All members follow the TRA actuarial assumptions, except former MTRFA Basic members continue to use prior MTRFA Basic retirement rates.

Valuation Report Highlights

Summary of Key Valuation Results

	July 1, 2006 Valuation	July 1, 2005 Valuation
Contributions (% of payroll) for plan year beginning July 1:		
Statutory — Chapter 354	11.31%	10.00%
Required — Chapter 356	12.11%	9.05%
Sufficiency/(Deficiency)	-0.80%	0.95%
Funding elements for plan year beginning July 1:		
Normal cost	$ 349,678,399	$ 271,801,325
Market value of assets	19,785,671,584	17,806,012,464
Actuarial value of assets (AVA)	19,035,611,839	17,752,917,313
Actuarial accrued liability (AAL)	20,679,110,879	18,021,410,061
Unfunded/(Overfunded) actuarial accrued liability	$ 1,643,499,040	$ 268,492,748
Funded ratios:		
Accrued Benefit Funded Ratio	95.64%	103.31%
Current assets (AVA)	$19,035,611,839	$ 17,752,917,313
Current benefit obligations	19,902,652,650	17,184,241,402
Projected Benefit Funded Ratio	97.63%	101.82%
Current and expected future assets	23,163,841,989	20,807,440,232
Current and expected future benefit obligations (Present Value of Benefits)	$23,726,317,592	$ 20,435,323,407
GASB 25/27 for plan year beginning July 1:		
Annual required employee contributions	$ 133,388,506	$ 103,102,940
Accrued Liability Funded Ratio (AVA/AAL)	92.05%	98.51%
Covered actual payroll	$ 3,430,645,420	$ 3,121,571,447
Demographic data for plan year beginning July 1:		
Number of pensioners and beneficiaries	44,683	38,957
Number of vested terminated members	11,773	9,880
Number of other non-vested terminated members	21,956	19,151
Number of active members	79,164	74,552
Total projected payroll*	$ 3,707,900,584	$ 3,389,066,754
Average annual payroll (projected dollars)*	$ 46,838	$ 45,459

* *The results of the July 1, 2006 actuarial valuation reflect the MTRFA merger effective June 30, 2006.*

** *Calculated as covered actual payroll, projected one year with salary scale.*

Actuary's Commentary

Purpose

This report has been prepared by The Segal Company to present a valuation of the Teachers Retirement Association Fund as of July 1, 2006. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- Section 356.215 of the Minnesota Statutes;
- The benefit provisions of the Retirement Fund, as administered by the Fund;
- The characteristics of covered active members, inactive vested members, pensioners and beneficiaries as of July 1, 2006, provided by the Fund;
- The assets of the Fund as of June 30, 2006, provided by the Fund;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

- The actuarial accrued liability funded ratio based on the actuarial value of assets over the actuarial accrued liability as of July 1, 2006 is 92.05 percent compared to 98.51 percent as of July 1, 2005. This ratio is a measure of funding status, and its history is a measure of funding progress, and is the ratio required to be reported under GASB 25.
- The statutory contribution rate under Chapter 354 is equal to 11.31 percent of payroll compared to the required contribution rate under Chapter 356 of 12.11 percent of payroll. Therefore, the contribution deficiency is 0.80 percent of payroll as of July 1, 2006. Each year that there is a contribution deficiency leads to an increased deficiency in all future years.
- There are no changes in actuarial cost methods since the prior valuation.
- Effective June 30, 2006, the Minneapolis Teachers Retirement Fund Association (MTRFA) merged into the Teachers Retirement Association (TRA) Fund.
- Changes in plan provisions include:
  - The benefit multiplier is increased by 0.2 percent for all years of service after June 30, 2006, for all TRA (non-MTRFA and former MTRFA) Coordinated members.
  - The Coordinated employee contribution rates increased from 5.00 percent to 5.50 percent of payroll for the non-MTRFA members, effective July 1, 2006.
  - The former MTRFA Basic employee contribution rates increased from 8.50 percent to 9.00 percent of payroll effective July 1, 2006.
  - The deferred annuity benefit increase rate for post June 30, 2006 hires is reduced to 2.50 percent for all years. This change does not impact the results stated in this July 1, 2006 actuarial valuation.
- The changes in actuarial assumptions are as follows:
  - All non-MTRFA and former MTRFA members use the TRA actuarial assumptions, except former MTRFA Basic members continue to use prior MTRFA Basic Retirement Rates.
  - The payment on the unfunded actuarial accrued liability is amortized over the reinstated statutory amortization date of July 1, 2037 (31 years as of July 1, 2006). The amortization period is 30 years for GASB purposes.
- The cost impact to the TRA plan due to the plan merger effective June 30, 2006, and the changes stated above is shown below:
  - The increase in actuarial accrued liability (AAL) equals $1,985,200,427 ($20,679,100,879 (post-merger) minus $18,693,910,452 (non-MTRFA members only)).
  - The increase in normal cost (NC) equals $56,181,160 ($349,678,399 (post-merger) minus $293,497,239 (non-MTRFA members only)).

TRA Plan Census

For Years Ended June 30, 2006 and 2005

Category	2006	2005	Change From Prior Year
Active members in valuation:			
Number	79,164	74,552	6.2%
Average age	43.3	43.1	N/A
Average service	11.6	11.7	N/A
Total projected payroll	$3,707,900,584	$3,389,066,754	9.4%
Average projected payroll	46,838	45,459	3.0%
Total active vested members	61,741	57,941	6.6%
Vested terminated members	11,773	9,880	19.2%
Retired participants:			
Number in pay status	41,009	35,779	14.6%
Average age	70.3	70.0	N/A
Average monthly benefit	$2,353	$2,313	1.7%
Disabled members:			
Number in pay status	630	581	8.4%
Average age	57.5	57.5	N/A
Average monthly benefit	$1,656	$1,620	2.2%
Beneficiaries:			
Number in pay status	3,044	2,597	17.2%
Average age	76.6	76.5	N/A
Average monthly benefit	$2,113	$2,029	4.1%
Other non-vested terminated members	21,956	19,151	14.6%

**For the year ended June 30, 2006, information reflects the MTRFA merger effective June 30, 2006, and may include duplicate records due to the merger. Upon conversion of former MTRFA members into the TRA data base, member data totals will be adjusted accordingly.*

Reconciliation of Member Data*

		Active Members	Leave of Absence	Inactive Vested Members	Other Non-Vested Members	Retired Participants	Disabled	Beneficiaries	Other Beneficiaries	Total
A.	Number as of June 30, 2005	79,254	54	11,257	22,755	39,282	606	2,874	34	156,116
B.	Adjustments	(28)	0	17	(193)	(47)	6	34	0	(211)
C.	Number as of June 30, 2005 from TRA	79,226	54	11,274	22,562	39,235	612	2,908	34	155,905
D.	Additions	7,777	12	1,674	3,691	2,548	88	272	2	16,064
E.	Deletions									
	1. Retirements from Active/ Inactive	(2,076)	(7)	(339)	(81)	0	0	0	0	(2,503)
	2. Disability Retirements from Active	(103)	(1)	0	0	0	0	0	0	(104)
	3. Retirements from Disability	0	0	0	0	0	(49)	0	0	(49)
	4. Active Disability from Inactive	0	0	(21)	(3)	0	0	0	0	(24)
	5. Died with Beneficiary	(1)	0	0	0	(218)	(9)	0	0	(228)
	6. Died without Beneficiary	(48)	0	(23)	(20)	(575)	(7)	(60)	0	(733)
	7. Terminated - deferred	(1,644)	0	0	0	0	0	0	0	(1,644)
	8. Terminated - other non-vested	(3,542)	0	(63)	0	0	0	0	0	(3,605)
	9. Refunds	(471)	(1)	(33)	(891)		0	0	0	(1,396)
	10. Contributions written off	0	0	0	(1,942)	0	0	0	0	(1,942)
	11. Rehired as active	0	(1)	(694)	(1,360)	0	0	0	0	(2,055)
	12. Expired benefits	0	0	0	0	(17)	(5)	(76)	0	(98)
	13. Leave of absence	(10)	0	(2)	0	0	0	0	0	(12)
F.	Number as of June 30, 2006	79,108	56	11,773	21,956	40,973	630	3,044	36	157,576

*May include duplicate records due to the MTRFA merger effective June 30, 2006, as explained on page 61.

