A Pension Trust Fund of the State of Minnesota

2012

Comprehensive Annual Financial Report

Teachers Retirement Association

for fiscal year ended June 30, 2012

Teachers Retirement Association of Minnesota
A Pension Trust Fund of the State of Minnesota

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2012

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Laurie Fiori Hacking
Executive Director

Report Prepared by the Administrative Division

Table of Contents

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Presented to

Minnesota Teachers Retirement Association

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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Public Pension Coordinating Council

Recognition Award for Administration
2012

Presented to

Minnesota Teachers Retirement Association

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

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)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

Teachers Retirement Association

60 Empire Drive • Suite 400 • St Paul MN 55103-4000

Letter of Transmittal

Laurie Fiori Hacking
Executive Director

December 31, 2012

Members of the Board of Trustees
Teachers Retirement Association
60 Empire Drive, Suite 400
Saint Paul, MN 55103-4000

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, 2012, our 81st year of service.

TRA management has implemented a system of internal controls to monitor and safeguard assets, ensure transactions are carried out in accordance with Minnesota statutes, and promote efficient operations. Internal controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against loss. The concept of reasonable assurance recognizes that a cost-benefit analysis requires estimates and judgments by management. All internal control evaluations occur within this framework.

The independent Office of the Legislative Auditor has issued an unqualified (clean) opinion on TRA's financial statements for the year ended June 30, 2012. The independent auditor's report is located at the front of the Financial section of this report. Management believes that the accompanying statements, schedules, and tables are fairly presented. We are solely responsible for the content of the report, including its financial statements, which should be useful 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

As of June 30, 2012, TRA had 585 reporting units, 76,649 active members and a total of 55,425 retirees, survivors, beneficiaries, and disabilitants who were receiving monthly benefits.

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.

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 Cavanaugh Macdonald Consulting of Bellevue, Nebraska to prepare the annual actuarial valuation report. The Minnesota Office of the Attorney General provides legal counsel to the Board of Trustees. Most financial transactions, including disbursements from the pension fund, are processed through the centralized controls of the Statewide Integrated Financial Tools (SWIFT) system, under the statutory authority of the Department of Minnesota Management and Budget and the Department of Administration.

Economic Condition

All TRA assets are invested under the authority and direction of the State Board of Investment (SBI). A listing of the pooled investments in the TRA Fund can be found on page 52. 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 policies to ensure sufficient assets are available to finance benefits determined under statute. The executive directors of the three statewide retirement systems serve on the seventeen-member IAC and represent their members in advising the SBI on investment-related matters.

Economic Conditions and Outlook (from Minnesota Management and Budget (MMB))

By most measures, Minnesota's economy outperformed the U. S. economy during fiscal year 2012. The state's personal income growth rate exceeded the nations, and our unemployment rate at the end of fiscal year 2012 was well below the national average. However, job creation in Minnesota appears to have been slower. Payroll employment in the state at the end of fiscal year 2012 was up by nearly 28,000 jobs or 1.0 percent. Nationally, payroll employment grew by 1.3 percent.

Minnesota's goods producing sectors added 10,600 jobs in fiscal year 2012, which was up 2.7 percent from fiscal year 2011 levels. Construction employment was up 3,900 jobs (4.4 percent), and manufacturing employment was more than 6,600 jobs (2.2 percent), above the level observed in June 2011. Construction and manufacturing employment, however, continue to be well below the levels observed before the onset of the Great Recession. Despite the slow growth in the goods producing sector, payroll employment levels in Minnesota are closer to their pre-recession levels compared to national level. By the end of fiscal year 2012, total payroll employment in Minnesota was reported to have recovered 51 percent of the jobs lost in the Great Recession, while nationally only 44 percent of the jobs lost have been recovered.

Minnesota's unemployment rate closed the fiscal year at 5.6 percent, 1.1 percentage points below its June 2011 level, and 2.7 percentage points lower than the national average. Minnesota's June 2012 unemployment rate was the 9th lowest among the 50 states. For the entire fiscal year, unemployment in Minnesota averaged 5.9 percent, while the U.S. rate averaged 8.6 percent.

Personal income in Minnesota also grew faster than the nation during the fiscal year 2012. Personal income grew at a 3.2 percent rate in fiscal year 2012, while U.S personal income grew by 3.0 percent. Minnesota ranked 25th among states in personal income growth between the 2nd quarter of 2011 and the 2nd quarter of 2012.

Minnesota's economy is likely to have another year of slow growth in fiscal year 2013. Payroll employment growth is expected to pick up slightly from the levels observed in fiscal year 2012, with about 44,000 jobs added. The 1.6 percent increase in payroll employment is similar to what is expected for the U.S. economy.

Investment Results

The U.S. stock market, as measured by the Russell 3000 index, returned 3.8 percent for the fiscal year ended June 30, 2012. Within the Russell 3000 index, larger stocks outpaced smaller companies and growth companies outperformed value companies.

International markets returned -14.6 percent for the fiscal year as measured by the Morgan Stanley Capital International (MSCI) All Country World Index excluding the United States net taxes on dividends (ACWI ex U.S.), which represents the developed and emerging markets outside the United States. While negative, the returns in developed markets were somewhat stronger than emerging markets. Concerns continued about the euro-zone crisis and economic slowdown in the U.S. and China.

The U.S. fixed income market, as measured by the Barclays Capital Aggregate Index, returned 7.5 percent for the fiscal year ended June 30, 2012. Within the bond market, corporate bonds and U.S. Treasuries were the best performing sectors.

Within this investment environment, TRA retirement assets under SBI investment management as part of the Combined Funds, produced an investment return of 2.4 percent for the fiscal year ended June 30, 2012. Over the latest ten-year period, the funds have experienced an annualized investment return of 7.0 percent. For the ten-year period, the Combined Funds exceeded the composite investment performance by 0.1 percent annualized.

Legislation

During the 2012 legislative session, several bills were proposed to reduce TRA's actuarial investment earnings assumption, which is set in state statute. Since 1989, the investment earnings assumption has been at 8.5 percent annually. This assumption is one of the most important determinants of funding status, as investment earnings typically fund over 70 percent of a member's expected lifetime pension amount at retirement. The investment assumption had been reviewed regularly over the years and had remained in place until the Great Recession of 2008-2009 prompted further review.

After careful analysis from capital investment and actuarial advisors, the legislature and Governor modified the 8.5 percent investment earnings assumption to a two-tiered rate, also known as the "select and ultimate" method. The actuarial valuation assumes 8.0 percent annual investment return for a five-year (select) period and then resumes the 8.5 percent annual investment return for all subsequent years (ultimate). The 8.0 percent annual investment rate is in place for the current actuarial valuation presented in this report (fiscal year 2012). The 8.0 percent annual investment rate will continue for the fiscal year 2013 through fiscal year 2016 actuarial valuations. Beginning with the July 1, 2017, actuarial valuation, the investment earnings assumption will revert back to 8.5 percent annually. The TRA Board of Trustees supported this position with the expectation that while investment earnings may be sluggish in the short-term, the long-term investment expectations are more positive. The investment earnings assumption will continue to be closely monitored and studied.

The implementation of the "select and ultimate" investment earnings assumption impacted the fiscal year 2012 valuation presented in this report. TRA's actuarial consultant estimated that, due to the change, the required contribution rate increased by 0.69 percent of member covered payroll. In addition, the earnings assumption increased TRA's actuarial accrued liabilities by about $196 million, as the actuary expects TRA assets to earn less than previously assumed. Should future legislatures select a lowered investment earnings assumption than the "select and ultimate" method, the impact upon TRA contribution rate requirements and the actuarial accrued liability would further worsen.

Over long periods of time, SBI's investment returns have exceeded 8.5 percent, averaging 9.9 percent since January 1, 1980. In the ten fiscal years ended June 30, 2012, the SBI investment return has averaged 7.0 percent annually, and over the past five-year period, has averaged 2.3 percent. The volatility of the investment markets over the past 10 to 15 years has made the selection of a long-term investment return assumption challenging and produces a variety of viewpoints and opinions. The monitoring of the investment environment and performance results will remain a continual process by the TRA Board of Trustees in accumulating the assets necessary to pay long-term monthly benefits to our recipients.

Based on the major 2010 legislation, no post-retirement benefit recipient adjustment was paid on January 1, 2011, or January 1, 2012. This action saved the TRA Fund over $1.5 billion in lowered actuarial accrued liabilities both during the two-year benefit freeze and slowed the growth of compounded benefit amounts going forward. Beginning January 1, 2013, the annual benefit recipient adjustment will be 2.0 percent for benefit recipients retired 18 months or longer. For benefit recipients retired between six and eighteen months, a prorated increase will be paid.

TRA active members and employers are also in the midst of a four-year contribution rate increase schedule passed by the 2010 legislature. On July 1, 2012, TRA active member and employer contribution rates increased to 6.5 percent of active member payroll. Two more rate increases are scheduled; with the final increase on July 1, 2014, the contribution rates will increase to 7.5 percent of active member payroll. The TRA Board of Trustees has statutory authority to adjust rates further, beginning on July 1, 2016, based on the contribution rate sufficiency or deficiency that exists at that time.

The 2012 legislature also passed other items in the Omnibus Retirement Bill, mostly of an administrative nature to clarify existing legislation.

Actuarial Funding Status/Investment Report

After very strong investment years in fiscal years 2010 and 2011 of 15.2 percent and 23.3 percent, respectively, investment markets were very sluggish during fiscal year 2012. The SBI reported a small positive investment gain of 2.4 percent for the fiscal year ended June 30, 2012. With the investment return assumption of 8.0 percent for fiscal year 2012, investment losses were sustained from an actuarial perspective for fiscal year 2012. In addition, TRA recognized another portion of the deep investment losses sustained during the fiscal year ended June 30, 2009. These factors contributed to declines in the TRA funded status and results reported for fiscal year 2012.

The SBI invests TRA assets with a long-term horizon. Since the benefit payments are not all immediately payable, SBI can maintain a longer-term investment strategy during short-term fluctuations. The SBI intends to stay with its investment strategy since past evidence indicates that long-term diversified investors can weather up and down cycles and thereby fully participate when markets rebound and performance improves.

The actuarial value of TRA assets declined as of June 30, 2012, due to the further recognition of investment losses sustained during the prior investment market declines. For actuarial purposes, investments gains and losses are recognized by using a statutory five-year smoothing of investment gains and losses. On June 30, 2012, the actuarial value of TRA assets was $16.81 billion, a decline from $17.13 billion on June 30, 2011. The five-year smoothing of investment gains and losses resulted in a small deferred investment loss of $119 million as of June 30, 2013.

TRA's unfunded actuarial liability – the amount for which current assets are not available to pay statutory benefits earned to date – worsened from a $5.04 billion to a $6.22 billion deficiency, when measured on an actuarial smoothed basis. The recognition of the existing deferred investment losses from 2008-09 and the lower than expected fiscal year 2012 investment return of 2.4 percent were the primary reasons for the higher unfunded liability. Under statute, the unfunded liability must be paid by June 30, 2037.

Another key measure to assess TRA funding health is the adequacy of employee and employer contributions. As of July 1, 2012, the TRA contribution rate deficiency was 5.04 percent of active member covered payroll. This deficiency does not fully reflect the 2.00 percent total increase to employee and employer contribution rates scheduled in current law to occur by 2014. TRA employee and employer contribution rates, currently 6.50 percent each, are set to rise 0.50 percent each for two consecutive years. Beginning July 1, 2014, the employee and employer contribution rates will be 7.50 percent each. On a market value basis, which incorporates the $119 million in deferred investment losses, the July 1, 2012, contribution rate deficiency was 5.23 percent. After incorporating the scheduled rate increases and recognizing existing deferred investment losses, a contribution deficiency of 3.04 percent (actuarial value basis) and 3.23 percent (market value basis) is still present. If investment markets rebound, future investment earnings would help mitigate some of this deficiency. If investment markets do not perform in accordance with the investment earnings assumption or if the investment assumption is lowered, the Board may be required to recommend additional contribution and/or plan changes for legislative consideration. The TRA Board of Trustees and its management will continue to remain vigilant and monitor all key actuarial measures and report funding and plan sustainability issues to the membership, employers and the legislature.

Major Initiatives

TRA employees, in a team environment, continually work on strategic initiatives to administer and process customer service demands for retirement planning and benefit payment services. Major projects for fiscal year 2013 include continuing the development of new technology-driven methods to deliver benefit counseling and information to TRA members and employers. The primary project underway is called the ".NET Project," a comprehensive assessment of current business processes with rewriting existing applications in a more powerful and structured computer language.

Another initiative for 2013 includes finishing a business continuation/disaster recovery plan for TRA operations. The TRA Member Services Division is experimenting with new technology that will facilitate pre-retirement member counseling to remote locations including employer units and members' homes. TRA recently introduced Facebook and Twitter sites to communicate timely information and increase interest and awareness of retirement issues. Internally, TRA staff has implemented succession planning activities to mitigate the business risks of losing organization knowledge held by key employees.

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, 2011. This was the fourteenth 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.

TRA was also awarded the Public Pension Coordinating Council's Recognition Award for Administration in 2012. This award recognizes TRA's meeting of professional standards in plan administration in categories such as benefits, actuarial valuations, financial reporting and communications 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 decisions and determining responsible stewardship over the assets held in trust for the members of the Association. We have notified members, employer unit officials and other interested persons about the availability of the report on the TRA website. A summary that highlights key aspects of the report will be provided to all members in the *TRIB*, TRA's periodic newsletter.

Our sincere appreciation is extended to all who assisted in and contributed toward the completion of this publication.

Respectfully submitted,

Laurie Fiori Hacking

Laurie Fiori Hacking
Executive Director

John Wicklund

John Wicklund
Assistant Executive Director,
Administration

Board of Trustees

As of December 31, 2012

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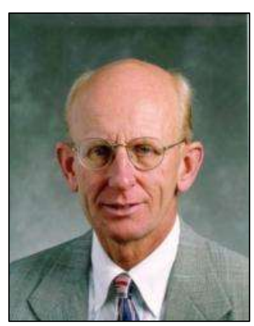

Luther Thompson
Assistant Executive Director
of Legal and Legislative
Services

John Wicklund
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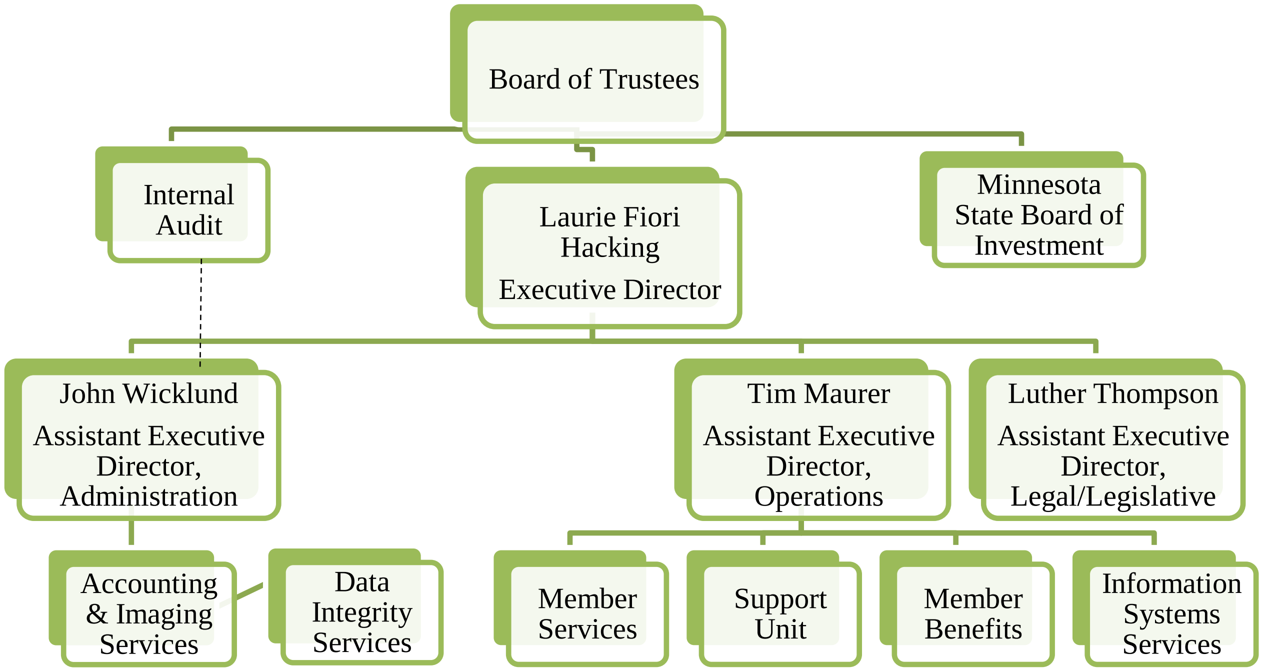
of Administration

Administrative Organization

As of December 2012



Consulting Services

Actuary
Cavanaugh Macdonald Consulting, LLC
Bellevue, Nebraska

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
St. Paul, Minnesota

Our Mission Statement

TRA provides retirement, disability and survivor benefits to Minnesota's public educators assisting them in achieving future income security.

TRA strives to provide benefits that attract and retain competent teachers who serve communities throughout the state, building a stronger education system.

TRA is committed to safeguarding the financial integrity of the fund and takes pride in providing exceptional, innovative services.

Our Vision

To be an outstanding retirement system pursuing benefits and services that **exceed members' expectations**.

Goals

Members and Stakeholders – Be responsive to the needs of TRA members and stakeholders by providing them with innovative, timely and relevant services and education, and adequate benefits that are properly funded.

Organizational Effectiveness – Be a proactive, flexible efficient organization by measuring performance and continuously improving work processes.

Staff Development – Make TRA an "employer of choice" for both existing and potential staff by providing a supportive and challenging environment that encourages teamwork and creativity, fosters professional growth and development, and values employee input.

Finance and Resources – Safeguard the financial integrity of the fund by ensuring adequate funding, legal compliance and responsibly managing fiscal resources.

Technology – Maintain the internal capacity to utilize cutting-edge technologies that continuously improve work processes and enhance service delivery and communication with our members and stakeholders.

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Auditor's Report

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

Independent Auditor's Report

Members of the Board of Trustees
Minnesota Teachers Retirement Association

Ms. Laurie Fiori Hacking, Executive Director
Minnesota Teachers Retirement Association

We have audited the accompanying basic financial statements of the Minnesota Teachers Retirement Association (TRA) as of and for the year ended June 30, 2012, 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 plan net assets of TRA as of June 30, 2012, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of TRA's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, and contracts; and on other matters. The purpose of that report is to describe the scope of our testing of 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.