Statement of Plan Net Assets

Year Ended June 30, 2006

	Market Value	Cost Value
Assets in Trust		
Cash, equivalents, short-term securities	$ 83,230,595	$ 83,230,595
Fixed income	1,679,142,236	1,781,009,388
Equity	5,642,284,536	5,403,884,944
Equity in Minnesota Post-Retirement Investment Fund*	12,371,205,127	12,371,205,127
Invested securities lending collateral	2,114,270,243	2,114,270,243
Other assets	11,469,647	11,469,647
Total assets in trust	$ 21,901,602,384	$ 21,765,069,944
Assets receivable	$ 18,820,662	$ 18,820,662
Liabilities		
Invested Securities Lending Collateral	$ (2,114,270,243)	$ (2,114,270,243)
Other	(20,481,221)	(20,481,221)
Total liabilities	$ (2,134,751,464)	$ (2,134,751,464)
Net assets held in trust for pension benefits		
MPRIF reserves	$ 12,371,205,127	$ 12,371,205,127
Member reserves	1,765,117,058	1,765,117,058
Other non-MPRIF reserves	5,649,349,399	5,512,816,958
Total assets available for benefits	$ 19,785,671,584	$ 19,649,139,143
Net Assets at Market/Cost Value	$ 19,785,671,584	$ 19,649,139,143

** The number shown is the full MPRIF reserve amount. The actual MPRIF market value of $10,350,059,985 is not used for funding purposes because this deficiency is accounted for separately and is expected to be recovered from future excess earnings on MPRI funds.*

Statement of Change in Net Plan Assets

Year Ended June 30, 2006

	Non-MPRIF Assets	MPRIF Reserve	Market Value
A. Assets available at beginning of period			
1. TRA as of July 1, 2005	$ 7,367,961,106	$ 10,438,051,358	$ 17,806,012,464
2. MTRFA as of July 1, 2005	745,214,858	0	745,214,858
B. Additions			
1. Member contributions	$ 177,084,905	$ 0	$ 177,084,905
2. Employer contributions	179,021,626	0	179,021,626
3. Contributions from other sources	3,182,223	0	3,182,223
4. MPRIF income	0	865,479,866	865,479,866
5. Net investment income			
a. Interest and dividends	680,655,345	0	680,655,345
b. Net appreciation/(depreciation)	562,492,562	0	562,492,562
c. Investment expenses	(13,112,860)	0	(13,112,860)
d. Net subtotal	1,230,035,047	0	1,230,035,047
6. Other	29,494,099	0	29,494,099
7. Total additions	$ 1,618,817,900	$ 865,479,866	$ 2,484,297,766
C. Operating expenses			
1. Service requirements	$ 119,169,297	$ 1,067,733,747	$ 1,186,903,044
2. Disability benefits	13,118,722	0	13,118,722
3. Survivor benefits	8,976,762	15,213,496	24,190,258
4. Refunds	11,872,504	0	11,872,504
5. Administrative expenses	11,912,701	0	11,912,701
6. Other	1,856,275	0	1,856,275
7. Total operating expenses	$ 166,906,261	$ 1,082,947,243	$ 1,249,853,504
D. Other changes in reserves			
1. Annuities awarded			
(a) Non-MTRFA members	$ (1,174,768,874)	$ 1,174,768,874	$ 0
(b) Former MTRFA members	(712,586,000)	712,586,000	0
(c) Shortfall due to MTRFA merger	(263,995,000)	263,995,000	0
2. Mortality gain/(loss)	728,728	(728,728)	0
3. Change in MPRIF assumptions	0	0	0
4. Total other changes	$ (2,150,621,146)	$ (2,150,621,146)	$ 0
E. Assets available at end of period	$ 7,414,466,457	$ 12,371,205,127	$ 19,785,671,584

F. Determination of current year unrecognized asset return	
1. Average balance	
a. Non-MPRIF assets available at BOY: (A)	$ 8,113,175,964
b. Non-MPRIF assets available at EOY*: (E)	7,413,737,729
c. Average balance [(a) + (b) - Net Investment Income] / 2	
Net Investment Income: (B.5 (d)) + (B.6)	7,133,692,274
2. Expected return: 8.50% x (F.1. (c)):	606,363,843
3. Actual return (B.5 (d)) + (B.6)	1,259,529,146
4. Current year unrecognized asset return: (F.3) - (F.2)	$ 653,165,303

**Before adjustment for MPRIF mortality gain (loss) and new MPRIF assumptions.*

Determination of Actuarial Value of Assets

Year Ended June 30, 2006

1. Market value of assets available for benefits (page 63)				$ 19,785,671,584
		Original Amount	**% Not Recognized**	
2. Calculation of unrecognized return				
(a) Year ended June 30, 2006	$	653,165,303	80%	$ 522,532,242
(b) Year ended June 30, 2005		179,823,045	60%	107,893,827
(c) Year ended June 30, 2004		499,642,191	40%	199,856,876
(d) Year ended June 30, 2003		(401,116,000)	20%	(80,223,200)
(e) Total unrecognized return				$ 750,059,745
3. Actuarial value of assets: (1) - (2e) ("Current Assets")				$ 19,035,611,839
4. Actuarial value as a percent of market value				96.2%

Financial Information

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Minnesota Statutes require an asset valuation method that gradually adjust to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable. The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

Both the actuarial value and market of assets are representations of the Fund's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Fund's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

The reader should also refer to the Management Discussion and Analysis on page 17, as the actuarial value of assets calculated above does not consider TRA's share of the current funding deficiency in the Minnesota Post Retirement Investment Fund (MPRIF).

Actuarial Experience

Year Ended June 30, 2006

1.	Net gain/(loss) from investments	$ (146,446,633)
2.	Net gain/(loss) from other experience	41,724,091
3.	Net experience gain/(loss): (1) + (2)	$ (104,722,542)

Actuarial Experience

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

For the plan year ended June 30, 2006, the total loss is $104,722,542, including a loss of $146,446,633 from investments and a gain of $41,724,091 from all other sources. The net experience variation from individual sources other than investments was 0.2 percent of the actuarial accrued liability, which is under 1.0 percent of the total actuarial accrued liability, and includes age/service requirements, disability, mortality (pre and post-retirement), withdrawal, and salary increases.

Actuarial Balance Sheet

July 1, 2006

A.	**Current Assets** (page 65)		$ 19,035,611,839
B.	**Expected Future Assets**		
	1. Present Value of Expected Future Statutory Supplemental Contributions		$ 1,081,023,437
	2. Present Value of Future Normal Costs		3,047,206,713
	3. Total Expected Future Assets		$ 4,128,230,150
C.	**Total Current and Expected Future Assets**		$ 23,163,841,989

D. Current Benefit Obligations	**Non-Vested**	**Vested**	**Total**
1. Benefit recipients			
a. Retirement annuities	0	$ 11,791,747,113	$ 11,791,747,113
b. Disability benefits	0	158,375,802	158,375,802
c. Beneficiaries	0	576,464,967	576,464,967
2. Vested terminated members	0	345,169,495	345,169,495
3. Other non-vested terminated members	0	35,164,455	35,164,455
4. Active members:			
a. Retirement benefits	$ 30,002,940	$ 6,405,754,683	$ 6,435,757,623
b. Disability benefits	1,075,706	107,810,430	108,886,136
c. Death benefits	469,292	49,640,233	50,109,525
d. Withdrawal benefits	14,523,962	386,453,572	400,977,534
5. Total Current Benefit Obligations	$ 46,071,900	$ 19,856,580,750	$ 19,902,652,650

E.	**Expected Future Benefit Obligations**	$ 3,823,664,942
F.	**Total Current and Expected Future Benefit Obligations Present Value of Benefits: (D.5 + E)**	$ 23,726,317,592
G.	**Current Unfunded Actuarial Liability (D.5 – A)**	$ 867,040,811
H.	**Current and Future Unfunded Actuarial Liability (F – C)**	$ 562,475,603

Determination of Unfunded Actuarial Accrued Liability (UAAL) and Supplemental Contribution Rate

July 1, 2006

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. Determination of Actuarial Accrued Liability			
1. Active Members			
a. Retirement benefits	$ 9,837,479,619	$ 2,412,354,977	$ 7,425,124,642
b. Disability benefits	186,347,284	73,057,808	113,289,476
c. Death benefits	83,167,006	31,464,775	51,702,231
d. Withdrawal benefits	712,401,851	530,329,153	182,072,698
e. Total	$10,819,395,760	$ 3,047,206,713	$ 7,772,189,047
2. Vested terminated members	$ 345,169,495	0	$ 345,169,495
3. Other non-vested terminated members	35,164,455	0	35,164,455
4. Annuitants in the MPRIF	12,371,205,127	0	12,371,205,127
5. Annuitants not in the MPRIF	155,382,755	0	155,382,755
6. Total	$23,726,317,592	$ 3,047,206,713	$20,679,110,879

B. Determination of Unfunded Actuarial Accrued Liability

1. Actuarial Accrued Liability	$20,679,110,879
2. Actuarial Value of Assets (page 65)	19,035,611,839
3. Unfunded Actuarial Accrued Liability: (B.1) - (B.2)	$ 1,643,499,040

C. Determination of Supplemental Contribution Rate

1. Present value of future payrolls through the amortization date of June 30, 2037	$70,196,327,078
2. Supplemental contribution rate (B.3) ÷ (C.1)	2.34%

D. Determination of GASB Contribution Rate (Amortization Period of 30 Years)

1. Present value of future payrolls through the amortization date of July 30, 2036	$68,869,461,736
2. Supplemental contribution rate (B.3) ÷ (D.1)	2.39%