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E-mail: legislative.auditor@state.mn.us • Web Site: www.auditor.leg.state.mn.us • Minnesota Relay: 1-800-627-3529 or 7-1-1

Members of the Board of Trustees
Ms. Laurie Fiori Hacking, Executive Director
Page 2

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the other required supplementary information, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Introductory, Investment, Actuarial, and Statistical Sections, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Supporting Schedules in the Financial Section have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections 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 19, 2012

Management Discussion and Analysis

June 30, 2012

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, 2012. We encourage you to consider the information presented here in conjunction with the transmittal letter beginning on page 3 and the additional information presented in the financial statements and required supplementary information.

Financial Highlights

Financial highlights of fiscal year 2012 include:

- The Net Assets Held in Trust for Pension Benefits decreased in value by about $613.63 million during fiscal year 2012 for a total of about $16.69 billion. Plan contributions and investment income totaled about $894.61 million during the fiscal year. Plan benefits and other expenses totaled about $1.51 billion during the fiscal year.
- Investment returns for the 2012 fiscal year were 2.4 percent, resulting in investment income of about $383.19 million.
- Contributions paid by members and employers during fiscal year 2012 totaled about $506.50 million, an increase of $44.24 million from the fiscal year 2011 total of $462.26 million.
- Pension benefits paid to retirees and beneficiaries during fiscal year 2012 was $1.49 billion. The fiscal year 2011 total was $1.46 billion, representing an increase of about $25.55 million during the year.
- Refunds of member contributions plus interest during fiscal year 2012 were $11.84 million. The fiscal year 2011 total was $23.81 million.
- Administrative expenses of the fund during fiscal year 2012 were $10.02 million. The fiscal year 2011 total was $9.26 million, representing an increase of $0.76 million during the fiscal year.

Actuarial Highlights

The Association'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, 2012, the accrued liability funding ratio for TRA was 72.99 percent, a decrease from the comparable funding ratio of 77.27 percent as of June 30, 2011. TRA's unfunded actuarial accrued liability on June 30, 2011, was $5.04 billion. The June 30, 2012, unfunded actuarial liability increased to $6.22 billion, an increase of $1.18 billion from the previous year. The recognition of investment losses from fiscal years 2008 and 2009 in the asset smoothing formula was the primary reason for the increase in unfunded actuarial liability and decrease in funding ratio. TRA's unfunded liability, by state law, must be fully paid by June 30, 2037. Key actuarial funding ratios can be seen on page 61.

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 net assets of the Association reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating. It can be thought of as a snapshot of the financial position of TRA at that specific point in time.

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. 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, are reflected as revenue. Earned benefits or refund accruals are 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 20-34) provide additional information that is essential to a full understanding of the data provided in the financial statements.

The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedule of Funding Progress (page 35) 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 Employer Contributions (page 35) presents historical trend information about the annual required contributions of employers and the actual contributions made by employers.

Two supporting schedules are also presented. The Schedule of TRA Administrative Expenses (page 38) presents the overall cost of administering the Association. The Schedule of Professional Consultant Expenses (page 39) further details this category of administrative expense.

Financial Analysis of the TRA Fund

Plan Assets

Total plan assets of the TRA Fund as of June 30, 2012, were $18.22 billion and were mostly comprised of cash, investments and contributions due from employers. Total plan assets decreased $285 million (1.54 percent) from the June 30, 2011, total of $18.51 billion. The primary reason for the decrease was the lower investment returns in fiscal year 2012 than fiscal year 2011.

Plan Liabilities

Total liabilities as of June 30, 2012, were $1.53 billion, an increase of 27.2 percent from the June 30, 2011, liability amount of $1.21 billion. The primary reason for the increase was the 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, 2012, by $16.69 billion. The amount is less than the June 30, 2011, amount of $17.30 billion by $0.61 billion. The decrease in the fair value of investments is primarily attributable to less than favorable market conditions experienced during fiscal year 2012, as evidenced by the overall fund investment return of approximately 2.4 percent. 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 expenses, the TRA Fund requires strong investment performance each year 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 2012 were $0.90 billion, a $2.96 billion decrease from $3.86 billion in fiscal year 2011. The decrease is due to the lower than assumed investment return of 2.4 percent as compared to the 23.3 percent return in fiscal year 2011. TRA assets were assumed to earn 8.0 percent for fiscal year 2012.

Total retirement contributions for fiscal year 2012 increased about $44.3 million from the previous fiscal year for a combined fiscal year 2012 total of about $506.5 million. The increase is attributable to higher contribution rates for active members and employers reported for fiscal year 2012. Retirement contributions during fiscal year 2012 were calculated at 6.0 percent employee and 6.0 percent employer for Coordinated members of TRA.

Net Investment Income of $383.19 million was recorded for fiscal year 2012. This amount decreased by $3.01 billion from the fiscal year 2011 of $3.39 billion. The decrease is attributable to lower investment returns in fiscal year 2012 than fiscal year 2011. Investment returns were 23.3 percent for fiscal year 2011.

Plan Net Assets

Dollar Amounts in Thousands

	2012	2011	Change
Cash and Investments	$ 18,195,935	$ 18,481,669	$ (285,734)
Receivables	14,854	15,624	(770)
Other	12,781	11,539	1,242
Total Assets	18,223,570	18,508,832	(285,262)
Total Liabilities	1,533,629	1,205,256	(328,373)
Plan Net Assets	$ 16,689,941	$ 17,303,576	$ (613,635)

Changes in Plan Net Assets

Dollar Amounts in Thousands

	2012	2011	Change
Additions			
Member Contributions	$ 239,834	$ 218,024	$ 21,810
Employer Contributions	266,661	244,233	22,428
Net Investment Income/(Loss)	383,187	3,390,130	(3,006,943)
Other	4,929	5,562	(633)
Total Additions	$ 894,611	$ 3,857,949	$ (2,963,338)
Deductions			
Monthly Benefits	$ 1,486,387	$ 1,460,836	$ 25,551
Refunds of Contributions	11,836	23,813	(11,977)
Administrative Expenses	10,023	9,264	759
Total Deductions	$ 1,508,246	$ 1,493,913	$ 14,333
Change in Plan Net Assets	$ (613,635)	$ 2,364,036	$ (2,977,671)

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. Retirement benefit expense increased by about $25.55 million due to a net increase in the number of benefit recipients during the year. No benefit adjustment was paid to benefit recipients on January 1, 2012, according to Minnesota Statute.

Member refunds of $11.84 million decreased by about $11.98 million during fiscal year 2012 from the fiscal year 2011 total of $23.81 million. The decrease is due to fewer refunds of Earnings Limitation Savings Accounts (ELSA).

Administrative expenses increased by 8.2 percent during the fiscal year – from $9.26 million in fiscal year 2011 to about $10.02 million for fiscal year 2012. Overall, fund expenses increased about $14.3 million during fiscal year 2012.

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 (page 35) and the Schedule of Contributions from the Employer and Other Contributing Entities (page 35) to determine if TRA is becoming stronger or weaker over time.

As a result of lower investment returns of 2.4 percent, the actuarial value of assets fell from $17.13 billion on June 30, 2011, to $16.81 billion as of June 30, 2012. The actuarial value of assets smoothes investment gains and losses over a five-year period to minimize the volatility associated with any one year of investment performance. On fair value basis, TRA assets were about $16.69 billion on June 30, 2012.

TRA's actuarial liabilities increased during the year from $22.17 billion on June 30, 2011 to $23.03 billion as of June 30, 2012. The actuarial liability amounts are smaller than the $23.11 billion as of July 1, 2009, due to the benefit reductions enacted by the 2010 legislature. A major feature of the benefit reduction package was a two-year suspension of the annual January benefit recipient adjustment. On January 1, 2013, the annual benefit adjustment will resume with 2.0 percent paid.

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 retirement costs is shared equitably by present and future generations of members and taxpayers. As of June 30, 2012, the accrued liability funding ratio for TRA was 72.99 percent, a decrease from the comparable funding ratio of 77.27 percent as of June 30, 2011. The funding decrease is primarily driven by the further recognition of investment losses deferred from fiscal years 2008 and 2009 under the five-year actuarial asset smoothing method and the actuarial investment losses sustained during fiscal year 2012.

TRA's unfunded actuarial liability on June 30, 2011 was $5.04 billion. The June 30, 2012, unfunded actuarial liability increased to $6.22 billion, representing an increase of about $1.18 billion. By law, the unfunded liability must be recovered in full by June 30, 2037.

TRA's statutory contribution rate of 13.71 percent of member covered payroll is currently trailing the required contribution rate calculated by TRA's actuarial consultant. The required contribution rate to fund normal pension costs, amortizing the unfunded actuarial liability, plus TRA administrative costs was calculated as 18.75 percent. The resulting contribution deficiency is 5.04 percent of employee covered payroll. As a result of the 2010 legislation, employee and employer contribution rates will be increased over the next two years by a combined total of 2.00 percent. Employee and employer contribution rates are reviewed and set into law by the Minnesota legislature.

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 at any one point in time. The funding ratio of the TRA Fund worsened from 77.27 percent to 72.99 percent for fiscal year 2012, primarily due to the five-year investment performance not meeting the expected investment earnings assumption.

The long-term financial health of the TRA fund, as with all retirement systems, is heavily dependent on three key items: (1) future investment returns, (2) contributions, and (3) benefit plan provisions. Changes were made by the 2010 legislature to strengthen the funding of TRA and enhance its long-term sustainability. A series of employee and employer contribution rate increases were phased in over four years beginning July 1, 2011, and benefit reductions were implemented. Given the current funded status, the deferred investment return experience, and the current statutory contribution rate structure, TRA's funded ratio is expected to remain around 70 percent over the long term, even if all investment and actuarial assumptions are met. In order to reach the 100 percent funding goal by the target date June 30, 2037, contributions would have to be increased beyond the current rates, benefits would have to be lowered, and/or favorable investment and actuarial experience would need to occur. The TRA Board of Trustees and management will continue to monitor actuarial and investment results with the goal of supporting TRA's long-term financial sustainability.

Request for Information

The financial report is designed to provide the Board of Trustees, members and other users of this financial report a general overview of the Association's finances and to demonstrate its accountability with the money it holds in trust. If you have questions about this report, or require additional financial or actuarial information, please contact

Teachers Retirement Association
60 Empire Drive, Suite 400
Saint Paul, Minnesota 55103

Telephone toll-free, 800-657-3669

Email: info@MinnesotaTRA.org

Teachers Retirement Fund
Statement of Plan Net Assets

As of June 30, 2012

Assets

Cash and Short-Term Investments		
Cash	$	7,393,023
Building Account Cash		28,358
Short-Term Investments		320,809,338
Total Cash and Short-Term Investments		$328,230,719
Accounts Receivable	$	14,854,308
Investments (at fair value)		
Fixed Income Pool	$	3,716,921,966
Minneapolis Pool		174,226
Alternative Investments Pool		2,609,840,204
Indexed Equity Pool		2,714,966,900
Domestic Equity Pool		4,829,111,772
Global Equity Pool		2,481,316,060
Total Investments	$	16,352,331,128
Securities Lending Collateral	$	1,515,372,441
Building		
Land	$	171,166
Building & Equipment		11,279,089
Reserve for Building Depreciation		(3,110,274)
Deferred Bond Charge		145,857
Reserve for Deferred Bond Charge Amortization		(55,325)
Total Building	$	8,430,513
Capital Assets Net of Accumulated Depreciation	$	4,350,425
Total Assets	$	18,223,569,534

Liabilities

Current		
Accounts Payable	$	8,740,941
Accrued Compensated Absences		81,477
Accrued Expenses - Building		3,036
Bonds Payable		283,500
Bond Interest Payable		41,259
Securities Lending Collateral		1,515,372,441
Total Current Liabilities	$	1,524,522,654
Long Term		
Accrued Compensated Absences	$	688,551
Accrued OPEB Liability		45,000
Bonds Payable		8,372,700
Total Long Term Liabilities	$	9,106,251
Total Liabilities	$	1,533,628,905
Net Assets Held in Trust for Pension Benefits	$	16,689,940,629

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, 2012

Additions

Contributions		
Employee	$	239,833,920
Employer		244,934,613
Direct Aid (State/City/County)		21,726,472
Earnings Limitation Savings Account (ELSA)		859,412
Total Contributions	$	507,354,417
Investment Income		
Net Appreciation in Fair Value of Investments	$	398,195,490
Less Investment Expense		(22,756,853)
Net Investment Income	$	375,438,637
Securities Lending Activities		
Securities Lending Income		$13,277,914
Securities Lending Expenses		
Borrower rebates		(375,548)
Management fees		(5,153,844)
Total Securities Lending Expenses		(5,529,392)
Net income from Securities Lending		7,748,522
Total Net Investment Income	$	383,187,159
Other Income	$	4,069,789
Total Additions	$	894,611,365

Deductions

Retirement Benefits Paid	$	1,485,527,420
Earnings Limitation Savings Account		859,412
Refunds of Contributions to Members		11,835,977
Administrative Expenses		10,023,488
Total Deductions	$	1,508,246,297
Net Increase (Decrease)	$	(613,634,932)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	$	17,303,575,561
End of Year	$	16,689,940,629

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012

I. Summary of Significant Accounting Policies

A. Organization

The Teachers Retirement Association (TRA) is an administrator of a multiple 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 one year of eligible 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*.

Figure 1

Employer Units June 30, 2012	
Independent school districts	344
Joint powers units	34
Colleges and universities	39
State agencies	4
Charter schools	158
Professional organizations	6
Total Employer Units	585

Membership June 30, 2012	
Retirees, disabilitants and beneficiaries receiving benefits	55,425
Terminated employees with deferred vested benefits	12,201
Total	67,626
Current employees	
Vested	61,727
Non-vested	14,922
Total	76,649

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.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed **before July 1, 1989**, receive the greater of the Tier I or Tier II benefits as described:

Tier I	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3 percent per year early retirement reduction factors for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.5 percent per year.

Members first employed **after June 30, 1989**, receive only the Tier II benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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 on June 30, 2006. Forty two former MTRFA active and inactive members retain Basic Program coverage.

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. 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.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, which establishes new standards for state and local governmental plans. Concurrently, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes standards for governmental entities that contribute to state and local pension plans.

TRA anticipates implementing the provisions of Statement No. 67 for the fiscal year ending June 30, 2014. Statement No. 68 is expected to be implemented for the fiscal year ending June 30, 2015. TRA staff has already begun planning with its actuarial consultant, investment custodians, and employer unit entities to coordinate the implementation of both GASB statements. Further information on GASB-related implementation planning can be found on the TRA website at: www.MinnesotaTRA.org.

F. 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, 2012, the TRA Fund's share of the Combined Funds administered by SBI at fair value was approximately 35.1 percent ($16.67 billion – TRA and $47.53 billion – total). *Figure 2* 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 Minnesota Management & Budget, 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. Investments in the pooled accounts are reported at fair value. The pooled accounts have not been rated for credit quality. *Figure 2* provides a summary of the cost and fair values of the investments as of June 30, 2012, 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.

Figure 2

TRA Investment Portfolio
June 30, 2012

TRA Fund	**Cost**	**Fair Value**
Pooled Accounts		
Fixed Income	$ 3,352,622,521	$ 3,716,921,966
Domestic Equity	3,829,282,807	4,829,111,772
TRA Minneapolis Equity	144,956	174,226
Indexed Equity	2,290,514,402	2,714,966,900
Global Equity	2,447,489,506	2,481,316,060
Alternative Investments	2,259,749,359	2,609,840,204
Total	$ 14,179,803,551	$ 16,352,331,128
Short-Term Cash Equivalents		
Money Market	$ 280,017,666	$ 280,080,179
CD Repo Pool	$ 40,711,545	$ 40,729,159
Total	$ 320,729,211	$ 320,809,338
Total Invested	$ 14,500,532,762	$ 16,673,140,466

The TRA Minneapolis Equity Account was created in 2006 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.

Included in the short-term investment category is a program managed by the SBI in which it purchases certificates of deposits (CD) in Minnesota financial institutions. The SBI receives a market rate of return on these investments. The CD investments are insured by the Federal Deposit Insurance Corporate.

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 net investment income of $383,187,159 for fiscal year 2012.

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 (page 52). TRA's share of these expenses totaled $22,756,853 (pages 50-51).

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

G. 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. The SBI 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 approved borrowers.

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) or other collateral including securities issued or guaranteed by the United States government. 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 the fiscal year, 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, 2012, such investment pool had an average duration of 3.87 days and an average weighted maturity of 26.04 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, 2012, SBI had no credit risk exposure to borrowers. TRA's portion of the market value of the collateral held and the fair value of securities on loan from SBI as of June 30, 2012, were $2,522,716,493 and $2,449,042,044, 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.

H. Investment Risk

Governmental 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 M.

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 the lower of S & P's or Moody's Quality Ratings, is shown in *Figure 3*.

Figure 3

Credit Risk Exposure

Quality Rating	Fair Value (in thousands)
BBB or Better	$3,552,364
BB or Lower	205,789
Not Rated	667,714

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. SBI determined concentration of credit risk based on security identification number. TRA's defined benefit plan does not have a concentration of credit risk.

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 controls interest rate risk through guidelines developed for each portfolio. TRA's share of the debt securities are held in external investment pools and have the weighted average maturities as shown in *Figure 4*.

Figure 4

Interest Rate Risk

Security	Weighted Average Maturity (in Years)
Cash Equivalent	0.23
Commercial Mortgage Backed Securities	1.96
Asset Backed	3.79
Mortgage Pass Through	4.44
Collateralized Mortgage Obligation	4.70
U. S. Agency	4.83
Yankee	6.82
Foreign Country Bonds	7.36
Corporate Debt	8.63
U.S. Treasuries	9.24
Energy	9.58
Private Placement	11.53
Municipal	20.81
Preferred Stock	28.28

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. Under SBI manager guidelines, approved by the Investment Advisory Committee (IAC) and SBI, each money manager may hedge foreign currency transactions at their own option. 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, 2012, was distributed among the currencies as shown in *Figure 5*.

I. Derivative Financial Instruments

Governmental Accounting Standards Board (GASB) Statement 53 Disclosures

On behalf of TRA, SBI invests in various types of derivative financial instruments. Derivatives are defined as any financial arrangement between two parties that has value based on or derived from future price fluctuations. The derivative financial instruments that SBI enters into include futures, options, stock warrants and rights, and currency forwards.

Minnesota Statutes, section 11A.24, provides that any agreement for put and call options and futures contracts may only be entered into with a fully offsetting amount of cash or securities. This applies to foreign currency forward contracts used to offset the currency risk of a security. All other derivatives are exchange-traded. The purpose of the SBI's derivative activity is to equitize cash in the portfolio, to adjust the duration of the portfolio, or to offset current futures positions.