Development of Unfunded/(Overfunded) Actuarial Accrued Liability

Year Ending June 30, 2006

1.	Unfunded/(Overfunded) actuarial accrued liability at beginning of year*		$ 1,241,051,585
2.	Normal cost at beginning of year, including expenses*		305,695,299
3.	Total contributions		356,106,531
4.	Interest		
	a. For whole year on (1) + (2)	$ 131,473,485	
	b. For half year on (3)	15,134,527	
	c. Total interest: (4a) - (4b)		116,338,958
5.	Expected unfunded/(overfunded) actuarial accrued liability: (1) + (2) - (3) + (4)		$ 1,306,979,311
6.	Changes due to (gain)/loss from:		
	a. Investments	$ 146,446,633	
	b. Other demographics**	(41,724,091)	
	c. Total changes due to (gain)/loss (page 62)		$ 104,722,542
7.	Changes to plan provision and assumptions due to the MTRFA merger		$ 231,797,187
8.	Unfunded/(Overfunded) actuarial accrued liability at end of year		$ 1,643,499,040

* *Equals the sum of TRA and former MTRFA results stated in the July 1, 2005 actuarial valuation*

** *Includes (gain)/loss due to age/service retirements, disability, mortality (pre and post-retirement), withdrawal and salary increases.*

Determination of Contribution Sufficiency

July 1, 2006

	Percent of Payroll	Dollar Amount
A. Statutory Contributions - Chapter 354		
1. Employee contributions	5.51%	$ 204,456,479
2. Employer contributions	5.23%	93,832,020
3. Supplemental contributions*		
(a) 1993 Legislation	0.13%	5,000,000
(b) 1996 Legislation	0.08%	3,005,110
(c) 1997 Legislation	0.36%	13,314,000
4. Total	11.31%	$ 419,607,609
B. Required Contributions - Chapter 356		
1. Normal Cost		
a. Retirement	7.68%	$ 284,803,369
b. Disability	0.21%	7,729,157
c. Death	0.10%	3,530,985
d. Withdrawal	1.45%	53,614,888
e. Total	9.44%	$ 349,678,399
2. Supplemental contribution amortization	2.34%	$ 86,764,874
3. Allowance for administrative expenses	0.33%	12,236,072
4. Total	12.11%	$ 448,679,345
C. Contribution Sufficiency (Deficiency) (A.4) - (B.4)	-0.80%	$ (29,071,736)
Projected annual payroll for fiscal year beginning on the valuation date**		**$3,707,900,584**

** Includes contributions from School District #1, the City of Minneapolis, and matching State contributions.*

***Calculated as covered actual payroll, projected one year with salary scale.*

Solvency Test

Dollar Amounts in Thousands

Valuation as of June 30	Aggregate Accrued Liabilities: (1) Member Contributions	(2) Retirees and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Reported Assets: (1)	(2)	(3)
1997	1,252,843	4,808,918	4,901,876	11,103,759	100%	100%	100.0%
1998	1,303,006	5,570,230	5,173,076	12,727,546	100%	100%	100.0%
1999	1,321,579	6,751,682	5,186,308	14,011,247	100%	100%	100.0%
2000	1,354,683	8,055,622	5,392,136	15,573,151	100%	100%	100.0%
2001	1,403,755	9,106,198	5,394,031	16,834,024	100%	100%	100.0%
2002	1,483,243	9,555,364	5,464,492	17,378,994	100%	100%	100.0%
2003	1,561,048	9,713,507	5,581,824	17,384,179	100%	100%	100.0%
2004	1,632,995	10,092,955	5,792,834	17,519,909	100%	100%	100.0%
2005	1,704,913	10,438,051	5,878,446	17,752,917	100%	100%	95.4%
2006	1,765,117	12,526,588	6,387,406	19,035,612	100%	100%	74.3%

Schedule of Active Member Valuation Data

Dollar Amounts in Thousands

Year Ended June 30	Active Members	$ Annual Covered Payroll	% Increase in Covered Payroll	$ Annual Average
1997	68,554	2,359,011	4.7%	34,411
1998	68,247	2,422,958	2.7%	35,503
1999	68,613	2,625,254	8.3%	38,262
2000	70,508	2,704,575	3.0%	39,249
2001	71,097	2,812,000	4.0%	39,552
2002	71,690	2,873,771	2.2%	40,086
2003	71,916	2,952,887	2.8%	41,060
2004	72,008	3,032,483	2.7%	42,113
2005	74,552	3,121,571	2.9%	41,871
2006	79,164	3,430,645	9.9%	43,336

Schedule of Retirees and Beneficiaries Added To and Removed From Retirement Rolls

Fiscal Year	Added To Rolls Number	Added To Rolls Annual Allowances	Removed From Rolls Number	Removed From Rolls Annual Allowances	Rolls: June 1, 200X Payment Number	Rolls: June 1, 200X Payment Annual Allowances	Average Annual Allowances
2006*							
Retirement	2,300	$ 62,956,636	670	$ 18,431,998	36,750	$ 1,016,543,840	$ 27,661
Disability	83	$ 1,363,524	66	$ 1,427,682	604	$ 11,586,536	$ 19,183
Beneficiaries	337	$ 7,296,282	149	$ 2,867,820	3,216	$ 72,667,165	$ 22,596
2005							
Retirement	2,106	$ 57,668,914	661	$ 16,831,656	35,120	$ 971,477,075	$ 27,661
Disability	58	$ 1,011,616	59	$ 1,288,335	587	$ 11,409,732	$ 19,437
Beneficiaries	297	$ 6,475,987	154	$ 3,016,273	3,028	$ 67,280,901	$ 22,219
2004							
Retirement	1,726	$ 48,266,626	689	$ 17,942,943	33,675	$ 933,150,918	$ 27,710
Disability	74	$ 1,431,398	45	$ 943,335	588	$ 11,462,253	$ 19,494
Beneficiaries	299	$ 6,196,059	137	$ 2,506,367	2,885	$ 62,690,339	$ 21,730
2003							
Retirement	1,752	$ 45,213,170	681	$ 16,595,867	32,638	$ 905,702,949	$ 27,751
Disability	60	$ 838,012	54	$ 1,199,063	559	$ 10,839,002	$ 19,355
Beneficiaries	278	$ 6,006,648	136	$ 2,022,035	2,723	$ 58,540,855	$ 21,499
2002 - Total Benefit Recipients					34,974	$ 946,344,333	
2001 - Total Benefit Recipients					33,757	$ 861,787,476	
2000 - Total Benefit Recipients					31,946	$ 755,036,577	
1999 - Total Benefit Recipients					29,749	$ 620,937,964	

**Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.*

Note: Detailed data on retirees and beneficiaries added to and removed from rolls is not available prior to fiscal year 2003.

Teachers Retirement Association of Minnesota

Statistical

Statistical

Statistical

Statistical

Statistical

Statistical

Statistical Summary

For the fiscal year ended June 30, 2006, TRA implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section, issued in May 2004. The pronouncement establishes and modifies requirements related to the supplementary information presented in this section of the report. This section of the report provides detailed information about TRA as a context for understanding what the information in the financial statement note disclosures, and required supplementary information indicates about the Association's overall financial condition.

The schedules and graphs beginning on page 75 show trend information about the growth of TRA assets over the past 10 years. These schedules, and others, provide detailed information about the trends of key sources of additions and deductions to plan assets.

The schedule of Pension Assets Compared to Pension Liabilities, found on pages 76-77 (bottom), show the funding progress of the plan for the past 10 years on accumulating assets to cover projected pension liabilities which will ultimately be due at retirement.

The Contribution Rate chart on page 75 provides historical information on the total member and employer contribution rates.

The schedules on pages 79-85 include detailed information regarding the number and type of benefit recipients, and information as to the benefit amount.

The chart on page 86 provides a profile of TRA active members on June 30, 2006, by age and service credit totals.

The chart on page 87 contains information on the total number of members by type.

The schedules on page 88 detail the largest TRA employer units by covered employees and by types of employer.

All non-accounting data is derived from TRA internal sources. Due to the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA, approximately 4,000 former MTRFA benefit recipients were transferred to TRA as of June 30, 2006. Since TRA is continuing to operate the payment processing systems formerly used by MTRFA, some of the schedules presented were not able to include the former MTRFA benefit recipients into the exhibits shown. The conversion of former MTRFA members into TRA's data base is expected to be finalized by June 30, 2007. Upon conversion, improved statistical detailed reporting on benefit recipients will be available.