Explanations of each derivative instrument type are presented below. The fair value balances and notational amounts (or face value) at June 30, 2012, classified by derivative instrument type (e.g., futures, options, currency forwards, and stock warrants and rights), and the changes in fair value for fiscal year 2012 are shown in *Figure 6*.

- **Futures** are contract commitments to purchase (asset) or sell (liability) at a future date. The net change in the values of futures contracts is settled on a regular basis and gains and losses are included in investment income.
- **Options** are contracts that give buyers or sellers the right to buy (calls) or sell (puts) a security at a predetermined price on a future date. Gains and losses result from variances in the market value of the security that is the subject of the contract that occur prior to or on the contract specified date. The gains and losses are included in investment income.
- **Currency Forward Contracts** are used to manage portfolio foreign currency risk. The provisions of the contract vary based on what is negotiated between the two parties.
- **Stock Warrants and Rights**, similar to options, are the right to purchase shares of a stock at a certain price by a certain date. They usually have a longer term before expiration, e.g., five years or more. When exercised, new shares are issued by the company. Rights are the same but are issued to current stock owners to enable them to retain their relative ownership share. Gains and losses from the sale or exercise of stock warrants and rights are included in investment income.

SBI is exposed to credit risk through multiple counterparties in foreign currency forward contracts that are used to offset the currency risk of a security. TRA's proportionate share of the maximum loss that SBI would have recognized as of June 30, 2012, if all counter parties failed to perform as contracted is $1,099,573. These counter parties have S&P ratings of A or better. There is no collateral held or any liabilities included in netting arrangements with those counterparties that would have reduced SBI's exposure to credit risk.

Figure 5

Assessment of Currency Risk International Investment Securities at Fair Value				
Currency	**Cash**	**Debt**	**Equity**	**Total**
Australian Dollar	$ 810,403		$ 140,479,064	$ 141,289,467
Brazilian Real	187,191		29,131,944	29,319,135
Canadian Dollar	875,605	$ 4,960,978	184,534,592	190,371,175
Chilean Peso	9,847		5,150,702	5,160,549
Colombian Peso	14,370		612,558	626,928
Czech Koruna	1,572		1,259,269	1,260,841
Danish Krone	172,789		26,571,287	26,744,076
Euro Currency	5,525,851	1,947,765	496,970,350	504,443,966
Hong Kong Dollar	1,049,157		135,264,040	136,313,197
Hungarian Forint	4,595		2,777,801	2,782,396
Indian Rupee	48,662		42,305,095	42,353,757
Indonesian Rupiah	139,712		18,449,667	18,589,379
Israeli Shekel	113,245		5,045,633	5,158,878
Japanese Yen	6,748,369		395,150,398	401,898,767
Malaysian Ringgit	47,500		15,651,582	15,699,082
Mexican Peso	60,494		14,148,837	14,209,331
Moroccan Dirham	14,787		66,042	80,829
New Taiwan Dollar	117,213		31,466,439	31,583,652
New Turkish Lira	3,540		3,074,323	3,077,863
New Zealand Dollar	171,399		1,847,882	2,019,281
Norwegian Krone	271,169		18,046,743	18,317,912
Philippine Peso	450		14,992,642	14,993,092
Polish Zloty	19,975		9,265,479	9,285,454
Pound Sterling	2,143,250	10,133,498	409,360,999	421,637,747
Singapore Dollar	232,572		29,645,129	29,877,701
South African Rand	269,286		21,209,369	21,478,655
South Korean Won	26,721		71,289,019	71,315,740
Swedish Krona	790,443		43,324,309	44,114,752
Swiss Franc	1,243,265		142,229,558	143,472,823
Thailand Baht	24,545		13,289,395	13,313,940
Turkish Lira	17,976		9,005,599	9,023,575
Other	1,475		190,483	191,958
Total	$ 21,157,428	$ 17,042,241	$ 2,331,806,229	$ 2,370,005,898

Figure 6

Schedule of Derivative Financial Instruments (in thousands)			
Derivative Investment Type	**Changes in Fair Value During FY 2012**	**Fair Value at June 30, 2012**	**Notional Amount**
Futures			
Equity Futures – Long	$ 5,223	$ 0	$ 755
Equity Futures – Short	$ 1,344	$ 0	$ (9)
Fixed Income Futures – Long	$ 4,551	$ 0	$ 48,118
Fixed Income Futures – Short	$ (10,121)	$ 0	$ (128,268)
Options			
Equity Options Bought	$ (164)	$ 12	$ 308
Equity Options Written	$ 581	$ (70)	$ (233)
Foreign Currency Forwards	$ 1,833	$ (151)	$ 155,020
Stock Warrants and Rights			
Stock Warrants	$ (155)	$ 0	$ 83
Stock Rights	$ 306	$ 96	$ 140

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. The total liability at June 30, 2012, is $770,028. Of this, $81,477 is considered a short-term liability and $688,551 is shown as a long-term liability on the Statement of Plan Net Assets. The total increased by $28,441 during fiscal year 2012.

K. Capital Assets

Capital assets are capitalized at the time of acquisition at cost. Assets with a cost in excess of $2,000 and internally generated software development costs in excess of $1,000,000 are capitalized. In fiscal year 2012, software development costs of $1,245,713 were capitalized. Additional development costs are anticipated over the next three years.

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), modular office furniture (10 years) and internally generated software (10 years).

Capital assets are presented on the June 30, 2012, Statement of Plan Net Assets. The year-end balance plus changes during the year are shown in *Figure 7*.

Figure 7

Schedule of Capital Assets				
Description	**Balance 7/01/2011**	**Additions**	**Deletions**	**Balance 6/30/2012**
Furniture and Equipment	$ 2,647,624	$ 937,478	$ (373,808)	$ 3,211,294
Internally Developed Software	2,245,540	1,245,713	0	3,491,253
Reserve for Depreciation	(2,078,402)	(342,549)	68,829	(2,352,122)
Net Capital Assets	$ 2,814,762	$ 1,840,642	$ (304,979)	$ 4,350,425

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 Department of Minnesota Management & Budget for policy analysis and is included in the Governor's Biennial Budget presentation to the legislature. The legislature adopts appropriation and expenditure amounts resulting in an approved budget for the Association.

TRA administrative costs are not financed by any specific type of contribution or other income of the Fund. Administrative costs are budgeted in the annual determination of the actuarial required contribution rate (page 75, line B3).

M. 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 2012, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all TRA deposits.

N. Accounts Receivable

Amounts classified as accounts receivable consist primarily of member, employer contributions, and employer direct aid payments received after the fiscal year end on salaries earned prior to June 30, 2012. 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 8.50 percent, compounded annually, is assessed. If contributions are not received within 60 days of notification by TRA, the Commissioner of Minnesota Management & Budget is authorized to deduct the balance due TRA from state aids or appropriations due to that employer unit. A Schedule of Accounts Receivable as of June 30, 2012, is presented in *Figure 8*.

Figure 8

Schedule of Accounts Receivable
June 30, 2012

Description	Amount
Member Contributions	$ 6,452,056
Employer Contributions	6,781,629
Direct Aid (State/City/School)	1,125,000
Returned Capital Asset	280,671
Management Fees	89,280
Interest on Investments	80,126
Shared staff reimbursement	45,485
Bond Interest	61
Total Receivables	$ 14,854,308

O. Earnings Limitation Savings Account (ELSA)

Teachers under their Social Security normal retirement age who resume teaching service for a TRA-covered employer after retirement are subject to a $46,000 annual earnings limitation. If a member earns more than the limitation, the annuity payable during the following calendar year will be offset one dollar for each two dollars earned in excess of the limitation.

The pension offset amounts are redirected to a separate individual savings account, called the Earnings Limitation Savings Account (ELSA), and later distributed to the retiree. Six percent interest compounded annually accrued on ELSA accounts up through December 31, 2010. Effective January 1, 2011, ELSA accounts no longer accrue interest. A member may apply for a lump-sum payment of their ELSA, plus interest, as long as it has been at least one year after the last deferred amount was redirected to the ELSA account. Alternatively, the retiree may also choose a rollover of their ELSA account balance into an eligible retirement plan or individual retirement account (IRA) as specified by Section 402(c) of the Internal Revenue Code.

As of June 30, 2012, TRA had 381 retirees with an ELSA account established. The total of all ELSA account balances was $3.84 million. The dollar amount of pension benefits withheld due to excess earnings during fiscal year 2012 was $859,412. ELSA assets are invested in the TRA Fund until distribution. Distributions of ELSA accounts for 246 retirees occurred during fiscal year 2012 and totaled $3.45 million and are included as a deduction in the Statement of Changes in Plan Net Assets as a component of Refund of Contributions to Members.

P. Participating Pension Plan

All 84 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 2012, Coordinated members were required to contribute 6.0 percent of their annual covered salary. Employers contributed 6.0 percent of their annual covered salary for Coordinated members. The total covered payroll salaries for all TRA employees during fiscal year 2012 was approximately $4.8 million or 0.12 percent of total membership-covered salaries. The total covered payroll salaries for the entire membership of TRA for fiscal year 2012 was approximately $3.87 billion. TRA paid 100 percent of its required employer contributions of $285,373.

Expenses related to employer pension contributions for TRA employees are set by state statute. The contributions are described in *Figure 9*.

Figure 9

Schedule of TRA Employer Pension Contributions
For TRA Employees
For the Fiscal Year Ended June 30

2012	2011	2010
$285,373	$239,869	$263,169

Q. 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.

The building is located on 4.3 acres of land at 60 Empire Drive in Saint Paul. 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 Minnesota Management and Budget, 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. At fiscal year end, TRA's share of the bonds payable is $8,656,200. The bond payable decreased by $264,600 during the fiscal year. Interest expected to be paid over the remaining term of the bonds is $5,657,050. In *Figure 10*, 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 depreciation schedule, shown in *Figure 11* summarizes the asset valuation of the office building, building equipment and deferred bond charges.

As described in Note III, *Subsequent Event*, the bonds issued in June 2000 were refunded.

Figure 10

Schedule of Building Debt Service Payments
(TRA Share @ 37.8%)
June 30, 2012

Fiscal Year	Principal	Interest	Total Principal and Interest
2013	$ 283,500	$ 505,759	$ 789,259
2014	292,950	490,167	783,117
2015	311,850	473,908	785,758
2016	330,750	456,444	787,194
2017	349,650	437,757	787,407
2018	368,550	417,827	786,377
2019	396,900	396,635	793,535
2020	415,800	373,814	789,614
2021	444,150	349,697	793,847
2022	472,500	323,603	796,103
2023	500,850	295,844	796,694
2024	529,200	266,419	795,619
2025	567,000	235,329	802,329
2026	595,350	202,017	797,367
2027	633,150	167,041	800,191
2028	680,400	129,843	810,243
2029	718,200	89,019	807,219
2030	765,450	45,927	811,377
	$ 8,656,200	$ 5,657,050	$ 14,313,250

R. Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

Nearly all TRA employees are covered by the State Employees Group Insurance Plan (SEGIP) administered by the Department of Minnesota Management and Budget. At present, this plan subsidizes the cost of retiree insurance by charging a single premium rate for active employees and retirees, regardless of underwriting experience. As of June 30, 2012, the SEGIP had an unfunded net obligation of $168,441,000 to be funded on a pay-as-you-go basis. TRA's allocated portion of this liability is $45,000.

Figure 11

Schedule of Office Building and Equipment Depreciation
(TRA Share @ 37.8%)
June 30, 2012

Description	Balance 7/01/2011	Additions	Deletions	Balance 6/30/2012
Land	$ 171,166	$ 0	$ 0	$ 171,166
Building	$ 11,168,913	$ 0	$ 0	$ 11,168,913
Reserve for Building Depreciation	(2,791,034)	(279,216)	0	(3,070,250)
Net Building	$ 8,377,879	$ (279,216)	$ 0	$ 8,098,663
Building Equipment	$ 110,176	$ 0	$ 0	$ 110,176
Reserve for Building Equipment Depreciation	(30,289)	(9,735)	0	(40,024)
Net Building Equipment	$ 79,887	$ (9,735)	$ 0	$ 70,152
Deferred Bond Charge	$ 145,857	$ 0	$ 0	$ 145,857
Reserve for Amortization	(50,296)	(5,031)	0	(55,325)
Net Deferred Bond Charge	$ 95,561	$ (5,031)	$ 0	$ 90,532

II. Contributions Required and Made

Minnesota Statutes, Chapter 354 sets the rates (page 75, Line A4) 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 $506,495,005 ($239,833,920 employee and $266,661,085 employer and employer direct aid) were received in accordance with the statutory contribution rates and amounts. On page 75, Line C, statutory contributions are projected as insufficient to meet the actuarially determined required contributions. The deficiency is 5.04 percent of covered payroll. This translates into a contribution deficiency of about $208.7 million projected for fiscal year 2013. Under current statute, TRA employee and employer contribution rates are scheduled to increase by a total of 2.00 percent by July 1, 2014. The Minnesota Legislative Commission on Pensions and Retirement (LCPR) annually reviews the adequacy of TRA's statutory contributions.

III. Subsequent Event

As described in Note I (Q), TRA is party to a joint tenancy agreement with the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA) for the purpose of construction and ownership of an administrative office building. The Facility Management Committee (FMC) consists of two board of trustees representatives from each of the three retirement systems. The FMC is responsible for establishing an operating budget and setting policies to manage the building. The FMC determines ownership interest in the building by the pro-rata square footage occupied by each of the three retirement systems. Effective July 1, 2012, TRA's ownership interest decreased from 37.80 percent to 36.70 percent.

To finance the original building construction, Minnesota Management and Budget (previously known as the state Department of Finance) issued $29,000,000 in 30-year revenue bonds on June 1, 2000. In August, 2012, the bonds were refunded with the proceeds of a new, lower-interest rate bond issue. The 2012 series $21,880,000 Retirement System Revenue Refunding bonds are secured by the value of the total assets of the retirement systems, excluding any fund related to or dedicated to defined contribution plans administered by the retirement systems. The goal of the 2012 refunding bonds was to attempt to approximate the debt service payments that had existed under the 2000 revenue bonds, but to shorten the repayment period by five years.

Through the issuance of the refunding bonds, which received a AAA rating from both Standard and Poor's and Fitch, the bond term has been reduced by five years and the present value of the savings to the retirement systems is $9.58 million. The bonds mature on June 1, 2025. TRA's share of the present value savings is approximately $3.51 million.

Figure 12 shows the debt service amounts for which TRA is directly responsible based on the new ownership percentage.

Figure 12

Schedule of Building Debt Service Payments
(TRA Share @ 36.7%)
Effective: August 9, 2012

Fiscal Year	Principal	Interest	Total Principal & Interest
2013	$ 607,385	$ 158,603	$ 765,988
2014	576,190	183,390	759,580
2015	590,870	171,866	762,736
2016	603,715	160,049	763,764
2017	614,725	147,974	762,699
2018	627,570	135,680	763,250
2019	645,920	123,129	769,049
2020	655,095	110,210	765,305
2021	673,445	97,108	770,553
2022	688,125	83,639	771,764
2023	702,805	69,877	772,682
2024	677,115	41,765	718,880
2025	367,000	14,680	381,680
Totals	$ 8,029,960	$ 1,497,969	$ 9,527,929

IV. Funded Status: TRA Plan

A. Results of Most Recent Valuation

The funded status of the TRA plan as of July 1, 2012, the most recent actuarial valuation date is as follows:

(Dollars in thousands)	
Actuarial Accrued Liabilities (AAL)	$ 23,024,505
Actuarial Value of Assets	$ 16,805,077
Unfunded Actuarial Accrued Liability (UAAL)	$ 6,219,428
Ratio of Assets to AAL	72.99%
Active Member Payroll	$ 3,871,809
UAAL as a Percentage of Active Member Payroll	160.63%

An actuarial valuation of a pension plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, levels of pay, and mortality. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past assumptions and new estimates are made about the future.

B. Description of Schedule of Funding Progress (Page 35)

The funding percentage of the actuarial accrued liability funded ratio is a measure intended to help users assess the plan's funding status using a multi-year trend analysis to gauge progress being made in accumulating sufficient assets to pay benefits when due.

The laws governing TRA require that actuarial liabilities be amortized over a closed amortization date ending June 30, 2037. If actual financial experiences are less favorable than assumed financial experiences, the difference will be added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amount, with a corresponding increase in unfunded actuarial accrued liabilities. Reviewing the dollar amounts of unfunded liabilities in isolation can be misleading. The ratio of unfunded actuarial accrued liabilities divided by active employee covered salaries (covered payroll) provides an index that adjusts for the effects of inflation. A stronger system will have a smaller ratio of unfunded actuarial accrued liabilities to active member payroll. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

For the past eight years, TRA has had a funding ratio of less than the fully funded status of 100 percent. The actuarial value of TRA assets has fallen for the past six years due to the actuarial recognition of investment losses sustained, particularly from those occurring during the deep market declines from mid-2007 through March 2009. Investment gains experienced during fiscal years 2011 and 2012 have slowed the decline in the actuarial value of assets. As of June 30, 2012, TRA had approximately $119 million (page 71, Line 6e) in deferred investment losses produced by the five-year smoothing of investment gains and losses.

The value of TRA actuarial accrued liabilities for June 30, 2012 ($23.02 billion) is lower than the actuarial accrued liabilities for June 30, 2009 ($23.11 billion), three years earlier. The primary reasons for decreased liabilities is due to plan provision changes and revised actuarial assumptions enacted by the 2010 Minnesota legislature.

In summary, TRA's actuarial funding ratio of 72.99% for June 30, 2012, is lower than the July 1, 2011, funding ratio of 77.27%, primarily due to the decline in the actuarial value of assets generated by the five-year smoothing method. On June 30, 2012, the value of TRA's unfunded actuarial liabilities was about $6.22 billion.

On a market value basis, TRA was 72.47 percent funded as of June 30, 2012, with an unfunded liability of $6.34 billion (page 61 and 65).

C. Description of the Schedule of Contributions from Employers and Other Contributing Entities (Page 35)

The amount of required employer contributions and actual percentage contributed are presented in the schedule. Employer contribution rates for TRA are set by Minnesota Statute. Minnesota Statute also specifies direct contribution amounts contributed by the State of Minnesota, the City of Minneapolis and the Minneapolis School District.

D. Actuarial Assumptions and Methods

Actuarial Cost Method

Liabilities and contributions in this report are computed using the Individual Entry Age Normal Cost Method. This method is prescribed by Minnesota Statutes. The actuarial assumptions used to determine liabilities have been set by the Minnesota legislature.

A fundamental principle in financing the liabilities of a retirement plan is that the cost of its benefits should be related to the period in which benefits are earned, rather than to the period of benefit distribution. An actuarial cost method is a mathematical technique that allocates present value of future benefits into annual costs. In order to perform this allocation, a funding method is necessary to "breakdown" the present value of future benefits into two components:

- That which is attributable to the past and
- That which is attributable to the future.

Under the Entry Age Normal cost method, the actuarial present value of each member's projected benefits allocates on a level basis over the member's compensation between the entry age of the member and the assumed exit ages. The portion of the actuarial present value allocated to the valuation year is called the normal cost. The actuarial present value of benefits allocated to prior years of service is called the actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) represents the difference between the actuarial accrued liability and the actuarial value of assets as of the valuation date.

The unfunded actuarial accrued liability is calculated each year and reflects plan experience of gains and losses. The UAAL is amortized over a closed period set in Minnesota Statute (June 30, 2037). Required contributions to fund the UAAL are determined as a level percentage of payroll assuming payroll increases of 3.75 percent annually.

Asset Valuation Method

The assets are valued based on a five-year moving average of expected and market values (five-year average actuarial value) determined as follows:

- At the end of each plan year, an average asset value is calculated as the average of the market asset value at the beginning and end of the fiscal year net of investment income for the fiscal year;
- The investment gain or (loss) is taken as the excess of actual investment income over the expected investment income based on the average asset value as calculated above;
- The investment gain or (loss) so determined is recognized over five years at 20 percent per year;
- The asset value is the sum of the market value plus the scheduled recognition of investment gains of (losses) during the current and preceding four fiscal years.

TRA participated in the Minnesota Post Retirement Investment Fund (MPRIF), which was dissolved on June 30, 2009. For the purposes of determining the actuarial value of assets, the MPRIF asset loss for the fiscal year ending June 30, 2009, is recognized incrementally over five years at 20 percent per year, similar to the smoothing described above. Prior to June 30, 2009, MPRIF asset gains and losses were not smoothed.

Decrement Timing

One actuarial assumption is to specify the timing of when a member status change occurs – for example, a member who may terminate teaching service during the year. Decrement timing is a fundamental part of the actuarial consultant's computer programming underlying actuarial calculations. The computer systems used by Cavanaugh Macdonald Consulting specify the "mid-year" method of decrement timing, the preferred method specified by the Legislative Commission on Pensions and Retirements, "Standards for Actuarial Work."

Funding Objective

The fundamental financing objective of the fund is to establish contribution rates that, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

Significant Actuarial Assumptions

Assumptions used by the actuary for funding purpose are set by Minnesota Statute. They include:

- Inflation Rate – 3.0 percent
- Investment Return
    - Pre-retirement: 8.35 percent compounded annually to reflect an 8.0 percent assumption for five (5) years and 8.5 percent thereafter
    - Post-retirement: 6.35 percent compounded annually
- Salary Scale – The active member payroll growth was assumed to increase 3.75 percent annually. Individual salary increases were based on a service years-based table, with rates ranging from 3.5 to 12.0 percent, annually.
- Benefit Payments – Annual benefit increases are established in statute by the Minnesota Legislature. No annual increases were paid to TRA benefit recipients on January 1, 2012. Beginning January 1, 2013, an annual increase of 2.0 percent will be paid.
- Amortization Method – The unfunded liability is amortized as a level percentage of covered active member payroll each year to the closed statutory amortization date of June 30, 2037, assuming payroll increases of 3.75 percent per year. If the UAAL is negative, the surplus amount is amortized over 30 years as a level percentage of payroll. If there is an increase in the unfunded accrued liability due to a change in the actuarial assumptions, plan provisions, or actuarial cost method, a new amortization period is determined. This new amortization period is determined by blending the period needed to amortize the prior unfunded actuarial accrued liability over the prior amortization period and the increase in unfunded actuarial accrued liability amortized over 30 years. If there is a decrease in the unfunded accrued liability, no change is made to the amortization period.
- Remaining Amortization Period – closed period ending June 30, 2037 (25 years remaining).

E. Projection of Benefits

Projections of benefits for financial reporting purposes are based on the plan provisions contained in Minnesota Statutes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial value of assets for TRA assets. The preparation of the actuarial valuation report is also defined by the Standards for Actuarial Reporting promulgated by the LCPR.

Required Supplementary Information

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)
7/01/03	$17,384,179	$16,856,379	$ (527,800)	103.13%	$2,952,887	-17.87%
7/01/04	$17,519,909	$17,518,784	$ (1,126)	100.01%	$3,032,483	-0.04%
7/01/05	$17,752,917	$18,021,410	$ 268,493	98.51%	$3,121,571	8.60%
7/01/06	$19,035,612	$20,679,111	$ 1,643,499	92.05%	$3,430,645	47.91%
7/01/07	$18,794,389	$21,470,314	$ 2,675,925	87.54%	$3,532,159	75.76%
7/01/08	$18,226,985	$22,230,841	$ 4,003,856	81.99%	$3,645,230	109.84%
7/01/09	$17,882,408	$23,114,802	$ 5,232,394	77.36%	$3,761,484	139.10%
7/01/10	$17,323,146	$22,081,634	$ 4,758,488	78.45%	$3,787,757	125.63%
7/01/11	$17,132,383	$22,171,493	$ 5,039,110	77.27%	$3,838,111	131.29%
7/01/12	$16,805,077	$23,024,505	$ 6,219,428	72.99%	$3,871,809	160.63%

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

Dollar Amounts in Thousands

Year End June 30	Actuarially* Required Contribution Rate (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	ARC Annual Required Contributions [(a) x (b)] - (c)	Actual Employer Contribution	Percentage Contributed
2003	7.57%	$2,952,887	$155,577	$ 67,957	$149,481	219.96%
2004	8.37%	$3,032,483	$159,140	$ 94,679	$151,029	159.52%
2005	8.46%	$3,121,571	$160,982	$ 103,103	$157,693	152.95%
2006	9.05%	$3,430,645	$177,085	$ 133,389	$200,286	150.15%
2007	12.16%	$3,532,159	$199,869	$ 229,642	$209,219	91.11%
2008	13.44%	$3,645,230	$209,592	$ 280,327	$231,562	82.60%
2009	15.08%	$3,761,484	$212,043	$ 355,189	$240,718	67.72%
2010	16.81%	$3,787,757	$214,909	$ 421,813	$242,088	57.39%
2011	15.71%	$3,838,111	$218,024	$ 384,943	$244,233	63.45%
2012	16.57%	$3,871,809	$239,834	$ 401,725	$266,661	66.38%
2013	18.75%					

**Actuarially Required Contributions calculated according to parameters of GASB 25.*

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Supporting Schedules to Financial Section

Teachers Retirement Fund
Administrative Expenses

For the Fiscal Year Ended June 30, 2012

Personnel Services		
Salaries	$	4,823,967
Employer Contributions to Teachers Retirement Association		285,373
Employer Contributions to Social Security		355,426
Insurance Contributions		975,959
Employee Training		80,868
Workers' Compensation		3,975
Subtotal	**$**	**6,525,568**
Communication		
Duplicating and Printing Expense	$	59,286
Postage		199,377
Telephone		68,247
Subtotal	**$**	**326,910**
Office Building Maintenance		
Lease of Office and Storage Space	$	28,965
Building Operating Expenses		469,941
Rental of Office Machines/Furnishings		62,968
Repairs and Maintenance		279,561
Building Equipment Depreciation		9,735
Building Depreciation		279,216
Deferred Bond Charge Amortization		5,031
Bond Interest Expense		518,091
Subtotal	**$**	**1,653,508**
Professional Services		
Actuarial Services	$	102,722
Audit Fees		136,852
Computer Support Services		433,656
Legal Fees		16,694
Management Consultant Services		63,983
Medical Services		45,000
Subtotal	**$**	**798,907**
Other Operating Expenses		
Department Head Expenses	$	1,535
Depreciation of Office Furniture and Equipment		342,788
Dues and Subscriptions		21,872
Insurance Expense		5,161
Miscellaneous Administrative Expenses		15,163
State Indirect Costs		105,987
Stationery and Office Supplies		134,425
Travel-Director and Staff		53,275
Travel-Trustees		31,328
Board Substitute Teachers		1,471
Loss on Disposal of Equipment		5,590
Subtotal	**$**	**718,595**
Total Administrative Expenses	**$**	**10,023,488**

Teachers Retirement Fund
Schedule of Professional Consultant Expenses

For the Fiscal Year Ended June 30, 2012

Investment Pool Managers	
Investment Board	$ 1,025,720
Financial Control Systems	151,801
Pension Consultants	12,815
Callan Associates, Inc.	131,707
Domestic Equity Pool Managers	6,940,395
Global Equity Pool Managers	7,692,355
Fixed Income Pool Managers	3,592,320
Semi-Passive Equity Pool Managers	2,919,390
Passive Equity Pool Managers	290,350
Total Investment Pool Managers	$ 22,756,853
Actuarial	
Cavanaugh Macdonald Consulting	$ 87,500
Mercer HR Consulting	15,222
Total Actuarial Expenses	$ 102,722
Audit	
Berwyn Group	$ 12,173
Legislative Auditor	124,484
MN Dept of Health	195
Total Audit Expenses	$ 136,852
Computer Support Services	
Fulcrum Consulting	$ 501,632
McCaa Webster	145,680
Works Computing	2,745
Total Computer Support Service Expenses	$ 650,057
Legal	
Attorney General	$ 16,001
Total Legal Expenses	$ 16,001
Management Consulting	
Aeritae	$ 61,050
Anitha Rajan	2,933
Total Management Consulting Expenses	$ 63,983
Medical	
MN Dept of Health	$ 45,000
Total Medical Expenses	$ 45,000
Total Consultant Expenditures	**$ 23,771,468**

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Investments

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State Board of Investment Letter

MINNESOTA STATE BOARD OF INVESTMENT

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www.sbi.state.mn.us

INVESTMENT AUTHORITY

The assets of the Minnesota Teachers Retirement Association (TRA) are invested along with the assets of the Minnesota Public Employees Retirement Association and the Minnesota State Retirement System under the direction and authority of the State Board of Investment (SBI) 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 (IAC) to advise the SBI and its staff on investment related matters. TRA's executive director is a member of the IAC.

INVESTMENT POLICY

Investment policy states that the SBI will operate within standard investment practices of the prudent person. The SBI is to "exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom." (See M.S., section 11A.09.) The SBI is authorized to own government obligations, corporate obligations, various short-term obligations, corporate stocks, venture capital interests, resource investments, and real estate interests subject to specific constraints. (See M.S., section 11A.24.) In particular, pension fund assets are to be invested for the exclusive benefit of the members of the fund.

INVESTMENT OBJECTIVES & PERFORMANCE

TRA's pension contributions from employees and employers are invested in the Combined Funds. The Combined Funds include the assets of active and retired public employees who participate in the defined benefit plans administered by TRA, the Minnesota State Retirement System, and the Public Employees Retirement Association. TRA does not own any underlying assets, but instead owns a participation in the pooled Combined Funds. Because these assets normally accumulate for thirty to forty years, SBI's objective is to take advantage of the long investment time horizon offered by equities and alternative assets in order to meet its actuarial return target and ensure that sufficient funds are available to finance promised benefits at the time of retirement. The 2012 legislature lowered the actuarial return assumption from 8.5 percent to 8.0 percent annually for the period July 1, 2011 through June 30, 2016.

The long term objectives of the Combined Funds are:

- Provide returns that are 3-5 percentage points greater than inflation over the latest 20-year period; and

- 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.

Consistent with these objectives, the SBI maintains a long-term asset allocation for the Combined Funds as follows:

- Domestic Equity 45%
- International Equity 15%
- Alternatives 20%
- Fixed Income 18%
- Cash 2%

Based on values on June 30, 2012, the Combined Funds returned 5.7 percentage points above the CPI over the last 20 years and returned 0.1 percentage point above the composite index over the past 10 years. Investment returns ranked in the 35th percentile over the past five years and in the 34th percentile over the past 10 years, compared to similar funds in the Trust Universe Comparison Service.

INVESTMENT PRESENTATION

Investment returns were prepared using time-weighted rate of return methodology based upon fair market value, net of investment expenses.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director
Minnesota State Board of Investment

Investment Summary

Prepared by TRA management with data obtained from the State Board of Investment's Fiscal Year 2012 Quarterly Investment Reports

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 of TRA had a fair value of approximately $16.67 billion as of June 30, 2012.

The four-member SBI Board consists of Governor Mark Dayton (Chair), Attorney General Lori Swanson, Secretary of State Mark Ritchie, and State Auditor Rebecca Otto. 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.
- The Commissioner of Minnesota Management and Budget (MMB) 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.
- All proposed investment policies are reviewed by the full Council before they are presented to SBI for action.

Investment Advisory Council

As of December 2012

Jeffery Bailey, Chair
Director, Benefits Finance
Target Corporation

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

Denise Anderson
Governor's Appointee
Active Employee Representative

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.

Dennis Duerst
Director, Benefit Funds Investment
3M Company

Kim Faust
Director, Treasury & Financial Reporting
Allina Health

Douglas Gorence
Chief Investment Officer
U of M Foundation Investment Advisors

Laurie Fiori Hacking
Executive Director
Teachers Retirement Association

P. Jay Kiedrowski
Senior Fellow
Humphrey Institute University of Minnesota

Judith W. Mares Lazar
Chief Investment Officer
ATK, Inc.

Gary Martin
Vice President, Pension Investments
SUPERVALU, Inc.

James D. Schowalter
Commissioner
Minnesota Management & Budget

Mary Vanek
Executive Director
Public Employees Retirement Association

Elaine Voss
Governor's Appointee
Retiree Representative

One Position Vacant

Callan Associates, 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 356.

Combined Retirement Funds

Investment Objectives

All TRA assets are accounted for within the Combined Funds managed by the Minnesota State Board of Investment (SBI). The Combined Funds consist not only of the TRA Fund, but also the assets of the Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS). The SBI has one primary responsibility with respect to its management of the Combined Funds: to ensure that sufficient funds are available to finance pension benefits at the time of retirement. All assets in the Combined Funds, including TRA, are managed externally by outside money management firms retained by contract.

The Combined Funds include 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 cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Combined Funds need to generate investment returns of at least 8.0 percent for fiscal years 2012 through 2016.

While an active member is working, employee and employer contributions are placed into the TRA Fund. The pre-funding of future pension benefits provides the SBI with a long investment time horizon to take advantage of long run return opportunities offered by equities and other investments, in order to meet its actuarial return target.

SBI measures the performance of the Combined Funds relative to a composite of market indices that is weighted in a manner that reflects their long-term asset allocation policy. The Combined Funds are expected to match or exceed the composite index over a ten-year period. The Combined Funds are also expected to match or exceed returns that are 3 to 5 percent greater than inflation over the latest 20 year period. Investment returns are prepared using a time-weighted rate of return methodology, based upon fair values, net of investment expenses. Performance is measured net of all fees and costs to assure that SBI's focus is on the Combined Funds' true net return.

Asset Allocation

The allocation of assets among equities, fixed income (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 focuses considerable attention on the selection of an appropriate long-term asset allocation policy for the Combined Funds. The asset allocation policy in place as of June 30, 2012, was:

Combined Funds Asset Mix
June 30, 2012

	Policy Mix	Actual Mix
Domestic Equity	45.0%	45.2%
International Equity	15.0%	14.9%
Fixed Income (Bonds)	18.0%	22.3%
Alternative Assets*	20.0%	15.7%
Unallocated Cash	2.0%	1.9%
Total	100.0%	100.0%

**Any uninvested allocation is held in bonds.*

Total Return Vehicles

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

SBI recognized that this sizable policy allocation to common stock and private equity likely produced 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 Combined 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 do not offer. Under more normal financial conditions, such as low to moderate inflation, the returns on these assets were not highly correlated with common stocks. As a result, their inclusion in the Combined Funds served to dampen return volatility.

Yield oriented alternative investments provided the opportunity for higher long-term returns than those typically available from bonds yet still generated sufficient current income. Typically, these investments, including 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 helped reduce the volatility of the total portfolio, while generating higher returns relative to more traditional bond investments.

The allocation to fixed income (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 diversify the Combined Funds and thereby control return volatility.

Rate of Return Results

The Combined Funds produced a total rate of return for fiscal year 2012 of 2.4 percent. Over the last five years, the Combined Funds generated an annualized return of 2.3 percent.

As stated earlier, the Combined Funds are expected to exceed the return of a composite of market indices over a ten-year period. Performance relative to this standard measured 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 measurably above or below their long-term asset allocation targets. The policy imposes a low risk buy low-sell high discipline among asset classes on a total fund basis.)

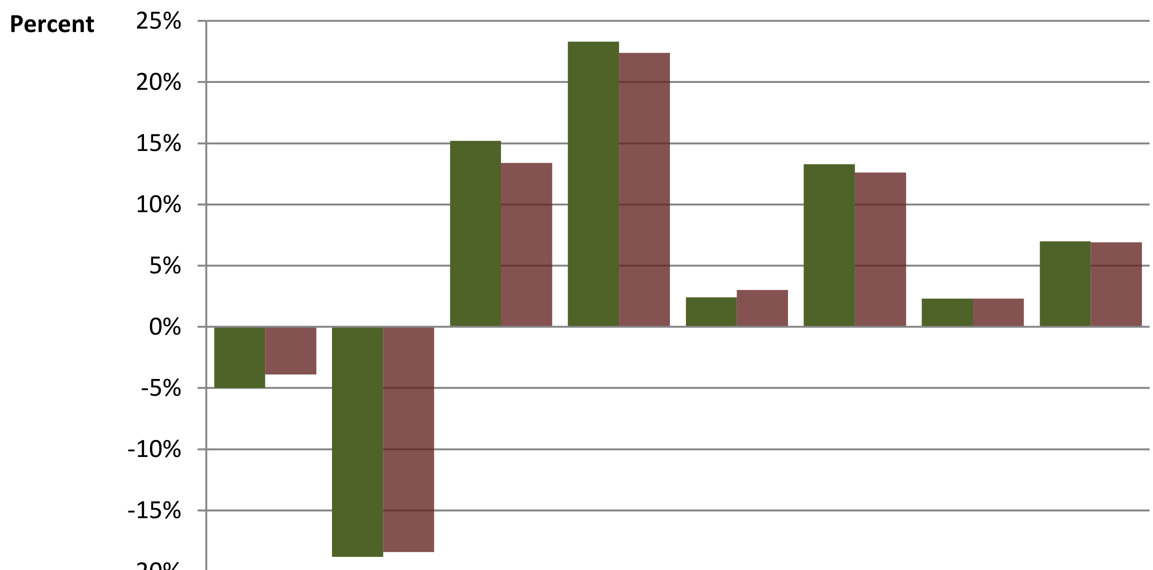
Combined Funds Performance vs. Composite Index

For the ten-year period ending June 30, 2012, the Combined Funds exceeded the composite index investment performance by 0.1 percent annualized. The Funds equaled the composite index over the last five years, and underperformed the index over the most recent fiscal year by 0.6 percentage point. Actual returns relative to the total fund composite index over the last five years are shown in the graph on the following page.