10-Year History of Plan Net Assets

June 30 Fiscal Year End	Plan Net Assets	% Change From Prior Year
1997	$12,291,310,349	—
1998	$15,289,822,531	24.4%
1999	$16,692,428,535	9.2%
2000	$17,749,580,369	6.3%
2001	$15,902,335,962	-10.4%
2002	$13,997,762,175	-12.0%
2003	$13,061,606,463	-6.7%
2004	$15,095,803,651	15.6%
2005	$15,928,603,867	5.5%
2006	$17,764,526,441	11.5%

10-Year History of Contribution Rates

Year	Basic Program Employee Contribution Rate	Basic Program Employer Contribution Rate	Basic Program Total Contribution Rate	Coordinated Employee Contribution Rate	Coordinated Employer Contribution Rate	Coordinated Total Contribution Rate
1997	10.50%	14.14%	24.64%	6.5%	8.14%	14.64%
1998	9.00%	10.64%	19.64%	5.0%	6.64%	11.64%
1999	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2000	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2001	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2002	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2003	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2004	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2005	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%
2006	9.00%	9.00%	18.00%	5.0%	5.0%	10.00%

Teachers Retirement Association
10-Year History of Changes in Plan Net Assets

	1997	1998	1999	2000
Additions				
Member Contributions	$ 154,160,516	$ 124,095,573	$ 132,040,005	$ 138,696,271
Employer Contributions	191,670,080	151,322,830	130,525,591	134,418,833
Net Income (Loss) From Investing Activity	2,296,019,494	2,637,948,298	1,775,404,067	1,555,989,313
Other Income, Net	704,736	$1,329,869	1,587,211	2,387,928
Total Additions to Plan Net Assets	$ 2,642,554,826	$ 2,914,696,570	$ 2,039,556,874	$ 1,831,492,345
Deductions				
Pension Benefits	$ 427,588,141	$ 533,851,113	$ 620,937,964	$ 755,036,577
Refunds	10,898,914	5,689,067	6,271,448	7,262,919
Administrative Expenses	4,552,372	5,417,370	7,976,908	8,137,683
Other	638,751	1,226,838	1,764,550	3,903,332
Total Deductions from Plan Net Assets	$ 443,678,178	$ 546,184,388	$ 636,950,870	$ 774,340,511
Net Increase (Decrease)	$ 2,198,876,648	$ 2,368,512,182	$ 1,402,606,004	$ 1,057,151,834
Net Assets Held in Trust, End of Year	$12,921,310,349	$15,289,822,531	$16,692,428,535	$17,749,580,369
Net Assets Held in Trust, Beginning of Year	$10,722,433,701	$12,921,310,349	$15,289,822,531	$16,692,428,535

10-Year History of Pension Assets vs. Pension Liabilities

	1997	1998	1999	2000
Pension Assets (Actuarial Value)	$11,103,759,000	$12,727,546,000	$14,011,247,000	$15,573,151,000
Accrued Liabilities	$10,963,637,000	$12,046,312,000	$13,259,569,000	$14,802,441,000
Unfunded Liabilities (Sufficiency)	$ (140,122,000)	$ (681,234,000)	$ (751,678,000)	$ (770,710,000)
Funded Ratio	101.3%	105.7%	105.7%	105.2%

2001	2002	2003	2004	2005	2006
$ 145,463,793	$ 153,453,051	$ 157,066,856	$ 162,505,545	$ 163,967,082	$ 180,267,128
139,799,408	142,221,589	149,480,510	151,028,911	157,693,090	179,021,626
(1,244,340,580)	(1,236,187,539)	293,085,074	2,204,787,495	1,575,519,541	1,951,778,365
2,767,786	3,366,420	$2,927,201	3,900,007	3,310,681	29,494,099
$ (956,309,593)	$ (937,146,479)	$ 602,559,641	$ 2,522,221,958	$ 1,900,490,394	$ 2,340,561,220
$ 861,767,476	$ 946,344,333	$ 978,466,617	$ 1,008,410,471	$ 1,048,440,525	$ 1,224,212,024
7,608,839	7,353,363	6,656,191	6,861,708	6,744,116	11,872,504
13,077,718	12,911,651	$13,158,348	12,179,212	10,883,151	11,912,701
8,460,781	817,961	434,197	573,379	1,622,386	1,856,275
$ 890,914,814	$ 967,427,308	$ 998,715,353	$ 1,028,024,770	$ 1,067,690,178	$ 1,249,853,504
$ (1,847,224,407)	$(1,904,573,787)	$ (396,155,712)	$ 1,494,197,188	$ 832,800,216	$ 1,090,707,716
$15,902,355,962	$13,997,762,175	$13,601,606,463	$15,095,803,651	$15,928,603,867	$16,673,818,725
$17,749,580,369	$15,902,335,962	$13,997,762,175	$13,601,606,463	$15,095,803,651	$17,764,526,441

2001	2002	2003	2004	2005	2006
$16,834,024,000	$17,378,994,000	$17,384,179,000	$17,519,909,000	$17,752,917,000	$19,035,612,000
$15,903,099,000	$16,503,099,000	$16,856,379,000	$17,518,784,000	$18,021,410,000	$20,679,111,000
$ (930,925,000)	$ (875,895,000)	$ (527,800,000)	$ (1,125,000)	$ 268,493,000	$ 1,643,499,000
105.9%	105.3%	103.1%	100.0%	98.5%	92.0%

TRA

10-Year History of Benefit Recipients by Category

Year	Annuitants	Disabilitants	Survivors	Total
1997	23,678	425	1,578	25,681
1998	25,088	454	1,686	27,228
1999	27,457	476	1,816	29,749
2000	29,525	509	1,912	31,946
2001	31,169	518	2,070	33,757
2002	32,231	551	2,192	34,974
2003	33,290	558	2,351	36,199
2004	34,581	589	2,479	37,649
2005	35,779	581	2,597	38,957
2006*	40,973	630	3,080	44,683

Includes former MTRFA benefit recipients transferred to TRA on June 30, 2006 as follows:

3,600	*Annuitants*
32	*Disabilitants*
326	*Survivors*
3,958	*Benefit recipients transferred on June 30, 2006 from MTRFA*

Schedule of Benefit Amounts Paid*

For Month of June 2006

Monthly Benefit Amount	Number of Recipients	Cumulative Total	Percent	Cumulative Percent
Under $100 - 499	4,803	4,803	11.84	11.84
$ 500 - 999	4,449	9,252	10.97	22.81
$ 1,000 - 1,499	4,534	13,786	11.17	33.98
$ 1,500 - 1,999	5,364	19,150	13.22	47.20
$ 2,000 - 2,499	5,772	24,922	14.23	61.43
$ 2,500 - 2,999	4,637	29,559	11.43	72.86
$ 3,000 - 3,499	3,598	33,157	8.87	81.73
$ 3,500 - 3,999	2,531	35,688	6.24	87.97
$ 4,000 - 4,499	1,712	37,400	4.22	92.19
$ 4,500 - 4,999	1,040	38,440	2.56	94.75
$ 5,000 - 5,499	713	39,153	1.76	96.51
$ 5,500 - 5,999	455	39,608	1.12	97.63
$ 6,000 - 6,499	331	39,939	0.82	98.45
$ 6,500 - 6,999	235	40,174	0.58	99.03
$ 7,000 - 7,499	161	40,335	0.40	99.43
$ 7,500 - 7,999	85	40,420	0.21	99.64
$ 8,000 - 8,499	60	40,480	0.15	99.79
$ 8,500 - 8,999	27	40,507	0.07	99.86
$ 9,000 - 9,499	18	40,525	0.04	99.90
$ 9,500 - 9,999	17	40,542	0.04	99.94
$10,000 - 10,499	11	40,553	0.03	99.97
$10,500 - 10,999	6	40,559	0.01	99.98
$11,000 - 11,499	5	40,564	0.01	99.99
$11,500 - 11,999	1	40,565	0.00	99.99
$12,000 - 12,499	2	40,567	0.00	99.99
$12,500 and over	3	40,570	0.01	100.00

Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.

10-Year History of Benefits and Refunds by Type

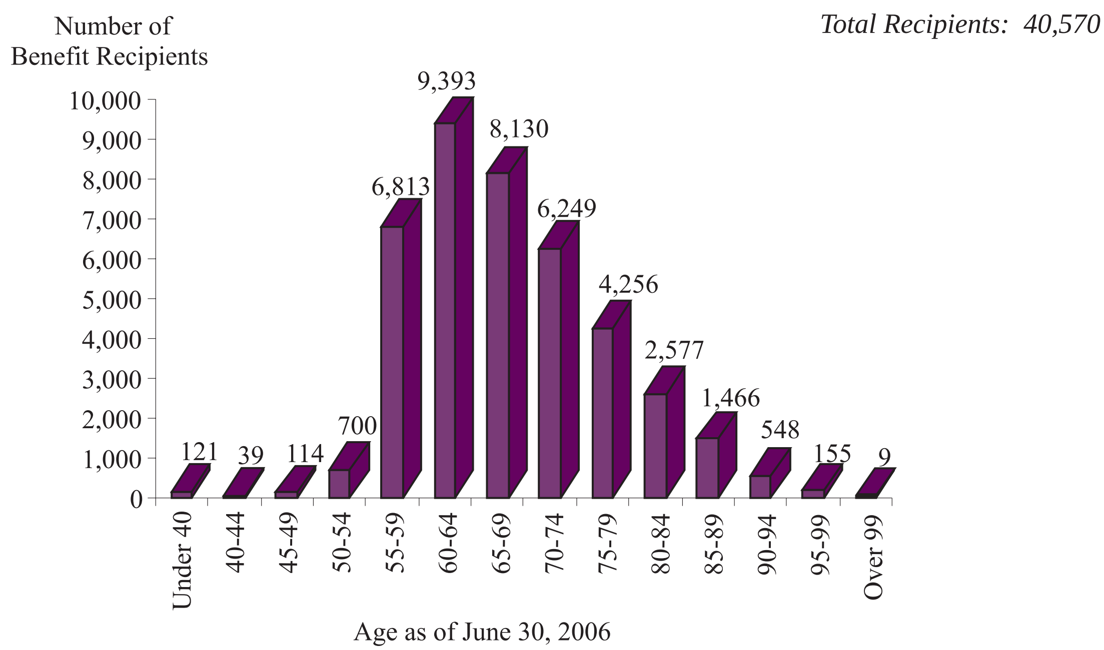
Pension Benefits	**1997**	**1998**	**1999**	**2000**
Annuities	$414,414,893	$517,008,277	$602,176,461	$734,173,055
Disabilities	6,285,354	7,815,166	8,869,921	9,837,686
Survivor Benefits	6,887,894	9,027,669	9,891,582	11,025,836
Total Pension Benefits	$427,588,141	$533,851,112	$620,937,964	$755,036,577
Refunds	$ 10,898,914	$ 5,689,067	$ 6,271,448	$ 7,262,919
Total Benefits and Refunds	$438,487,055	$539,540,179	$627,209,412	$762,299,496