Combined Funds

Investment Performance

Combined Funds Performance vs. Composite Index FY 2008 – 2012



	2008	2009	2010	2011	2012	3 Yr.	5 Yr.	10 Yr.
Combined Funds	-5.0%	-18.8%	15.2%	23.3%	2.4%	13.3%	2.3%	7.0%
Composite Index	-3.9%	-18.4%	13.4%	22.4%	3.0%	12.6%	2.3%	6.9%

Combined Funds
Performance of Asset Pools (Net of Fees)

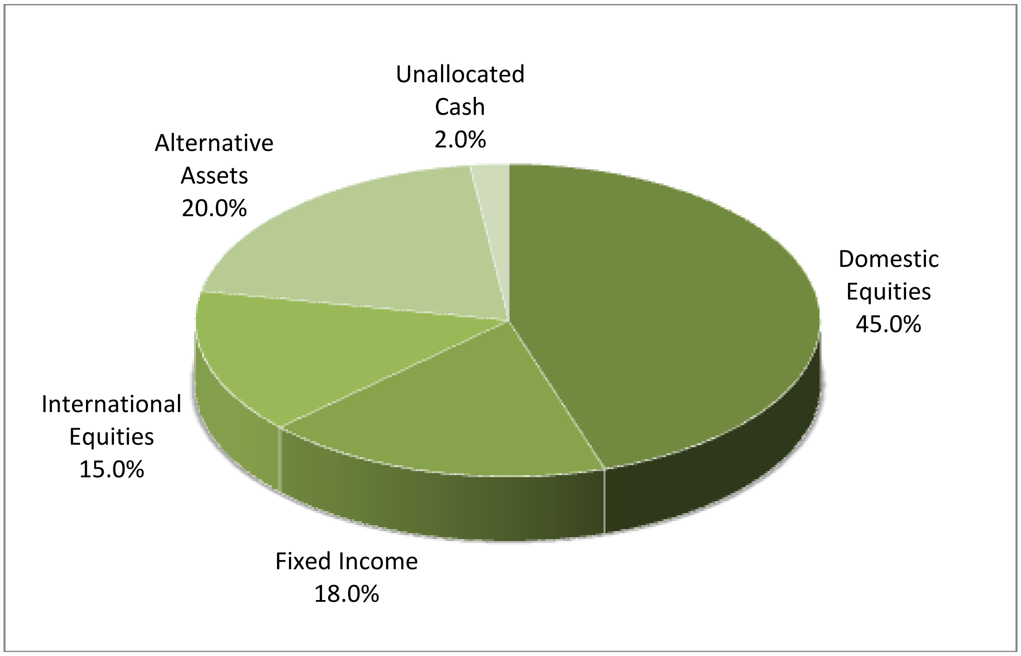
June 30, 2012 — Combined Funds

	Rates of Return (Annualized)			
	FY 2012	**3-Year**	**5-Year**	**10-Year**
Domestic Equity Pool	**3.1%**	**16.7%**	**0.2%**	**5.6%**
Asset Class Target (Russell 3000 – effective 10-1-03)	3.8%	16.7%	0.4%	5.8%
Fixed Income (Bond) Pool	**7.8%**	**9.2%**	**6.8%**	**5.9%**
Asset Class Target (Barclays Capital Aggregate Bond Index)	7.5%	6.9%	6.8%	5.6%
International Equity Pool	**-14.7%**	**7.3%**	**-4.5%**	**6.6%**
Asset Class Target (Morgan Stanley Capital International All-Country World Index – since 10-1-03)	-14.6%	7.0%	-4.6%	6.7%
Alternative Assets (Real Estate, Private Equity, Resource Pool and Yield Oriented Pool)	**9.8%**	**14.4%**	**6.8%**	**14.2%**
CPI-U Inflation (No Established Index for Alternative Assets)	1.7%	2.1%	2.0%	2.4%

All investment performance methodology is reported in compliance with the mandatory requirements of the Chartered Financial Analysts (CFA) Institute, as described on page 45.

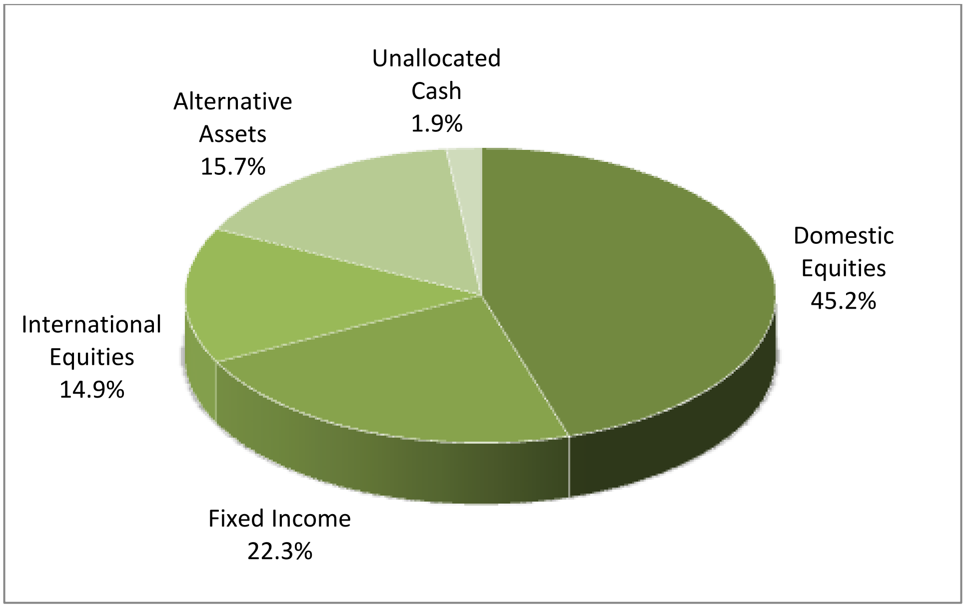
Combined Funds
Portfolio Distribution: Policy Asset Mix

As of June 30, 2012



Combined Funds
Portfolio Distribution: Actual Asset Mix

As of June 30, 2012



TRA Fund fair value of investment assets equals $16.67 billion.

Teachers Retirement Fund
List of Largest Assets Held

June 30, 2012

Composite Holdings of Top Ten Equities
By Fair Value

Security	$ Fair Value (Millions)	% of Portfolio
APPLE INC	$276.4	1.66%
EXXON MOBIL CORP	$179.3	1.08%
MICROSOFT CORP	$120.4	0.72%
CHEVRON CORP	$108.9	0.65%
INTL BUSINESS MACHINES CORP	$106.1	0.64%
AT&T INC	$97.9	0.59%
GOOGLE INC CL A	$93.7	0.56%
WELLS FARGO + CO	$87.6	0.53%
PFIZER INC	$83.0	0.50%
GENERAL ELECTRIC CO	$79.9	0.48%

Composite Holdings of Top Ten Bond Holdings
By Fair Value

Security	% Coupon	$ Fair Value (Millions)	% of Portfolio
FNMA TBA 30YR SINGLE FAMILY JU	3.5	$101.3	0.61%
FEDERAL NATL MTG ASSN TBA	3.5	$83.5	0.50%
US TREASURY N/B	1.125	$52.6	0.32%
US TREASURY N/B	3.125	$36.7	0.22%
US TREASURY N/B	1.25	$35.9	0.22%
US TREASURY N/B	0.625	$25.5	0.15%
US TREASURY N/B	3.125	$23.5	0.14%
US TREASURY N/B	1.0	$22.7	0.14%
FNMA TBA JUL 15YR	2.5	$20.9	0.13%
FNMA TBA JUL 15YR SINGLE FAMIL	3.0	$20.7	0.12%

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 Combined Funds. 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.

Teachers Retirement Fund
Schedule of Investment Management Fees

For the Fiscal Year Ended June 30, 2012

Global Equity Pool Managers	
Acadian Asset	$ 404,484
AllianceBernstein	182,297
AQR Capital Mgmt	448,412
Capital Intern	1,717,955
Columbia Investments	283,352
Invesco Global Assets	248,860
JP Morgan Fleming	345,623
Marathon Asset	586,730
Mckinley Capital Management	327,972
Morgan Stanley Dean	1,918,492
Pyramis Global Adv (Trust)	438,608
Pyramis Global Advisors	267,749
State Street	153,251
State Street Alpha	368,570
Total Global Equity Pool Managers	$ 7,692,355
Passive Equity Pool Managers	
Blackrock	$ 290,350
Total Passive Equity Pool Managers	$ 290,350
Semi-Passive Equity Pool Managers	
Blackrock	$ 858,156
Intech	586,617
JP Morgan	920,209
Mellon Capital	554,408
Total Semi-Passive Equity Pool Managers	$ 2,919,390
Domestic Fixed Income Pool Managers	
Aberdeen Asset Management	$ 472,363
Blackrock Financial Mgmt	335,081
Columbia Investments	331,447
Dodge & Cox	409,843
Goldman	468,796
Neuberger	206,893
Pimco	921,514
Western Asset Management	446,383
Total Domestic Fixed Income Pool Managers	$ 3,592,320
Page Subtotal	$ 14,494,415

Teachers Retirement Fund
Schedule of Investment Management Fees (cont.)

For the Fiscal Year Ended June 30, 2012

Subtotal from Previous Page	$ 14,494,415
Domestic Equity Pool Managers	
Barrow, Hanley	310,051
Earnest Partners	154,555
Goldman Equity	453,718
Hotchkis and Wiley	458,098
Intech Investment	386,590
Jacobs Levy Equity	368,870
Knelman Asset Mgmt	119,730
LSV Asset	260,523
Martingale	224,800
Mckinley Cap	334,318
New Amsterdam	198,150
Next Century Growth	758,303
Peregrine Capital	542,301
Sands Capital	596,507
Systematic Fin	314,605
Turner Inv	531,467
UBS Global Asset	225,146
Winslow Capital	213,075
Zevenbergen Capital	489,588
Total Domestic Equity Pool Managers	$ 6,940,395
Other Investment Management Fees	
Financial Control Systems	$ 151,801
Callan Associates, Inc.	131,707
Pension Consulting Alliance	12,815
Statement Board of Investment	1,025,720
Total Other Investment Management Fees	$ 1,322,043
Total Investment Management Fees	$ 22,756,853

Teachers Retirement Fund
Summary of Investments

As of June 30, 2012

	Cost Value	Fair Value	% of Investments at Fair Value
Fixed Income Investments			
Fixed Income Pool	$ 3,352,622,521	$ 3,716,921,966	22.3%
Equity Investments			
TRA Minneapolis Pool	$ 144,956	$ 174,226	0.0%
External Indexed Equity Pool	2,290,514,402	2,714,966,900	16.3%
Global Equity Pool	2,447,489,506	2,481,316,060	14.9%
External Domestic Equity Pool	3,829,282,807	4,829,111,772	28.9%
Total Equity Investments	$ 8,567,431,671	$ 10,025,568,958	60.1%
Alternative Investments			
Alternative Investment Pool	$ 2,259,749,359	$ 2,609,840,204	15.7%
Short Term Investment			
CD Repo Pool	$ 40,711,545	$ 40,729,159	0.2%
Short Term Cash Equivalents	280,017,666	280,080,179	1.7%
Total Short Term Investments	$ 320,729,211	$ 320,809,338	1.9%
Total Investments	$ 14,500,532,762	$ 16,673,140,466	100.0%

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 Combined Funds. 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. Investment returns are prepared using a time-weighted rate of return methodology, based upon fair values, net of investment expenses.

Teachers Retirement Association of Minnesota
A Pension Trust Fund of the State of Minnesota

Actuarial

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Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

December 10, 2012

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

Dear Board Members:

At your request, we have prepared the actuarial valuation of the Teachers Retirement Association of Minnesota (TRA or System) as of July 1, 2012 for the plan year ending June 30, 2013. Such valuations are required to be performed annually under state law. To the best of our knowledge and belief, the valuation was performed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial work established by the State of Minnesota Legislative Commission on Pensions and Retirement (LCPR). These valuation results reflect the benefit provisions in place on July 1, 2012. There was no change to the actuarial methods or the plan provisions from the prior valuation. However, the 2012 Omnibus Retirement Bill, which was passed by the 2012 legislature and signed into law by the Governor in May, changed the investment return assumption from 8.5% for all years to 8.0% for the next five years, and 8.5% thereafter. Additionally, there was a change in the methodology used to determine vested status for certain inactive members without a date of termination in the census data.

As described in the valuation report, the results of the valuation indicate that the System is 73.0% funded and the current statutory contribution rates are deficient by 5.04% of payroll to meet the target of full funding by 2037. The deficiency does not reflect the member and employer contribution increases that will be phased in over the next two years beginning on July 1, 2013. After the contribution increases are fully phased in the statutory contributions will be 2.00% of payroll higher than the contribution rates for FY2013. This report was prepared exclusively for TRA and the LCPR to determine the annual required contribution rate and to present accounting results required under GASB No. 25, as amended by GASB 50.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by TRA staff. This information includes, but is not limited to, statutory provisions, member data and financial information. We found this information to be reasonable and comparable to information used in last year's valuation. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

3906 Raynor Pkwy, Suite 106, Bellevue, NE 68123
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Offices in Englewood, CO • Kennesaw, GA • Bellevue, NE • Hilton Head Island, SC

The actuary prepared the following supporting schedules in the Actuarial Section of the Comprehensive Annual Financial Report:

- Reconciliation of Member Data
- Statement of Plan Net Assets
- Reconciliation of Plan Assets
- Actuarial Asset Value
- Actuarial Valuation Balance Sheet
- Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Rate
- Changes in the Unfunded Actuarial Accrued Liability
- Determination of Contribution Sufficiency /(Deficiency) – Total
- Solvency Test
- Schedule of Active Member Valuation Data

In addition, we also prepared the *Schedule of Funding Progress* and the *Schedule of Contributions from Employers and Other Entities* in the Financial Section of the Comprehensive Annual Financial Report:

The actuarial contribution rates are developed using the Entry Age Normal (EAN) cost method. An asset smoothing method, which is defined in statute, is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded actuarial accrued liability and are amortized as a level percent of payroll over a closed period set in state statutes. Actuarial assumptions, including discount rates, mortality tables and others identified in the valuation report are prescribed by Minnesota Statutes Section 356.215, the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation method, and actuarial assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in Appendix C of the valuation report. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

Future actuarial results may differ significantly from the current results presented in this report due to factors such as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal actuarial valuation, an analysis of the range of potential results is not presented herein.

The calculations presented in the valuation report have been made on a basis consistent with our understanding of the System's funding requirements and goals, and on a basis consistent with our understanding of the plan provisions described in Appendix B of the valuation report, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Board of Trustees
December 10, 2012
Page 3

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement System. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. Also, we meet the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c).

Respectfully submitted,

Patrice Beckham

Brent A. Banister

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent Banister PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary

Summary of Actuarial Assumptions and Methods

Summary of Actuarial Assumptions

The following assumptions were used in valuing the liabilities and benefits under the plan.

The Allowance for Combined Service Annuity was based on the recommendation of a prior actuary. We are unable to judge the reasonableness of this assumption without performing a substantial amount of additional work beyond the scope of this assignment.

All assumptions are prescribed by Statute, the Legislative Commission on Pensions and Retirement (LCPR), or the Board of Trustees. The LCPR last enacted changes to TRA's demographic actuarial assumptions on July 8, 2010.

Investment return	Pre-retirement: 8.35% compounded annually to reflect an 8.0% assumption for five (5) years and 8.5% thereafter. Post-retirement: 6.35% compounded annually. Change effective: July 1, 2012, valuation report
Benefit increases after retirement	Payment of 2.0% annual benefit increases after retirement are accounted for by using a 6.35% post-retirement assumption, as directed by the LCPR actuary. Change effective: July 1, 2012, valuation report
Salary increases	Reported salary for prior fiscal year, with new hires annualized, increased according to the salary increase table shown in the rate table to current fiscal year and annually for each future year. See table of sample rates.
Payroll growth	3.75% per year
Future service	Members are assumed to earn future service at a full-time rate.
Mortality: Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.
Disability	Age-related rates based on experience; see table of sample rates (page 60).
Withdrawal	Select and ultimate rates based on actual plan experience. 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%	12%	6%
Female	40%	10%	8%

Expenses	Prior year administrative expenses expressed as percentage of prior year payroll.
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.
Percentage married	85% of male members and 65% of female members are assumed to be married. Members are assumed to have no children.
Age difference	Females 2 years younger than males.

Allowance for Combined Service Annuity	Liabilities for active members are increased by 1.40% and liabilities for former members are increased by 4.00% to account for the effect of some Participants being eligible for a Combined Service Annuity.
Refund of contributions	All employees withdrawing after becoming eligible for a deferred benefit are 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.
Commencement of deferred benefits	Members receiving deferred annuities (including current terminated deferred members) are assumed to begin receiving benefits at unreduced retirement age.
Form of payment	Married members are assumed to elect subsidized joint and survivor form of annuity as follows: Males: 10% elect 50% J&S option 15% elect 75% J&S option 70% elect 100% J&S option Females: 20% elect 50% J&S option 10% elect 75% J&S option 50% elect 100% J&S option Members eligible for deferred annuities (including current terminated deferred members) and future disability benefits are assumed to elect a life annuity.
Missing data for members	Membership data was supplied by TRA as of the valuation date. This information has not been audited by CMC. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy. In the small number of cases where submitted data was missing or incomplete and could not be recovered from prior years, the following assumptions were applied: Data for active members: Salary: $51,200 Date of Birth: July 1, 1968 Gender: Female Data for terminated members: Date of birth: July 1, 1963 Average salary: $29,000 Date of termination: Derived from date of birth, original entry age, and service Data for in-pay members: Beneficiary date of birth: Wife two years younger than husband Gender: Based on first name Form of payment: Life annuity for retirees and beneficiaries, 100% J&S option for disabled retirees.
Changes in actuarial assumptions since the previous valuation	The investment return assumption was changed to a five year select rate of 8.0% and an ultimate return assumption of 8.5%. The methodology used to determine vested status for inactive members without a date of termination in the census was also changed which had a small financial impact.

Future post-retirement adjustments	Once the funded ratio reaches 90% on a market value basis, the COLA is scheduled by statute to revert back from 2.0% to 2.5%. Future assets and liabilities were projected using the 2012 valuation results as a starting point and assuming all actuarial assumptions are met in future years. These assumptions include a rate of return on assets of 8.0% for the next five years and 8.5% thereafter. The projections also assume the COLA remains at 2% and that future statutory contribution rates are not increased beyond the increases currently provided for in the statutes. In particular, there is no assumption that the stabilizer provisions will be utilized by the Board. Based on these projections, the funded status is not expected to reach 90% any time in the next 40 years. Therefore, we have not reflected any change in the COLA assumption from the current 2.0%.

Summary of Actuarial Assumptions *(continued)*

Sample Rates at Select Ages

	Mortality Rates (%)					
	Pre-Retirement *		Post-Retirement**		Post-Disability	
Age	Male	Female	Male	Female	Male	Female
20	0.0269	0.0155	0.0316	0.0184	2.2571	0.7450
25	0.0345	0.0188	0.0373	0.0194	2.2571	0.7450
30	0.0376	0.0197	0.0393	0.0223	2.2571	0.7450
35	0.0353	0.0235	0.0481	0.0363	2.2571	0.7450
40	0.0591	0.0401	0.0766	0.0527	2.2571	0.7450
45	0.0890	0.0562	0.1124	0.0763	2.2571	0.7450
50	0.1342	0.0837	0.1711	0.1229	2.8975	1.1535
55	0.1978	0.1344	0.5716	0.2681	3.5442	1.6544
60	0.2747	0.2015	0.5688	0.4253	4.2042	2.1839
65	0.4263	0.3107	0.9232	0.6736	5.0174	2.8026
70	0.6725	0.4979	1.5834	1.1211	6.2583	3.7635
75	0.9823	0.7591	2.6710	1.8784	8.2067	5.2230

* *Rates shown are RP 2000 non-annuitant mortality (base), white collar adjustment, set back 5 years for males and 7 years for females.*

** *Rates shown are RP 2000 annuitant mortality (base), white collar adjustment, set back 2 years for males and 3 years for females.*

	Rates (%)			
	Ultimate Withdrawal		Disability	
Age	Male	Female	Male	Female
20	3.70	4.50	0.00	0.00
25	3.20	4.50	0.00	0.00
30	2.70	4.50	0.00	0.00
35	2.50	3.90	0.01	0.01
40	2.35	2.75	0.03	0.03
45	2.10	2.10	0.05	0.05
50	1.85	1.85	0.10	0.10
55	0.00	0.00	0.16	0.16
60	0.00	0.00	0.25	0.25
65	0.00	0.00	0.00	0.00
70	0.00	0.00	0.00	0.00
75	0.00	0.00	0.00	0.00

Coordinated Retirement Rates (%)		
	Rule of 90	Retirement
Age	Eligible	Other
55 and Under	50	7
56	55	7
57	45	7
58	45	8
59	45	10
60	40	12
61	45	16
62	45	20
63	40	18
64	45	20
65	40	40
66	35	35
67	30	30
68	30	30
69	30	30
70	35	35
71 & Over	100	100

Salary Scale	
Service (Yrs)	Salary Increase
1	12.00%
2	9.00%
3	8.00%
5	7.25%
10	6.40%
15	5.25%
20	4.00%
25 or more	3.50%

Valuation Report Highlights

Summary of Key Valuation Results

	Actuarial Valuation as of	
	July 1, 2012	**July 1, 2011**
Participant Data		
Active members		
Number	76,649	76,755
Projected annual earnings for fiscal year *(000s)*	$ 4,146,325	$ 4,106,922
Average projected annual earnings for fiscal year 2012	$ 54,095	$ 53,507
Average age	43.5	43.5
Average service	12.0	12.0
Service retirements	50,780	49,079
Survivors	4,054	3,856
Disability retirements	591	602
Deferred retirements	12,201	13,237
Terminated other non-vested	27,591	25,196
Total	**171,866**	**168,725**
Liabilities and Funding Ratios (dollars in thousands)		
Accrued Benefit Funding Ratio		
Current assets (AVA)	$ 16,805,077	$ 17,132,383
Current benefit obligations	$ 21,098,767	$ 21,054,036
Funding ratio	76.70%	81.37%
Accrued Liability Funding Ratio		
Current assets (AVA)	$ 16,805,077	$ 17,132,383
Market value of assets (MVA)	$ 16,686,105	$ 17,297,392
Actuarial accrued liability	$ 23,024,505	$ 22,171,493
Unfunded actuarial accrued liability	$ 6,219,428	$ 5,039,110
Funding ratio (AVA)	72.99%	77.27%
Funding ratio (MVA)	72.47%	78.02%
Projected Benefit Funding Ratio		
Current and expected future assets	$ 24,130,838	$ 22,686,711
Current and expected future benefit obligations	$ 26,142,509	$ 25,083,218
Funding ratio	92.30%	90.45%
Contributions (% of payroll)		
Normal Cost Rate	8.53%	8.17%
UAAL Amortization Payment	9.98%	8.16%
Expenses	0.24%	0.24%
Total Required Contribution (Chapter 356)	18.75%	16.57%
Statutory Contribution (Chapter 354)	13.71%	12.69%
Contribution (Deficiency)/Sufficiency	(5.04%)	(3.88%)

Actuary's Selected Commentary

The Teachers Retirement Association of Minnesota (TRA) provides retirement, disability, and death benefits to Minnesota public school teachers, administrators, and college faculty. This report presents the results of the July 1, 2012, actuarial valuation. The primary purposes of performing the actuarial valuation are to:

- determine the Required Contribution Rate as set forth in Chapter 356 of the Minnesota statutes;
- determine the sufficiency of the Statutory Contribution Rate as set forth in Chapter 354 of the Minnesota statutes;
- determine the experience of the fund since the last valuation date;
- disclose asset and liability measures as of the valuation date; and
- analyze and report on trends in contributions, assets, and liabilities over the past several years.

There was no change in the actuarial methods used in the actuarial valuation or in the benefit provisions from the prior valuation. However, legislation passed in 2012 changed the investment return assumption from 8.5 percent for all years to 8.0 percent for the next five years, and 8.5 percent thereafter (referred to as a select and ultimate investment return assumption). Additionally, there was a change in the methodology used to determine the vesting status for certain inactive members without a date of termination in the census data. The combined impact of these changes was an increase in the unfunded actuarial accrued liability of $142 million, an increase in the normal cost rate of 0.35 percent of payroll (from 8.18 percent to 8.53 percent), and an increase in the Required Contribution Rate of 0.60 percent of payroll.

The actuarial valuation results provide a "snapshot" view of TRA's financial condition on July 1, 2012. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial accrued liability (UAAL) that was higher than expected. The UAAL on July 1, 2012, is $6.22 billion as compared to an expected UAAL of $5.44 billion. The unfavorable experience was the combination of an experience loss of $752 million on the actuarial value of assets and a small net experience loss of about $26 million on liabilities. With the experience loss on the actuarial value of assets this year, there is a now a deferred loss of $119 million.

A summary of the key results from the July 1, 2012, actuarial valuation is shown below. Further detail on the valuation results can be found in the following sections of this Executive Summary. The contribution deficiency does not reflect the member and employer contribution increases scheduled to occur on July 1, 2013, and July 1, 2014. After the scheduled contribution increases are fully phased in, the statutory contribution rate will be 2 percent of payroll higher than the rate in the current fiscal year.

	Actuarial Valuation as of	
	July 1, 2012	**July 1, 2011**
Total Required Contribution Rate (Chapter 356)	18.75%	16.57%
Statutory Contribution Rate (Chapter 354)	13.71%	12.69%
Sufficiency/(Deficiency)	(5.04%)	(3.88%)
Unfunded Actuarial Accrued Liability ($M)	$6,219	$5,039
Funded Ratio (Actuarial Assets)	72.99%	77.27%

The contribution deficiency increased from 3.88 percent of payroll in last year's valuation to 5.04 percent in the 2012 valuation. The increase in the deficiency was due largely to experience loss on the actuarial value of assets and the change in the investment return assumption.

The impact of these factors was partially offset by the increase in member and employer contribution rates of 0.50 percent each.

Experience for the Last Plan Year

Numerous factors contributed to the change in assets, liabilities and actuarial contribution rate between July 1, 2011, and July 1, 2012. The components are examined in the following discussion.

Assets

As of June 30, 2012, TRA had net assets of $16.7 billion, when measured on a market value basis. This was a decrease of $0.6 billion from the prior year.

The market value of assets is not used directly in the calculation of the unfunded actuarial accrued liability (UAAL) and the Required Contribution Rate (actuarial contribution rate). An asset valuation method, which smoothes the effect of market fluctuations, is used to determine the value of assets used in the valuation. The resulting amount is called the "actuarial value of assets." In this year's valuation, the actuarial value of assets as of June 30, 2012, was $16.8 billion, a decrease of $300 million from the value in the prior year. The components of change in the asset values are shown in the following table.

(dollars in millions)

	Market Value	Actuarial Value
Net Assets, June 30, 2011	**$17,297**	**$17,132**
Employer & Member Contributions	+ $506	+ $506
Benefit Payments and Administrative Expenses	- $1,507	- $1,507
Investment Income	+ $390	+ $674
Net Assets, June 30, 2012	**$16,686**	**$16,805**

On a market value basis, the rate of return was 2.4 percent as reported by the State Board of Investment (SBI). The rate of return, net of investment expenses, measured on the actuarial value of assets was approximately 4.0 percent.

Liabilities

The actuarial liability is that portion of the present value of future benefits that will not be paid by future normal costs. The difference between this liability and the actuarial value of assets at the same date is called the unfunded actuarial accrued liability (UAAL). The dollar amount of unfunded actuarial accrued liability is reduced if the contributions exceed the normal cost for the year plus interest on the prior year's UAAL.

The unfunded actuarial accrued liability is shown as of June 30, 2012, in the following table.

(dollars in millions)

	Actuarial Value of Assets	Market Value of Assets
Actuarial Accrued Liability	$23,025	$23,025
Value of Assets	$16,805	$16,686
Unfunded Actuarial Accrued Liability	$ 6,219	$ 6,338
Funded Ratio	72.99%	72.47%

Changes in the UAAL occur for various reasons. The net change in the UAAL from July 1, 2011, to July 1, 2012, was an increase of $1.18 billion. The components of this net change are shown in the following table.

(dollars in millions)

Unfunded Actuarial Accrued Liability, July 1, 2011	**$ 5,039**
Expected increase from amortization method	79
Expected increase from contributions below Required Rate	166
Investment experience	752
Liability experience	26
Other experience	15
Change in methodology for vested inactive status	(54)
Change in assumptions	(196)
Unfunded Actuarial Accrued Liability, July 1, 2012	**$ 6,219**

As shown in the previous table, various components impacted the UAAL. The most significant factors were (1) the increase in the UAAL due to the loss on the actuarial value of assets ($752 million), (2) the increase due to changes in the investment return assumption ($196 million), and (3) the increase due to contributions below the Required Rate ($166 million).

Actuarial gains (losses), which result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions, are reflected in the UAAL and are measured as the difference between the expected unfunded actuarial accrued liability and the actual unfunded actuarial accrued liability, taking into account any changes due to actuarial assumptions and methods or benefit provision changes. Overall, TRA experienced a net actuarial loss of $778 million. The net actuarial loss may be explained by considering the separate experience of assets and liabilities. As noted earlier, there was a $752 million loss, measured on the actuarial value of assets. In addition, there was a liability loss of $26 million which arose from demographic experience in FY 2012 less favorable than anticipated by the actuarial assumptions. The liability loss was the result of various components of actuarial gains and losses, the largest of which was a gain from salary increases that were lower than the expected amounts.

An evaluation of the unfunded actuarial accrued liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial accrued liability and the progress made in its funding is to track the funded ratio, the ratio of the actuarial value of assets to the actuarial accrued liability. The funded status information is shown below (in millions).

	7/1/08	7/1/09	7/1/10	7/1/11	7/1/12
Funded Ratio	82.0%	77.4%	78.5%	77.3%	73.0%
Unfunded Actuarial Accrued Liability ($M)	$4,004	$5,232	$4,758	$5,039	$6,219

Contribution Rate

Under the Entry Age Normal cost method, the actuarial contribution rate consists of two components:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date, and
- an "unfunded actuarial accrued liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

Contribution Rates	July 1, 2012	July 1, 2011
Statutory Contribution Rate	13.71%	12.69%
Normal Cost Rate	8.53%	8.17%
UAAL Contribution Rate	9.98%	8.16%
Expenses	0.24%	0.24%
Total Required Contribution	18.75%	16.57%
Deficiency	(5.04%)	(3.88%)

As discussed earlier, there were two changes first reflected in this valuation: (1) the investment return assumption was changed from 8.5 percent for all years to 8.0 percent for five years and 8.5 percent thereafter (select and ultimate), and (2) the methodology used to determine the vesting status for certain inactive members without a date of termination in the census data. The impact on the valuation results is summarized in the table following. All calculations shown are based on the actuarial value of assets.

(dollars in billions)	Assumption Changes Before	After
Projected Benefit Funding Ratio	93.7%	92.3%
Accrued Liability Funding Ratio (AVA)	73.9%	73.0%
Actuarial Value of Assets (AVA)	$16.81	$16.81
Unfunded Actuarial Accrued Liability (UAAL)	$6.08	$6.22
Normal Cost Rate (percent of pay)	8.18%	8.53%
Amortization of UAAL (percent of pay)	9.73%	9.98%
Administrative Expenses (percent of pay)	0.24%	0.24%
Total Required Contribution (% of pay)	**18.15%**	**18.75%**
Contribution Deficiency (percent of pay)	(4.44%)	(5.04%)

The increase in the Total Required Contribution due to the changes is 0.60 percent of pay. The rate decreased 0.09 percent from the change in methodology for the vesting status determination, and increased 0.69 percent from the change in the investment return assumption.

When the Statutory Contribution Rate is less than the Required Contribution Rate, the contribution deficiency creates an increase in the unfunded actuarial accrued liability. For the plan year ending June 30, 2012, the contribution deficiency increased the UAAL by $166 million.

The actuarial contribution rate (Required Contribution Rate) is determined based on the snapshot of the fund taken on the valuation date, July 1, 2012. The actuarial contribution rate in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the fund. Both the employer and employee contribution rates are scheduled to increase in future years. The rate will increase a total of 1.0 percent (0.5 percent employee and 0.5 percent employer) on July 1, 2013, and July 1, 2014, a total increase of 2.0 percent of payroll from the current contribution rate. Even when these increases are considered, a contribution deficiency still exists, indicating the UAAL will not be amortized by 2037 if all actuarial assumptions are met. It should be noted, however, that the Board will have the option to increase contribution rates further (the "stabilizer" provisions of the 2010 law), and that if rates are changed, the UAAL may then be amortized by 2037.

Summary

The investment return on the market value of assets for FY2012 was 2.4 percent as reported by SBI. However, due to the deferred investment gains and losses from past years, the return on the actuarial value of assets was 4.0 percent. The actuarial value of assets is slightly higher than the market value of assets, compared to last year when the actuarial value was slightly less than the market value. With the lower return on the actuarial value of assets, the funded ratio decreased from 77.27 percent in last year's valuation to 72.99 percent this year.

As mentioned earlier, TRA uses an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred investment experience. The asset smoothing method impacts only the timing of when the actual market experience is recognized in the valuation process. The deferred investment experience of $119 million represents less than 1 percent of the market value of assets.

The key valuation results from the July 1, 2012, actuarial valuation are shown below, using both actuarial and market value of assets.

(dollars in billions)

	Actuarial Value	Market Value
Statutory Rate	13.71%	13.71%
Required Contribution		
Normal Cost	8.53%	8.53%
UAAL Contribution	9.98%	10.17%
Expenses	0.24%	0.24%
Total Required Contribution	18.75%	18.94%
Deficiency	(5.04%)	(5.23%)
UAAL (billions)	$6.22	$6.34
Funded Ratio	72.99%	72.47%

The long-term financial health of TRA, and all retirement systems, is heavily dependent on two key items: (1) future investment returns and (2) contributions. Changes were made by the 2010 Legislature to strengthen the funding of TRA and enhance its long term sustainability. Contributions were increased by a total of 4 percent, to be phased in over four years beginning July 1, 2011, and benefit reductions were implemented. These changes, along with strong investment performance in two of the last three fiscal years, have significantly improved the projected long term funding. However, a contribution deficiency still exists even when future scheduled contribution increases are considered. Given the current funded status, the deferred investment experience and scheduled increases in the Statutory Contribution Rate, TRA's funded ratio is expected to remain around 70 percent over the long term, even if all actuarial assumptions are met. In order for the funded ratio to reach 100 percent by June 30, 2037, contributions would have to increase beyond the scheduled rates, benefits would have to be lowered or favorable experience would have to occur.