* *Dollar values include fiscal year 2006 benefit payments made to benefit recipients of MTRFA transferred to TRA on June 30, 2006.*

2001	2002	2003	2004	2005	2006*
$839,034,887	$919,648,266	$952,017,588	$982,474,587	$1,022,761,163	$ 1,186,903,044
10,530,210	11,477,973	11,346,039	11,734,673	11,810,137	13,118,722
12,222,381	14,096,110	13,613,284	14,201,212	13,869,225	24,190,258
$861,787,478	$945,222,349	$976,976,911	$1,008,410,472	$1,048,440,525	$ 1,224,212,024
$ 7,608,838	$ 7,353,363	$ 6,656,191	$ 6,861,707	$ 6,744,116	$ 11,872,504
$869,396,316	$952,575,712	$983,633,102	$1,015,272,179	$1,055,184,641	$ 1,236,084,528

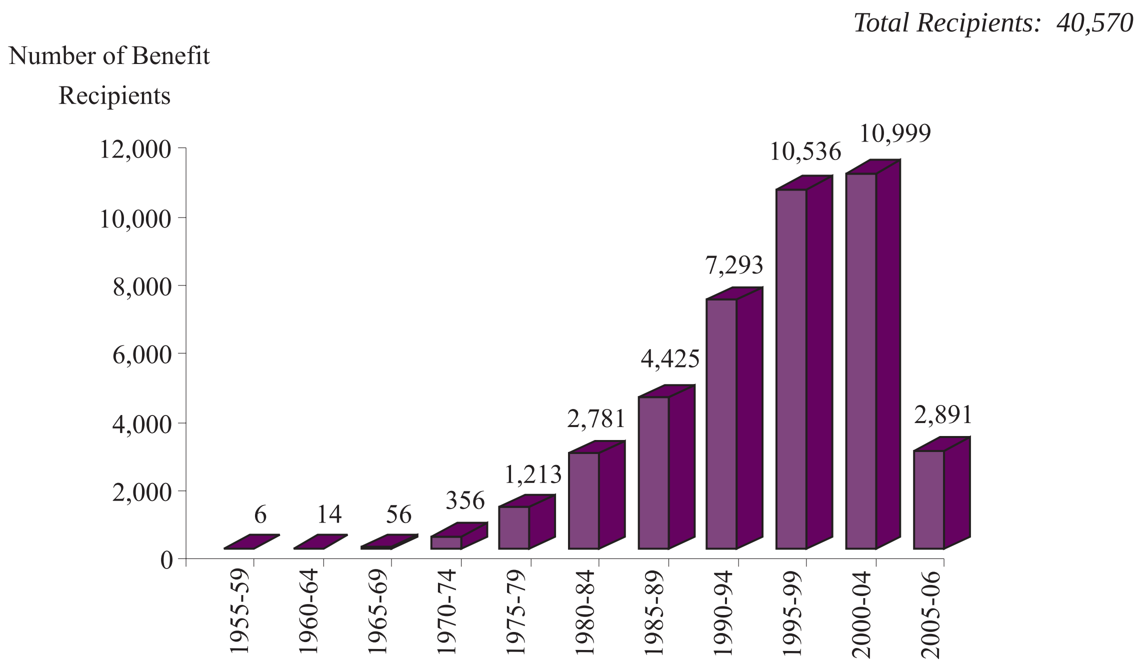
Schedule of Benefit Recipients by Current Age*

For Month of June 2006



Benefit Recipients by Effective Date of Retirement*

For Month of June 2006



*Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.

Schedule of New Retirees and Initial Benefit Paid

For the Ten Fiscal Years Ending June 30, 2006

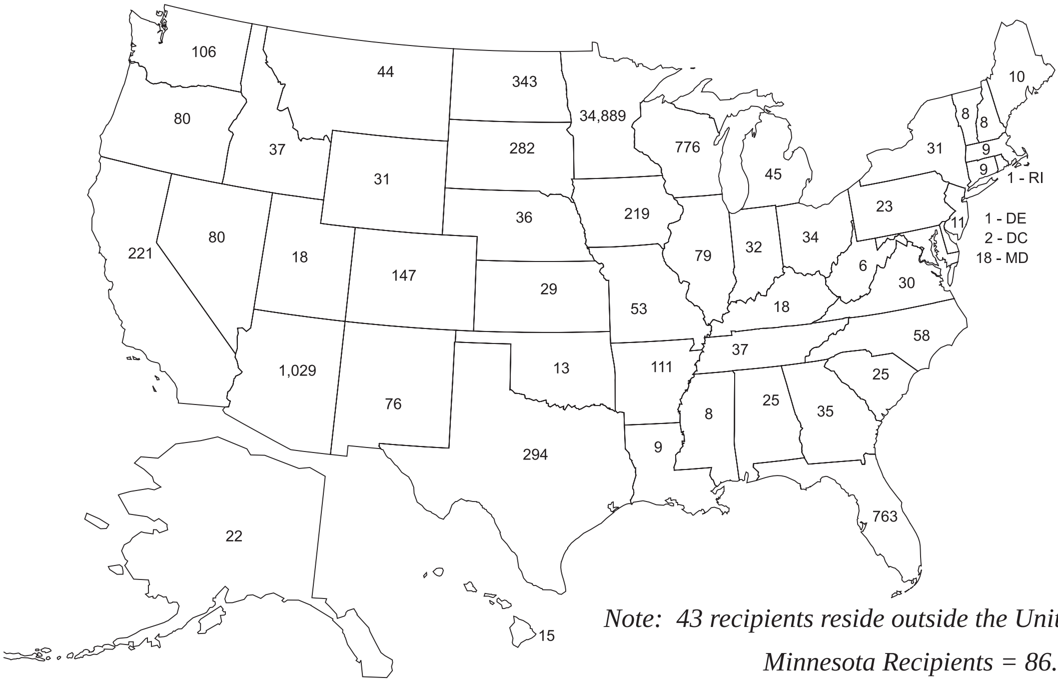
	Years of Formula Service						
Fiscal Year	**<10**	**10-15**	**16-20**	**21-25**	**26-30**	**Over 30**	**Total**
1997							
Avg. Monthly Benefit	$190.02	$620.88	$943.52	$1,403.79	$1,928.56	$2,633.81	$1,856.00
Number of Retirees	189	108	145	212	286	843	1,783
1998							
Avg. Monthly Benefit	$220.86	$674.83	$1,058.85	$1,544.28	$2,216.02	$2,959.73	$2,128.26
Number of Retirees	191	131	144	232	306	983	1,987
1999							
Avg. Monthly Benefit	$243.40	$696.37	$1,217.30	$1,664.26	$2,406.11	$3,204.73	$2,526.67
Number of Retirees	172	148	191	231	420	1,716	2,878
2000							
Avg. Monthly Benefit	$233.43	$668.46	$1,164.27	$1,660.98	$2,343.63	$3,115.03	$2,229.47
Number of Retirees	244	234	190	269	432	1,308	2,677
2001							
Avg. Monthly Benefit	$212.99	$739.68	$1,114.17	$1,743.43	$2,523.15	$3,262.12	$2,312.31
Number of Retirees	236	191	175	245	362	1,125	2,334
2002							
Avg. Monthly Benefit	$242.38	$777.25	$1,246.91	$1,637.71	$2,297.50	$3,136.64	$2,089.22
Number of Retirees	249	172	138	203	201	813	1,776
2003							
Avg. Monthly Benefit	$248.87	$758.32	$1,241.55	$1,604.95	$2,450.79	$3,204.33	$2,265.77
Number of Retirees	213	147	129	162	191	911	1,753
2004							
Avg. Monthly Benefit	$259.63	$738.26	$1,154.80	$1,832.53	$2,392.71	$3,227.23	$2,323.93
Number of Retirees	258	162	119	158	157	1,102	1,956
2005							
Avg. Monthly Benefit	$266.89	$768.41	$1,235.35	$1,688.07	$2,515.37	$3,224.52	$2,424.24
Number of Retirees	204	110	118	132	169	1,055	1,788
2006*							
Avg. Monthly Benefit	$238.69	$842.76	$1,348.93	$1,819.91	$2,522.84	$3,320.47	$2,422.45
Number of Retirees	230	144	170	151	207	1,094	1,996

**Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.*

Distribution of TRA Benefits
Mailing Address of Benefit Recipient

February 2006

Total Recipients: 40,329



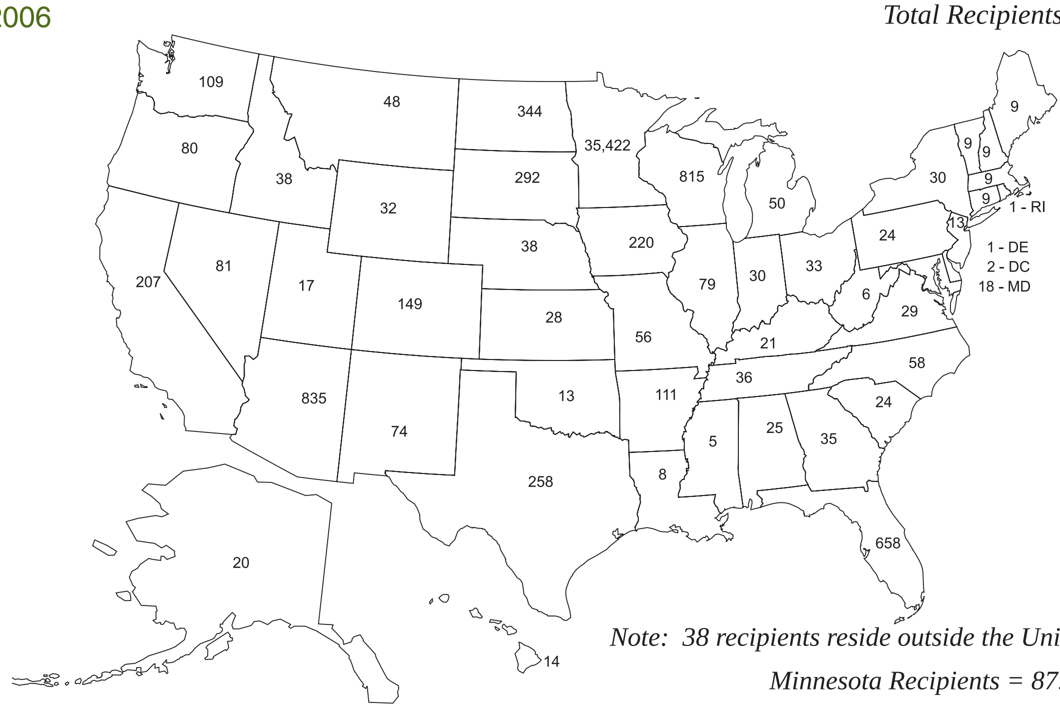
Note: 43 recipients reside outside the United States

Minnesota Recipients = 86.5 percent

Distribution of TRA Benefits
Mailing Address of Benefit Recipient

June 2006

Total Recipients: 40,570



Note: 38 recipients reside outside the United States

Minnesota Recipients = 87.3 percent

**Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.*

TRA

Schedule of Benefit Recipients by Type

For Month of June 2006

Monthly Benefit Amount	Number of Recipients	Type of Retirement		
		Regular	Disability	Beneficiary
$ 1 - $ 250	2,455	2,253	34	168
$ 251 - $ 500	2,348	2,034	50	264
$ 501 - $ 750	2,158	1,815	46	297
$ 751 - $ 1,000	2,291	1,970	53	268
$ 1,001 - $ 1,250	2,216	1,881	52	283
$ 1,251 - $ 1,500	2,319	2,015	58	246
$ 1,501 - $ 1,750	2,615	2,308	50	257
$ 1,751 - $ 2,000	2,752	2,466	56	230
$ 2,001 - $ 2,250	2,956	2,699	56	201
$ 2,251 - $ 2,500	2,827	2,587	49	191
$ 2,501 - $ 2,750	2,491	2,320	38	133
$ 2,751 - $ 3,000	2,170	2,029	24	117
$ 3,001 - $ 3,250	1,902	1,805	18	79
$ 3,251 - $ 3,500	1,683	1,590	7	86
$ 3,501 - $ 3,750	1,373	1,301	4	68
$ 3,751 - $ 4,000	1,162	1,106	2	54
$ 4,001 - $ 4,250	920	881	2	37
$ 4,251 - $ 4,500	764	725	0	39
$ 4,501 - $ 4,750	565	531	2	32
$ 4,751 - $ 5,000	480	451	1	28
$ 5,001 - $ 5,250	384	356	0	28
$ 5,251 - $ 5,500	322	309	0	13
$ 5,501 - $ 5,750	243	227	0	16
$ 5,751 - $ 6,000	212	197	1	14
$ 6,001 - $ 6,250	166	151	0	15
$ 6,251 - $ 6,500	165	152	0	13
$ 6,501 - $ 6,750	136	128	0	8
$ 6,751 - $ 7,000	99	93	0	6
$ 7,001 - $ 7,250	86	78	0	8
$ 7,251 - $ 7,500	75	72	0	3
$ 7,501 - $ 7,750	42	38	0	4
$ 7,751 - $ 8,000	44	43	0	1
$ 8,001 - $ 8,250	29	27	0	2
$ 8,251 - $ 8,500	30	27	1	2
$ 8,501 - $ 8,750	11	10	0	1
$ 8,751 - $ 9,000	16	16	0	0
$ 9,001 - $ 9,250	10	9	0	1
$ 9,251 - $ 9,500	8	7	0	1
$ 9,501 - $ 9,750	10	9	0	1
$ 9,751 - $10,000	7	6	0	1
$10,001 and over	28	28	0	0
Total	**40,570**	**36,750**	**604**	**3,216**

**Does not include former MTRFA benefit recipients transferred to TRA on June 30, 2006.*

Distribution of Active Members (with Average Annual Salary)

As of June 30, 2006

	Age										
Years of Service	Under 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 & Over	Total
Total	2,665	10,061	9,747	10,349	9,490	10,363	11,832	10,882	3,009	766	79,164
	$24,902	$32,670	$41,189	$46,412	$48,729	$48,855	$55,193	$57,550	$52,467	$32,856	$46,838
Under 5	2,665	8,085	3,350	2,509	2,288	2,450	1,692	1,352	613	398	25,402
	$24,902	$29,940	$30,512	$28,602	$25,674	$21,744	$23,670	$21,382	$14,981	$8,681	$26,613
5-9	—	1,976	5,431	3,022	1,808	1,743	1,402	934	325	90	16,731
	—	$43,838	$45,401	$45,371	$45,745	$44,837	$43,879	$41,609	$37,451	$27,342	$44,599
10-14	—	—	965	4,138	2,234	1,637	1,650	1,230	357	51	12,262
	—	—	$54,527	$55,311	$55,306	$54,917	$53,816	$52,653	$50,137	$47,531	$54,545
15-19	—	—	1	680	2,486	1,754	1,601	1,330	430	49	8,331
	—	—	$56,252	$62,599	$61,823	$60,578	$60,686	$60,475	$60,565	$62,360	$61,128
20-24	—	—	—	—	673	1,950	1,408	1,188	394	57	5,670
	—	—	—	—	$64,927	$64,350	$64,937	$65,322	$65,788	$70,902	$64,934
25-29	—	—	—	—	1	828	2,686	1,634	379	37	5,565
	—	—	—	—	$44,616	$64,227	$66,883	$68,683	$70,532	$71,047	$67,289
30-34	—	—	—	—	—	1	1,393	2,701	232	29	4,356
	—	—	—	—	—	$44,687	$67,798	$69,446	$79,424	$81,617	$69,526
35-39	—	—	—	—	—	—	—	513	249	38	800
	—	—	—	—	—	—	—	$69,964	$77,424	$89,667	$73,222
40 & Over	—	—	—	—	—	—	—	—	30	17	47
	—	—	—	—	—	—	—	—	$73,950	$8,099	$75,451