The complete *Actuarial Valuation Report* is available on the TRA website at http://www.commissions.leg.state.mn.us/lcpr/documents/valuations/2012/2012valuation.tra.pdf

Reconciliation of Member Data*

Fiscal Year Ended June 30, 2012

	Active** Members	Former*** Members	Benefit Recipients**** Service Retirements	Disability Retirements	Survivors	Total
Members on July 1, 2011	76,755	38,410	49,079	602	3,856	168,702
New hires	4,434					4,434
Return from inactive	1,808	(1,808)				0
Return from zero balance	359					359
Transfer to inactive	(4,179)	4,179				0
Refunded	(300)	(636)				(936)
Restored writeoff		149				149
Repay refunds		59				59
Transfer from non-status		20				20
Retirements	(2,095)	(565)	2,746	(71)		15
Benefits began				74	385	459
Benefits ended				(1)	(62)	(63)
Deaths	(39)	(56)	(1,045)	(10)	(126)	(1,276)
Adjustments for disabilitants	(44)	9				(35)
Adjustments (other)	(50)	31		(3)	1	(21)
Net changes	(106)	1,382	1,701	(11)	198	3,164
Members on June 30, 2012	**76,649**	**39,792**	**50,780**	**591**	**4,054**	**171,866**

* *All figures in this chart were provided by the Teachers Retirement Association. Recipient counts include all pensions in force, including double counting of multiple benefit types. Service Retirements include Supplemental and Variable optional joint annuitants.*

** *Active members include 19 Basic and 76,630 Coordinated members.*

*** *Former members include 29 Basic and 39,763 Coordinated members.*

**** *Benefit recipients include 4,932 Basic members and 50,493 Coordinated members.*

Former Member Statistics	Vested	Non-Vested	Total
Number	12,201	27,591	39,792
Average Age	47.6	44.3	45.3
Average Service (years)	7.6	1.0	3.0
Average annual benefits, with augmentation to Normal Retirement Date and 4 percent Combined Service Annuity load	$9,916	N/A	N/A
Average refund value, with 4 percent Combined Service Annuity load	$29,354	$2,505	$10,738

Statement of Plan Net Assets

Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

Assets		Market Value
Cash and short term investments		
Cash	$	7,393
Building account cash		29
Short-term investments		320,809
Total cash and short-term investments	$	328,231
Receivables		14,854
Investments (at fair value)		
Fixed income pool	$	3,716,922
Minneapolis pool		174
Alternative investments pool		2,609,840
Indexed equity pool		2,714,967
Domestic equity pool		4,829,112
Global equity pool		2,481,316
Total investments	$	16,352,331
Securities lending collateral		1,515,373
Building		
Land	$	171
Building and equipment		11,279
Reserve for building depreciation		(3,110)
Deferred bond charge		146
Reserve for deferred bond charge amortization		(55)
Total building	$	8,431
Fixed assets net of accumulated depreciation	$	4,350
Total Assets	**$**	**18,223,570**

Statement of Plan Net Assets (continued)

Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

Liabilities	Market Value
Current	
Accounts payable	$ 8,741
Accrued compensated absences	82
Accrued expenses - building	3
Bonds payable	284
Bonds interest payable	41
Securities lending collateral	1,515,372
Total current liabilities	$ 1,524,523
Long term	
Accrued compensated absences	$ 688
Accrued other postemployment benefits (OPEB) liability	45
Bonds payable	8,373
Total long-term liabilities	$ 9,106
Total Liabilities	**$ 1,533,629**
Net assets held in trust for pension benefits	**$ 16,689,941**
Earnings Limitation Savings Account (ELSA) accounts payable*	(3,836)
Net assets held in trust, after adjustment for ELSA accounts	**$ 16,686,105**

** Not calculated by Cavanaugh Macdonald, TRA determined.*

Reconciliation of Plan Assets

Fiscal Year Ended June 30, 2012

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Teachers Retirement Association for the Plan's fiscal year July 1, 2011 to June 30, 2012.

(Dollars in Thousands)

Change in Assets	Market Value
1. Fund balance at market value at July 1, 2011	**$ 17,297,392**
2. Contributions	
a. Member	$ 239,834
b. Employer	244,935
c. Direct aid (state/city/county)	21,726
d. Earnings Limitation Savings Account (ELSA)	859
e. Total contributions	$ 507,354
3. Investment income	
a. Investment income/(loss)	$ 405,944
b. Investment expenses	(22,757)
c. Total investment income/(loss)	$ 383,187
4. Other	4,070
5. Total income *(2.e + 3.c + 4.)*	**$ 894,611**
6. Benefits Paid	
a. Annuity benefits	$ (1,485,527)
b. Refunds	(11,836)
c. Total benefits paid	$ (1,497,363)
7. Administrative Expenses	(10,023)
8. Total disbursements *(6.c. + 7)*	**$ (1,507,386)**
9. Increase in ELSA account value	1,488
10. Fund balance at market value at June 30, 2012	**$ 16,686,105**

Actuarial Asset Value

Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

1. Market value of assets available for benefits			**$**	**16,686,105**
2. Determination of average balance				
a. Assets available at July 1, 2011*				17,303,576
b. Assets available at June 30, 2012*				16,689,941
c. Net investment income for fiscal year ending June 30, 2011				383,187
d. Average balance *[a. + b. - c.] / 2*			$	16,805,165
3. Expected return *[8.5 percent * 2.d.]*				1,428,439
4. Actual return				383,187
5. Current year unrecognized asset return				(1,045,252)
6. Unrecognized asset returns**				
		Original Amount	**% Not Recognized**	
a. Year ended June 30, 2012	$	(1,045,252)	80%	$ (836,202)
b. Year ended June 30, 2011		2,163,878	60%	1,298,327
c. Year ended June 30, 2010		953,497	40%	381,399
d. Year ended June 30, 2009		(4,812,478)	20%	(962,496)
e. Total return not yet recognized				$ (118,972)
7. Actuarial value at June 30, 2012 *(1. - 6.e.)*				**$ 16,805,077**

* *Before recognition of ELSA accounts payable.*

** *Prior to the year ending June 30, 2009, unrecognized asset returns do not include MPRIF gains or losses (page 33).*

Actuarial Valuation Balance Sheet

Fiscal Year Ended June 30, 2012

The actuarial balance sheet is based on the fundamental equation that, at any given time, the present value of benefits to be paid in the future must be equal to the assets on hand plus the present value of future contributions to be received. The total rate of contribution is determined as that amount which will make the total present and potential assets balance with the total present value of future benefits.

The contributions made in excess of amounts required for current benefit payments are accumulated as a reserve to help meet benefit payments in later years. This reserve system enables the establishment of a level rate of contribution each year.

(Dollars in Thousands)

	Non-Vested	Vested	Total
A. Actuarial Value of Assets			$ 16,805,077
B. Expected Future Assets			
1. Present value of expected future statutory supplemental contributions*			$ 4,207,757
2. Present value of expected future normal cost contributions			3,118,004
3. Total expected future assets *(1. + 2.)*			$ 7,325,761
C. Total Current and Expected Future Assets**			$ 24,130,838
D. Current Benefit Obligations	Non-Vested	Vested	Total
1. Benefit recipients			
a. Service retirements	$ 0	$ 13,674,503	$ 13,674,503
b. Disability	0	150,024	150,024
c. Survivors	0	839,806	839,806
2. Deferred retirements with augmentation to Normal Retirement Date	0	505,116	505,116
3. Former members without vested rights***	67,664	0	67,664
4. Active members	37,498	6,634,156	6,671,654
5. Total current benefit obligations	$ 105,162	$ 21,803,605	$ 21,908,767
E. Expected Future Benefit Obligations			$ 4,233,742
F. Total Current and Expected Future Benefit Obligations			$ 26,142,509
G. Unfunded Current Benefit Obligations *(D.5 – A)*			$ 5,103,690
H. Unfunded Current and Future Benefit Obligations *(F. – C.)*			$ 2,011,671

* *Under LCPR guidelines, this amount does not include supplemental payments which could occur after the expiration of the remaining 25 year amortization period. Reflects contribution rate increases scheduled in statute.*

** *Does not reflect deferred investment experience in the asset smoothing method. Total expected future assets on a market value basis are $24,011,866.*

*** *Former members with insufficient service to vest who have not collected a refund of member contributions as of the valuation date.*

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

July 1, 2012

(Dollars in Thousands)	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. Determination of Actuarial Accrued Liability (AAL)			
1. Active Members			
a. Retirement annuities	$ 9,970,684	$ (2,393,633)	$ 7,577,051
b. Disability benefits	188,239	(74,372)	113,867
c. Survivor benefits	96,016	(35,018)	60,998
d. Deferred retirements	643,785	(507,800)	135,985
e. Refunds	6,672	(107,181)	(100,509)
f. Total	$ 10,905,396	$ (3,118,004)	$ 7,787,392
2. Deferred retirements with future augmentation to Normal Retirement Age	505,116	0	505,116
3. Former members without vested rights	67,664	0	67,664
4. Benefit recipients	14,664,333	0	14,664,333
5. Total	$ 26,142,509	$ (3,118,004)	$ 23,024,505

B. Determination of Unfunded Actuarial Accrued Liability (UAAL)*	
1. Actuarial accrued liability	$ 23,024,505
2. Actuarial value of assets (page 71, line 7)	16,805,077
3. Unfunded actuarial accrued liability	$ 6,219,428
C. Determination of Supplemental Contribution Rate*	
1. Present value of future payrolls through the amortization date of June 30, 2037	$ 62,332,580
2. Supplemental contribution rate *(A.3/B.1)***	9.98%

* *On a market value of assets basis, the unfunded actuarial accrued liability is $6,338,400.*

** *The amortization factor as of July 1, 2012 is 15.0332.*

Changes in Unfunded Actuarial Accrued Liability

Fiscal Year Ended June 30, 2012

(Dollars in Thousands)		**Year Ending June 30, 2012**
A. Unfunded actuarial accrued liability at beginning of year	$	5,039,110
B. Changes due to interest requirements and current rate of funding*		
1. Normal cost and actual administrative expenses	$	345,672
2. Contributions		(507,354)
3. Interest on A., B.1 and B.2.		421,593
4. Total *(B.1. + B.2. + B.3.)*	$	259,911
C. Expected unfunded actuarial accrued liability at end of year *(A. + B.4.)*	$	5,299,021
D. Increase (decrease) due to actuarial losses (gains) because of experience deviations from expected		
1. Salary increases	$	(223,645)
2. Investment return (AVA)		752,332
3. Mortality of active members		(3,759)
4. Mortality of benefit recipients		12,444
5. Retirement from active service		45,750
6. Other items		195,218
7. Total	$	778,340
E. Unfunded actuarial accrued liability at end of year before plan amendments and changes in actuarial assumptions *(C. + D.7.)*	$	6,077,361
F. Change in unfunded actuarial accrued liability due to changes in plan provisions		0
G. Change in unfunded actuarial accrued liability due to changes in actuarial assumptions**		195,694
H. Change in unfunded actuarial accrued liability due to change in method to determine vested status of certain inactive members		(53,627)
I. Unfunded actuarial accrued liability at end of year *(E. + F. + G + H.)*	$	6,219,428

* *The amortization of the unfunded actuarial accrued liability (UAAL) using the current amortization method results in initial payments less than the "interest only" payment on the UAAL. Payments less than the interest only amount will result in the UAAL increasing in the absence of actuarial gains.*

** *The effect of the change to a select (8% for five years) and ultimate (8.5%) investment return assumption.*

Determination of Contribution Sufficiency/(Deficiency) — Total

July 1, 2012

The annual required contribution (ARC) is the sum of the normal cost, a supplemental contribution to amortize the UAAL, and an allowance for expenses.

(Dollars in Thousands)	**Percent of Payroll**	**Dollar Amount**
A. Statutory Contributions - Chapter 354*		
1. Employee contributions	6.50%	$ 269,572
2. Employer contributions**	6.69%	277,520
3. Supplemental contributions***		
a. 1993 Legislation	0.12%	5,062
b. 1996 Legislation	0.09%	3,711
c. 1997 Legislation	0.31%	12,954
4. Total	13.71%	$ 568,819
B. Required Contributions - Chapter 356		
1. Normal Cost		
a. Retirement benefits	6.70%	$ 277,891
b. Disability benefits	0.19%	7,883
c. Survivor	0.10%	4,153
d. Deferred retirement benefits	1.24%	51,427
e. Refunds	0.30%	12,442
f. Total	8.53%	$ 353,796
2. Supplemental contribution amortization by July 1, 2037 of Unfunded Actuarial Accrued Liability	9.98%	$ 413,803
3. Allowance for expenses	0.24%	9,951
4. Total annual contribution for fiscal year ending June 30, 2013****	18.75%	$ 777,550
C. Contribution Sufficiency/(Deficiency) *(A.4 - B.4)*****	(5.04%)	$ (208,731)
Note: Projected annual payroll for fiscal year beginning on the valuation date		$ 4,146,325

* *The statutory contribution rates do not reflect the scheduled increases for July 1, 2012 through July 1, 2014.*

** *Employer contribution rate is blended to reflect rates of 14.14 percent of pay for Basic members, 6.50 percent for pay for Coordinated members not employed by Special School District #1, and 10.14 percent of pay for Coordinated members who are employed by Special School District #1.*

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

**** *On a market value of assets basis, the total required contribution is 18.94 percent of payroll and the contribution deficiency is 5.23 percent of payroll.*

Solvency Test

(Dollars 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)
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%
2007	$ 1,799,910	$ 13,112,891	$ 6,557,513	$ 18,794,389	100%	100%	59.2%
2008	$ 1,883,371	$ 13,567,065	$ 6,780,405	$ 18,226,985	100%	100%	40.9%
2009	$ 2,038,749	$ 14,203,926	$ 6,872,127	$ 17,882,408	100%	100%	23.9%
2010	$ 2,128,600	$ 13,650,631	$ 6,302,403	$ 17,323,146	100%	100%	24.5%
2011	$ 2,308,427	$ 13,964,552	$ 5,898,514	$ 17,132,383	100%	100%	14.6%
2012	$ 2,407,626	$ 14,664,333	$ 5,952,546	$ 16,805,077	100%	98.2%	0.0%

Schedule of Active Member Valuation Data

Year Ended June 30	Active Members	*($ in thousands)* Annual Covered Payroll	% Increase in Covered Payroll	$ Annual Average
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
2007	77,694	$3,532,159	3.0%	$45,462
2008	76,515	$3,645,230	3.2%	$47,641
2009	77,162	$3,761,484	3.2%	$48,748
2010	77,356	$3,787,757	0.7%	$48,965
2011	76,755	$3,838,111	1.3%	$50,005
2012	76,649	$3,871,809	0.9%	$50,514

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

Through June 1, 2012 – End of Budget Year for Benefit Payments – Prepared by TRA

	Added To Rolls		Removed From Rolls		June 1 Payment		
Fiscal Year	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Avg. Annual Allowances
2012							
Retirement	2,770	$ 77,169,833	1,040	$ 30,234,280	50,193	$ 1,342,791,637	$ 26,753
Disability	72	$ 1,481,314	80	$ 1,816,246	597	$ 11,565,197	$ 19,372
Beneficiaries	402	$ 11,820,962	213	$ 3,969,446	4,310	$ 110,302,448	$ 25,592
2011							
Retirement	2,573	$ 71,896,835	1,012	$ 30,381,621	48,463	$ 1,320,885,728	$ 27,256
Disability	59	$ 1,365,130	72	$ 1,841,934	605	$ 11,896,607	$ 19,664
Beneficiaries	400	$ 9,199,307	224	$ 4,179,950	4,121	$ 104,083,869	$ 25,257
2010							
Retirement	2,034	$ 57,221,454	922	$ 28,024,798	46,902	$ 1,296,882,008	$ 27,651
Disability	51	$ 1,283,512	67	$ 1,578,194	618	$ 12,400,315	$ 20,065
Beneficiaries	391	$ 9,945,588	193	$ 4,237,320	3,945	$ 100,367,532	$ 25,442
2009							
Retirement	2,282	$ 65,082,777	874	$ 25,678,679	45,790	$ 1,271,277,327	$ 27,763
Disability	48	$ 959,551	26	$ 507,524	634	$ 12,364,085	$ 19,502
Beneficiaries	343	$ 7,938,855	213	$ 2,997,929	3,747	$ 94,308,262	$ 25,169
2008*							
Retirement	7,757	$267,146,737	1,580	$ 95,109,782	44,382	$ 1,231,768,186	$ 27,754
Disability	105	$ 2,596,324	93	$ 2,408,229	612	$ 11,635,841	$ 19,011
Beneficiaries	585	$ 24,054,314	398	$ 10,168,388	3,617	$ 93,067,932	$ 25,730
2007							
Retirement	2,222	$ 62,734,162	767	$ 20,372,241	38,205	$ 1,059,731,231	$ 27,738
Disability	59	$ 998,126	63	$ 1,347,548	600	$ 11,447,746	$ 19,080
Beneficiaries	355	$ 8,269,118	141	$ 2,933,302	3,430	$ 79,182,006	$ 23,085
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

** 2008 data reflects higher additions, removals and fiscal year 2009 data adjustments associated with the conversion of former MTRFA benefit recipient rolls into TRA benefit payment systems.*

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Statistical

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Statistical Summary

TRA complies with 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 81 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 Contribution Rate chart on page 81 provides historical information on the total member and employer contribution rates.

The schedule of Pension Assets Compared to Pension Liabilities, found on pages 82-83, 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 schedules on pages 84-89 and 95-97 include detailed information regarding the number and type of benefit recipients, and information as to the benefit amount.

The chart on page 90 provides a profile of TRA active members on June 30, 2012, by age and service credit totals.

The chart on page 91 contains information on the total number of members by type.

The schedules on pages 92-94 detail the largest TRA employer units by covered employees and by types of employer.

All data is derived from TRA internal sources and the actuarial consultant.

The projected benefit payments (page 98) for the next 26 years have been supplied by TRA's actuarial advisor, Cavanaugh Macdonald Consulting.