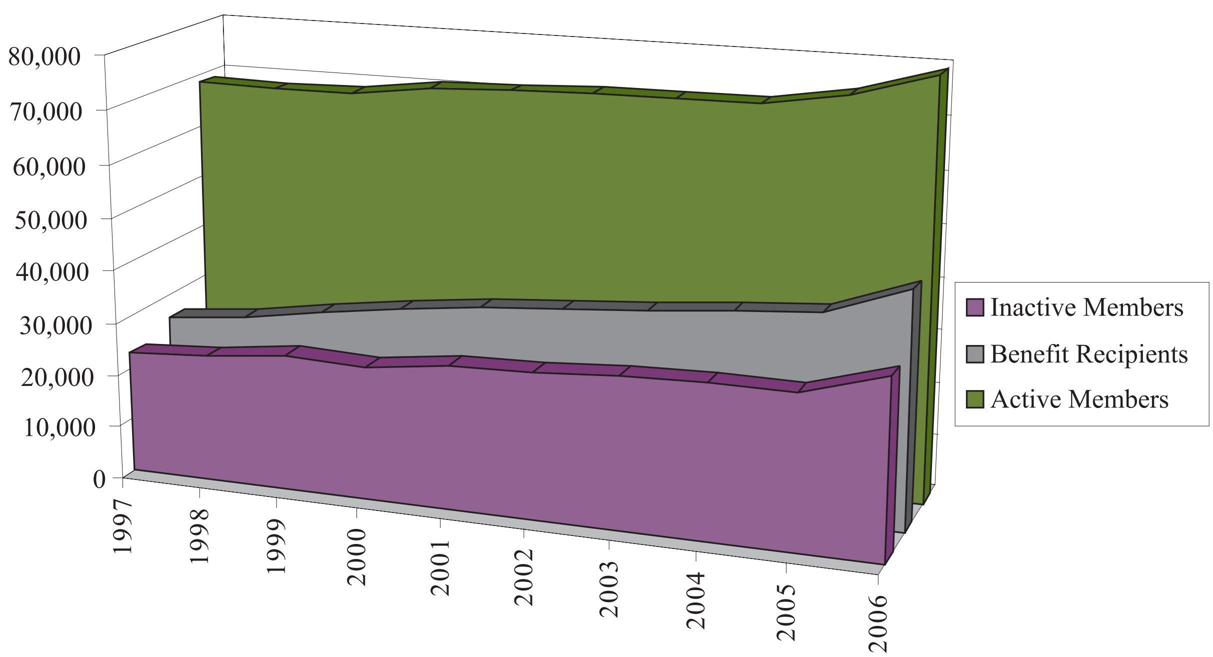
**Includes 4,381 MTRFA active members transferred to TRA on June 30, 2006.*

10-Year Summary of Membership

Year Ended June 30	Active Members	Inactive Members	Benefit Recipients
1997	68,554	23,009	25,681
1998	68,247	23,907	27,228
1999	68,613	25,822	29,749
2000	70,508	25,208	31,946
2001	71,097	27,256	33,757
2002	71,690	27,702	34,974
2003	71,916	28,560	36,199
2004	72,008	28,990	37,649
2005	74,552	29,031	38,957
2006	79,164	33,729	44,683

**Includes members transferred as part of the MTRFA merger effective June 30, 2006, as follows: 4,381 active, 5,444 inactive, and 3,958 benefit recipients*

10-Year Summary of Membership



Principal Participating Employers

As of June 30, 2006

Employer Unit Name	Covered Employees	Rank	Percentage of Active Membership
Minneapolis Special School District #1	4,381	1	5.53
Anoka-Hennepin - ISD #11	3,497	2	4.42
MnSCU (MN State Colleges and Universities)	3,422	3	4.33
Rosemount-Apple Valley-Eagan - ISD #196	2,668	4	3.37
Osseo - ISD #279	1,903	5	2.40
South Washington County - ISD #833	1,632	6	2.06
Rochester - ISD #535	1,387	7	1.75
Robbinsdale - ISD #281	1,247	8	1.58
St. Cloud - ISD #742	1,082	9	1.37
Bloomington - ISD #271	1,030	10	1.30
All Other	56,915		71.89
Total	79,164		100.00

Number of Employer Units

As of June 30, 2006

Year	Independent School Districts	Joint Power Units	MN State Colleges and Universities (MnSCU)	Charter Schools	State Agencies	Others	Total
1997	351	41	42	9	8	3	454
1998	347	41	39	12	18	4	461
1999	344	41	39	15	17	2	458
2000	342	40	40	25	16	2	465
2001	340	40	40	28	14	1	463
2002	340	39	40	32	11	1	463
2003	340	38	40	88	8	1	515
2004	345	37	39	110	6	1	538
2005	345	38	39	136	6	1	565
2006	348	37	39	142	6	1	573

Teachers Retirement Association of Minnesota

Plan Statement

Plan Statement

Plan Statement

Plan Statement

Plan Statement

Plan Statement

Plan Statement

June 30, 2006

Purpose

The Minnesota Teachers Retirement Association (TRA) was established on July 1, 1931, by the state legislature. Its purpose is to improve educational service and better compensate teachers in order to make the occupation of teaching in Minnesota more attractive to qualified persons by providing a retirement benefit schedule that rewards faithful and continued service.

Administration

TRA is managed by eight trustees – three are statutorily appointed and five are elected. The statutory trustees are the Commissioner of Education, the Commissioner of Finance and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the Board of Trustees. The Board also contracts with an actuary and uses legal counsel provided by the office of the Attorney General.

Membership

All teachers employed in public elementary and secondary schools, joint powers, charter schools and all other educational institutions maintained by the State of Minnesota (except those teachers employed by the cities of St. Paul and Duluth, or by the University of Minnesota) are required to be members of TRA. Teachers employed by Minnesota State Colleges and Universities (MnSCU) have a one-time election to join TRA. No Minnesota state college or university teacher is a member except for purposes of Social Security coverage if that teacher has coverage by the Defined Contribution Retirement Plan administered by the MnSCU Board.

Retirement Service Credit

Service credit for benefits is earned from teaching service performed on a full-time, part-time or substitute basis up to a maximum of 170 full days per fiscal year (July 1 – June 30). Service credit may also be obtained by using paid accumulated sick leave or by purchasing service for a qualified leave of absence. If a teacher teaches less than 170 full days, fractional service credit is given as the ratio of the number of full days taught to 170. If a teacher teaches only a fractional part of a day, the service credit earned is the actual hours taught divided by a five-hour standard for the day. Even though a teacher may teach more than five hours per day, not more than one day of service credit can be earned on any day. No more than one year of service credit may be earned during any fiscal year.

Financing

Benefits are financed by employee contributions, employer contributions, investment earnings and turnover gains. Turnover gains are employer contributions released to the fund when members take refunds of their own contributions.

Vesting

In a pension plan, vesting means a member has earned sufficient service credit to be eligible for a monthly benefit.

TRA members who have performed covered service after May 15, 1989, are vested after three years of teaching service. TRA members who last worked prior to May 16, 1989, require five years or, in some cases, ten years of service credit earned in order to be eligible for a monthly annuity benefit.

Employee Contributions

TRA members pay a percentage of their gross annual salary as determined by their membership plan. Basic Plan members (without Social Security coverage) contribute 9 percent of their annual salary while Coordinated Plan members (coordinated with Social Security coverage) contribute 5 percent of their annual salary. Effective July 1, 2006, Coordinated Plan employee contribution rates were increased to 5.5 percent of annual salary.

Employer Contributions

Local school districts and other TRA-covered employer units provide contributions of 9 percent of total salary for members in the Basic Plan and 5 percent of total salary for members in the Coordinated Plan. For Coordinated Plan members the employer unit also makes the required matching contribution to the Social Security Administration.

Effective July 1, 2006, Minneapolis Special School District #1 pays an employer additional contribution of 3.64 percent of annual salary for TRA members employed by that school district.

Effective July 1, 2007, the employer contribution rate for Basic members will increase to 9.5 percent and 5.5 percent for Coordinated members.

Retirement Benefit

The retirement benefit is determined by a formula based on the average of the member's highest five successive annual salaries, an accumulated percentage factor based on the total years of service credit, and the member's age at retirement. The retirement benefits for members who were first hired before July 1, 1989, are different from the retirement benefits for members who were first hired after June 30, 1989.

Coordinated Members First Hired Before July 1, 1989

For members first hired before July 1, 1989, the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are the greater of:

a. The sum of:
   - 1.20 percent of average salary for the first 10 years of allowable service;
   - 1.70 percent of average salary for each subsequent year prior to July 1, 2006; and
   - 1.90 percent of average salary for each year of allowable service July 1, 2006 and after.
   - No actuarial reduction if age plus years of service totals 90. Otherwise, reduction of 0.25 percent for each month the member is under age 65 (or age 62 if 30 years of allowable service) at the time of retirement.

b. The sum of:
   - 1.70 percent of average salary for each year of allowable service prior to July 1, 2006; and
   - 1.90 percent of average salary for each year of allowable service beginning July 1, 2006.
   - Actuarial reduction (averaging 4.0 percent to 5.5 percent per year) applies if the member is under full Social Security benefit retirement age, but not to exceed age 65.

or

c. For eligible members, a money purchase annuity equal to the actuarial equivalent of 220.00 percent of the member's accumulated deductions plus interest thereon.

Coordinated Members First Hired After June 30, 1989

For members first hired after June 30, 1989, the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are the sum of:

- 1.70 percent of average salary for each year of allowable service prior to July 1, 2006; and
- 1.90 percent of average salary for each year of allowable service beginning July 1, 2006.

Actuarial reduction (averaging 4.0 percent to 5.5 percent per year) applies if the member is under full Social Security benefit retirement age, but not to exceed age 66.

Basic Members (Former MTRFA)

Approximately 200 active Basic members from the former Minneapolis Teachers Retirement Fund Association (MTRFA) were transferred to TRA effective June 30, 2006. Under the merger legislation, this group of former MTRFA members retain eligibility for the benefit provisions as provided by the MTRFA Articles of Incorporation and by-laws as they existed on June 30, 2006.

The retirement benefits for these members (with average salary defined as the average of the highest five successive annual salaries) are:

- 2.50 percent of average salary for each year of teaching service.
- No actuarial reduction applies if the retiring member is age 60 or any age with 30 years of teaching service.

If the member is age 55 with less than 30 years of teaching service, the retirement benefit is the greater of:

a. 2.25 percent of average salary for each year of teaching service with reduction of 0.25 percent for each month the member is under age first eligible for a normal retirement benefit.

b. 2.50 percent of average salary for each year of teaching service assuming augmentation to the age first eligible for a normal retirement benefit at 3.00 percent per year and actuarial reduction for each month the member is under the age first eligible for a normal retirement benefit.

An alternative benefit is available to members who are at least age 50 and have seven years of teaching service. The benefit is based on the accumulation of the 6.50 percent "city deposits" to the Retirement Fund. Other benefits are also provided under this alternative depending on the member's age and teaching service.

Basic Members (Non-MTRFA)

As of June 30, 2006, TRA had less than 15 active and inactive members who retain eligibility for the Basic Plan and do not have eligibility for the provisions for former MTRFA Basic members. The retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are the greater of:

a. 2.20 percent of average salary for each of the first ten years of allowable service and 2.70 percent of average salary for each subsequent year with reduction of 0.25 percent for each month the member is under age 65 at time of retirement or under age 62 if 30 years of allowable service. No reduction if age plus years of allowable service totals 90.

b. 2.70 percent of average salary for each year of allowable service assuming augmentation to age 65 at 3.00 percent per year and actuarial reduction for each month the member is under age 65.

or

c. For eligible members, a money purchase annuity equal to the actuarial equivalent of 220.00 percent of the member's accumulated deductions plus interest thereon

All members have reached normal retirement age and are no longer subject to early retirement penalties.

Deferred Retirement

Members with three or more years of allowable service (ten or more years of allowable service if termination of teaching service occurs before July 1, 1987, and five or more years of allowable service if termination of teaching service occurs after June 30, 1987, but before May 16, 1989) who terminate teaching service in schools covered by the association may have their retirement benefit deferred until they attain age 55 or older.

For members first hired prior to July 1, 2006, the deferred benefit is augmented by 3 percent interest compounded annually until January 1 of the year following attainment of age 55 and 5 percent thereafter until the retirement benefit begins.

All vested TRA members first hired after June 30, 2006, receive deferred annuity benefit increases of 2.5 percent per year between the date of termination and the effective date of retirement.

Annuity Plan Options

Six different annuity plan options are available to TRA members providing monthly benefit payments for as long as the annuitant lives. The No Refund Plan provides the highest possible monthly benefit, but terminates upon the member’s death. A member may choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features.

1. No Refund, For Life of Member
2. Guaranteed Refund
3. 15-Years Guaranteed
4. 100% Survivorship with Bounceback
5. 50% Survivorship with Bounceback
6. 75% Survivorship with Bounceback

Post Fund Increases

The required reserves needed to pay retirement benefits are transferred from TRA's regular assets to the Minnesota Post Retirement Investment Fund (Post Fund) at the time of retirement. Each year, the Post Fund may provide a benefit adjustment that is based on two components: 1) the increases in the cost of living as reflected by the Consumer Price Index (CPI-W), and 2) the investment performance of the Post Fund portfolio.

The cost-of-living component is paid up to a maximum of 2.5 percent based on the CPI-W increase determined at the end of each fiscal year for the preceding 12-month period. The cost-of-living component is paid each year regardless of the amount of investment return.

An investment-based component is paid if investment returns exceed the amount needed to pay the cost-of-living component and to cover the 6 percent earnings assumption that determined the original benefit at retirement. Investment gains and losses are smoothed over a five-year period. If a net investment loss results from the five-year smoothing calculation, no investment-based component is paid. Additionally, any accumulated investment losses from prior periods must be recovered through future investment gains before any investment-based component is paid.

There is a guarantee that benefits will never be decreased below the original amount established at retirement as adjusted by the annual increases.

Combined Service Annuity

Any vested member having combined service credit with any two or more Minnesota public retirement funds that participate in the combined service annuity program, may elect to receive a combined service annuity upon compliance with eligibility requirements for retirement.

Refunds

Upon termination of teaching service and application, TRA will issue a refund of a member's accumulated contributions plus 5 percent interest compounded annually if termination occurred before May 16, 1989, and 6 percent interest compounded annually if termination occurred on or after May 16, 1989. A refund will be issued only if the member has officially resigned from employment and the official refund application form is submitted no sooner than 30 days after termination of teaching service.

Repayment of Refunds

Members who return to teaching service after previously withdrawing their contributions may repay these contributions upon completing two years of allowable service. The repayment must include interest of 8.5 percent, compounded annually from the date of the refund. If a member has more than two years of refunded service, they may repay a minimum portion, which is 1/3 of the total service credit period for all refunds previously taken.

Disability Benefits

An active member who becomes disabled after at least three years of allowable service is eligible to apply for a total and permanent disability benefit provided at least two of the required three years of allowable service are performed after last becoming a member. State statute defines total and permanent disability as the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to be of long continued and indefinite duration. An indefinite duration is a period of at least one year.

Survivor Benefits of Members Prior to Retirement

Certain benefits are available to the survivor(s) of members who die before officially retiring with TRA. Beneficiary designation options vary for married members and single members.

Single Members

Non-Vested

- A lump-sum death benefit equal to a member's accumulated deductions plus interest to the date of death is payable to either the designated beneficiary or estate, whichever is applicable. Interest is compounded annually at 6 percent. Contributions made by the employer are not included in this benefit. A member may designate any person(s), trust, or organization(s) as a beneficiary.

Vested

- For a member without a surviving spouse at the time of death, survivor benefits will *automatically* be paid for a period certain to all dependent children under the age of 20, *unless* the member has chosen the lifetime monthly benefit option explained in the next paragraph is chosen. These payments are made from the date of death to the date each dependent child attains age 20 if the child is under age 15 on the date of death. If the dependent child is 15 years or older on the date of death, payments will be made for five years. Payments for children under the age of 18 would be made to a custodial parent or court-appointed guardian. A dependent child is a biological or adopted child who is under 20 years of age and who is dependent on the member for more than one-half of his or her financial support.

- A member may designate payment of lifetime monthly benefits for ***either*** a former spouse(s), ***or*** dependent and non-dependent, biological or adopted child(ren), *instead* of the above described surviving dependent child(ren) benefits being paid.
- For a member without a former spouse or dependent child(ren) at the time of death, either the designated beneficiary or estate, whichever is applicable, is entitled to a lump-sum death benefit equal to accumulated deductions plus interest to the date of death. Interest is compounded annually at 6 percent. Contributions made by the employer are not included in this benefit. A member may designate any person(s), trust, or organization(s) as a beneficiary.

Married Members

A surviving spouse has precedence over any designated beneficiary.

Non-Vested

- A member's spouse is entitled to a lump-sum death benefit equal to the accumulated deductions plus interest to the date of death. Interest is compounded annually at 6 percent. Contributions made by the employer are not included in this benefit.

Vested

- A member's surviving spouse may elect to receive a lifetime annuity in lieu of a lump-sum benefit. The lifetime annuity is payable on a monthly basis for the lifetime of the spouse. Payments terminate upon the death of the spouse with no benefits remaining for other beneficiaries.
- Instead of a lifetime annuity, a member's spouse may elect to receive actuarially equivalent payments for a term certain annuity of 5, 10, 15 or 20 years. The amount of the annuity is based upon a formula, the member's age at the time of death and the age of the spouse when benefits begin to accrue, although monthly benefit payments cannot exceed 75 percent of the member's average High-5 monthly salary.
- A member and their spouse may *jointly* make a specification to waive the spouse's benefits so that designated beneficiary(ies) will receive a lifetime survivor annuity benefit. The designated beneficiary may be ***either*** the member's former spouse(s) ***or*** the member's biological or adopted child(ren). Under a joint specification, a designated beneficiary cannot elect a term certain annuity of 5, 10 15 or 20 years. If a joint specification is not on file, the annuity is payable only to the surviving spouse.

Non-Vested or Vested

- A member and their spouse may *jointly* make a specification to waive the spouse's benefits so that any person, trust or organization will receive a lump-sum death benefit equal to the accumulated deductions plus interest to the date of death.