10-Year History of Plan Net Assets

June 30 Fiscal Year End	Plan Net Assets	% Change From Prior Year
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%
2007	$19,938,881,872	12.2%
2008	$18,106,965,760	-9.2%
2009	$13,833,825,733	-23.6%
2010	$14,939,539,780	8.0%
2011	$17,303,575,561	15.8%
2012	$16,689,940,629	-3.6%

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
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%
2007	9.00%	9.00%	18.00%	5.5%	5.0%	10.50%
2008	9.00%	9.50%	18.50%	5.5%	5.5%	11.00%
2009	9.00%	9.50%	18.50%	5.5%	5.5%	11.00%
2010	9.00%	9.50%	18.50%	5.5%	5.5%	11.00%
2011	9.00%	9.50%	18.50%	5.5%	5.5%	11.00%
2012	9.50%	10.00%	19.50%	6.0%	6.0%	12.00%

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

	2003	2004	2005	2006*
Additions				
Member Contributions	$ 155,577,148	$ 159,139,548	$ 160,982,004	$ 177,084,906
Employer Contributions	149,480,510	151,028,911	157,693,090	200,285,886
Net Income (Loss) From Investing Activity	293,085,074	2,204,787,495	1,575,519,541	1,951,778,366
Other Income, Net	4,416,909	7,266,004	6,295,759	11,412,062
Total Additions to Plan Net Assets	$ 602,559,641	$ 2,522,221,958	$ 1,900,490,394	$ 2,340,561,220
Deductions				
Pension Benefits	$ 978,466,617	$ 1,008,410,471	$ 1,048,440,525	$ 1,224,212,024
Refunds	6,656,191	6,861,708	6,744,116	11,872,504
Administrative Expenses	13,158,348	12,179,212	10,883,151	11,912,701
Other	434,197	573,379	1,622,386	1,856,275
Total Deductions from Plan Net Assets	$ 998,715,353	$ 1,028,024,770	$ 1,067,690,178	$ 1,249,853,504
Net Increase (Decrease)	$ (396,155,712)	$ 1,494,197,188	$ 832,800,216	$ 1,090,707,716
Net Assets Held in Trust, Beginning of Year	$ 13,997,762,175	$ 13,601,606,463	$ 15,095,803,651	$ 16,673,818,725
Net Assets Held in Trust, End of Year	$ 13,601,606,463	$ 15,095,803,651	$ 15,928,603,867	$ 17,764,526,441

**"Net assets held in trust, beginning of year" were restated to reflect $745,214,858 of assets assumed as a result of merger with MTRFA.*

10-Year History of Pension Assets vs. Pension Liabilities

	2003	2004	2005	2006
Pension Assets (Actuarial Value)	$ 17,384,179,000	$ 17,519,909,000	$ 17,752,917,000	$ 19,035,612,000
Accrued Liabilities	$ 16,856,379,000	$ 17,518,784,000	$ 18,021,410,000	$ 20,679,111,000
Unfunded Liabilities (Sufficiency)	$ (527,800,000)	$ (1,125,000)	$ 268,493,000	$ 1,643,499,000
Funded Ratio	103.1%	100.0%	98.5%	92.0%

2007	2008	2009	2010	2011	2012
$ 199,868,969	$ 209,592,461	$ 212,042,535	$ 214,908,960	$ 218,023,736	$ 239,833,920
209,219,130	231,561,322	240,718,200	242,087,985	244,232,711	266,661,085
3,056,492,094	(926,044,140)	(3,318,368,290)	2,087,639,841	3,390,130,615	383,187,159
7,901,279	7,529,753	6,526,400	4,850,206	5,562,374	4,929,201
$ 3,473,481,472	$ (477,360,604)	$ (2,859,081,155)	$ 2,549,486,992	$ 3,857,949,436	$ 894,611,365
$ 1,273,093,384	$ 1,330,836,947	$ 1,383,667,466	$ 1,422,578,335	$ 1,460,836,392	$ 1,486,386,832
12,088,193	11,770,086	14,429,351	11,607,086	23,812,985	11,835,977
10,635,365	10,261,139	10,608,003	9,587,524	9,264,278	10,023,488
3,309,099	1,687,335	5,354,052	0	0	0
$ 1,299,126,041	$ 1,354,555,508	$ 1,414,058,872	$ 1,443,772,945	$ 1,493,913,655	$ 1,508,246,297
$ 2,174,355,431	$ (1,831,916,112)	$ (4,273,140,027)	$ 1,105,714,047	$ 2,364,035,781	$ (613,634,932)
$ 17,764,526,441	$ 19,938,881,872	$ 18,106,965,760	$ 13,833,825,733	$ 14,939,539,780	$ 17,303,575,561
$ 19,938,881,872	$ 18,106,965,760	$ 13,833,825,733	$ 14,939,539,780	$ 17,303,575,561	$ 16,689,940,629

2007	2008	2009	2010	2011	2012
$ 18,794,389,076	$ 18,226,985,000	$ 17,882,408,000	$ 17,323,146,000	$ 17,132,383,000	$ 16,805,077,000
$ 21,470,314,497	$ 22,230,841,000	$ 23,114,802,000	$ 22,081,634,000	$ 22,171,493,000	$ 23,024,505,000
$ 2,675,925,421	$ (4,003,856,000)	$ (5,232,394,000)	$ (4,758,488,000)	$ (5,039,110,000)	$ (6,219,428,000)
87.5%	82.0%	77.4%	78.5%	77.3%	73.0%

10-Year History of Benefits and Refunds by Type

Pension Benefits	2003	2004	2005	2006
Annuities	$ 952,017,588	$ 979,108,590	$1,019,776,085	$1,190,295,077
Disabilities	11,346,039	11,734,673	11,810,137	13,118,722
Survivor Benefits	13,613,284	14,201,212	13,869,225	17,616,002
Total Pension Benefits	$ 976,976,911	$1,005,044,475	$1,045,455,447	$1,221,029,801
Annuities Redirected to Earnings Limitation Savings Account (ELSA)	$ 1,489,708	$ 3,365,997	$ 2,985,078	$ 3,182,223
Refunds	$ 6,656,191	$ 6,861,707	$ 6,744,116	$ 11,872,504
Total Benefits and Refunds	$ 985,122,810	$1,015,272,179	$1,055,184,641	$1,236,084,528

10-Year History of Benefit Recipients by Category

As of June 30, 2012

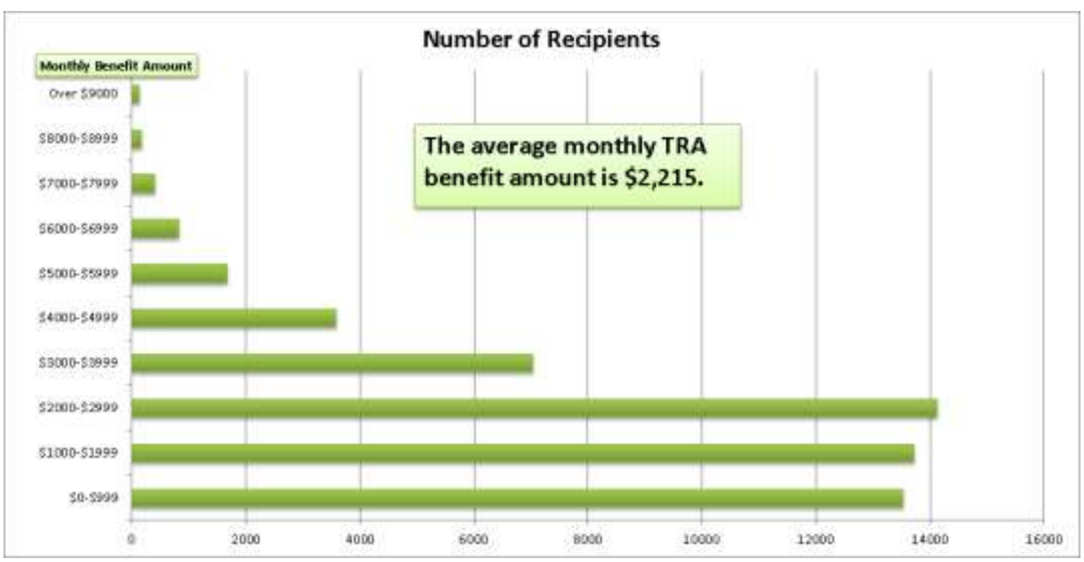
Year	Annuitants	Disabilitants	Survivors	Total
2003	33,290	558	2,351	36,199
2004	34,581	589	2,479	37,649
2005	35,779	581	2,597	38,957
2006	40,973	630	3,080	44,683
2007	42,679	636	3,223	46,538
2008	43,041	641	3,299	46,981
2009	46,009	624	3,575	50,208
2010	47,556	615	3,682	51,853
2011	49,079	602	3,856	53,537
2012	50,780	591	4,054	55,425

2007	2008	2009	2010	2011	2012
$ 1,241,862,723	$ 1,297,772,858	$ 1,352,741,935	$ 1,391,181,476	$ 1,429,842,960	$ 1,456,295,613
11,923,494	12,049,579	12,076,621	13,075,898	12,468,933	12,302,612
15,774,162	17,460,466	16,547,705	17,124,339	17,237,783	16,929,195
$ 1,269,560,379	$ 1,327,282,903	$ 1,381,366,261	$ 1,421,381,713	$ 1,459,549,676	$ 1,485,527,420
$ 3,533,005	$ 3,554,045	$ 2,301,205	$ 1,196,622	$ 1,286,716	$ 859,412
$ 12,088,193	$ 11,770,086	$ 14,429,351	$ 11,607,086	$ 23,812,985	$ 11,835,977
$ 1,285,181,577	$ 1,342,607,034	$ 1,398,096,817	$ 1,434,185,421	$ 1,484,649,377	$ 1,498,222,809

Schedule of Benefit Amounts Paid

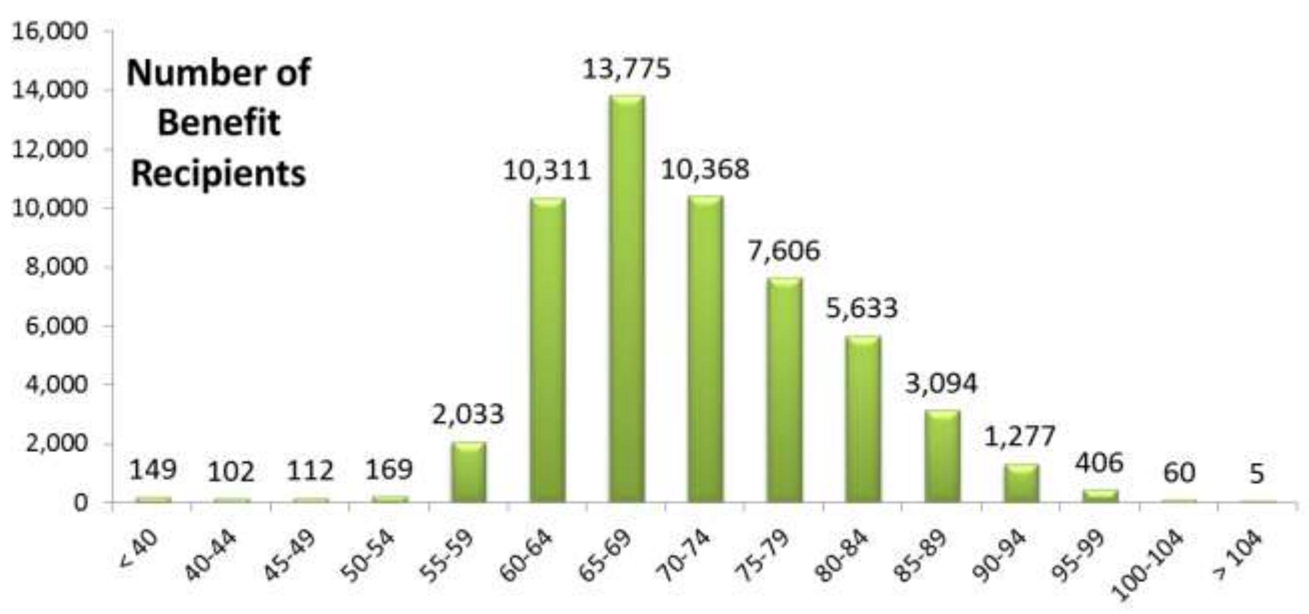
For Month of June 2012 – Payment Made June 1, 2012

Monthly Benefit Amount	Number of Recipients	Cumulative Total	Percent	Cumulative Percent
Under $100 - 499	7,599	7,599	13.79%	13.79%
$ 500 - 999	5,919	13,518	10.74%	24.53%
$ 1,000 - 1,499	6,071	19,589	11.02%	35.55%
$ 1,500 - 1,999	7,643	27,232	13.87%	49.42%
$ 2,000 - 2,499	7,837	35,069	14.22%	63.64%
$ 2,500 - 2,999	6,273	41,342	11.38%	75.02%
$ 3,000 - 3,499	4,192	45,534	7.61%	82.63%
$ 3,500 - 3,999	2,841	48,375	5.16%	87.79%
$ 4,000 - 4,499	2,069	50,444	3.75%	91.54%
$ 4,500 - 4,999	1,502	51,946	2.73%	94.27%
$ 5,000 - 5,499	1,000	52,946	1.81%	96.08%
$ 5,500 - 5,999	673	53,619	1.22%	97.30%
$ 6,000 - 6,499	486	54,105	0.88%	98.18%
$ 6,500 - 6,999	325	54,430	0.59%	98.77%
$ 7,000 - 7,499	238	54,668	0.43%	99.20%
$ 7,500 - 7,999	152	54,820	0.28%	99.48%
$ 8,000 - 8,499	109	54,929	0.20%	99.68%
$ 8,500 - 8,999	53	54,982	0.10%	99.78%
$ 9,000 - 9,499	36	55,018	0.06%	99.84%
$ 9,500 - 9,999	31	55,049	0.06%	99.90%
$10,000 - 10,499	16	55,065	0.03%	99.93%
$10,500 - 10,999	10	55,075	0.02%	99.95%
$11,000 - 11,499	10	55,085	0.02%	99.97%
$11,500 and over	15	55,100	0.03%	100.00%



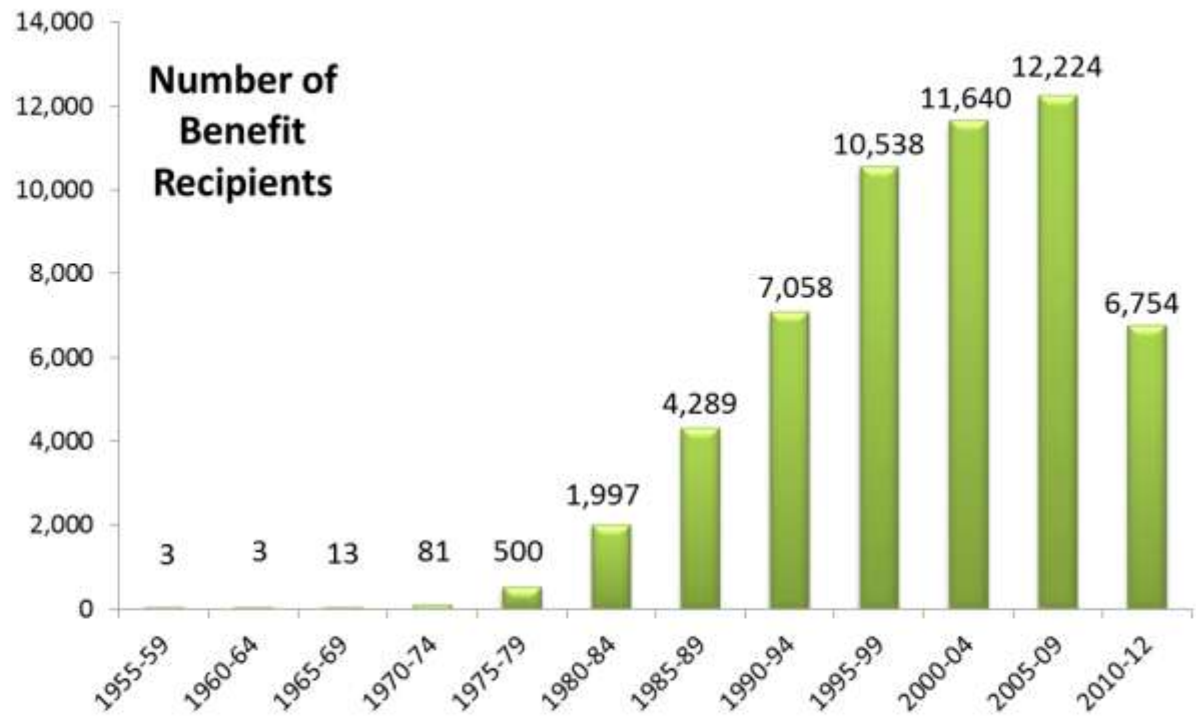
Schedule of Benefit Recipients by Current Age

For Month of June 2012 – Payment Made June 1, 2012 Total Recipients: 55,100



Benefit Recipients by Effective Date of Retirement

For Month of June 2012 – Payment Made June 1, 2012 Total Recipients: 55,100



Schedule of New Retirees and Initial Benefit Paid

For the Ten Fiscal Years Ending June 30, 2012

	Years of Formula Service							
Fiscal Year	**<10**	**10-15**	**16-20**	**21-25**	**26-30**	**>30 (FY 2000-2008) 31-35 (FY 2009)**	**>35**	**Total**
2003								
Avg. Monthly Benefit	$249	$758	$1,242	$1,605	$2,451	$3,204		$2,266
Number of Retirees	213	147	129	162	191	911		1,753
2004								
Avg. Monthly Benefit	$260	$738	$1,155	$1,832	$2,393	$3,227		$2,324
Number of Retirees	258	162	119	158	157	1,102		1,956
2005								
Avg. Monthly Benefit	$267	$768	$1,235	$1,688	$2,515	$3,224		$2,424
Final Average Salary	$28,747	$35,240	$44,812	$52,867	$58,063	$60,069		$53,257
Number of Retirees	204	110	118	132	169	1,055		1,788
2006								
Avg. Monthly Benefit	$239	$843	$1,349	$1,820	$2,523	$3,320		$2,422
Final Average Salary	$21,194	$37,339	$50,455	$36,045	$58,519	$62,537		$54,018
Number of Retirees	230	144	170	151	207	1,094		1,996
2007								
Avg. Monthly Benefit	$257	$781	$1,455	$1,932	$2,608	$3,548		$2,465
Final Average Salary	$22,846	$38,717	$50,770	$58,606	$61,332	$63,080		$55,098
Number of Retirees	256	162	183	181	190	1,238		2,210
2008								
Avg. Monthly Benefit	$284	$917	$1,471	$1,943	$2,663	$3,474		$2,524
Final Average Salary	$23,542	$42,298	$52,288	$58,998	$62,353	$65,360		$56,822
Number of Retirees	252	147	150	216	237	1,107		2,109
2009								
Avg. Monthly Benefit	$295	$885	$1,319	$1,975	$2,670	$3,463	$3,859	$2,507
Final Average Salary	$25,301	$39,270	$50,616	$59,550	$63,268	$66,179	$69,949	$56,972
Number of Retirees	285	139	160	180	223	793	257	2,037
2010								
Avg. Monthly Benefit	$299	$919	$1,497	$1,911	$2,636	$3,447	$3,884	$2,441
Final Average Salary	$24,488	$43,105	$54,513	$60,302	$64,611	$67,443	$70,941	$57,729
Number of Retirees	326	162	205	224	276	733	323	2,249
2011								
Avg. Monthly Benefit	$318	$883	$1,458	$2,076	$2,777	$3,576	$3,941	$2,410
Final Average Salary	$24,106	$43,245	$56,574	$63,832	$68,358	$71,541	$73,031	$58,957
Number of Retirees	431	212	240	270	278	685	428	2,544
2012								
Avg. Monthly Benefit	$388	$935	$1,485	$2,011	$2,747	$3,592	$4,004	$2,301
Final Average Salary	$28,337	$44,368	$55,772	$63,085	$68,043	$70,400	$74,259	$58,233
Number of Retirees	518	254	253	337	345	668	371	2,746

Note: Final Average Salary by years of service is unavailable for years prior to fiscal year 2005.

Schedule of Benefit Recipients by Type

For Month of June 2012 – Payment Made June 1, 2012

Monthly Benefit Amount	Number of Recipients	Type of Retirement Regular	Disability	Beneficiary
$ 0 - $ 1,000	13,526	12,148	184	1,194
$ 1,001 - $ 2,000	13,725	12,296	216	1,213
$ 2,001 - $ 3,000	14,133	13,039	151	943
$ 3,001 - $ 4,000	7,048	6,564	35	449
$ 4,001 - $ 5,000	3,539	3,271	4	264
$ 5,001 - $ 6,000	1,654	1,524	4	126
$ 6,001 - $ 7,000	806	742	3	61
$ 7,001 - $ 8,000	390	362	0	28
$ 8,001 - $ 9,000	161	143	0	18
$ 9,001 - $ 10,000	68	61	0	7
$10,001 - $ 11,000	25	21	0	4
$11,001 - $ 12,000	15	14	0	1
$12,001 - $ 13,000	6	5	0	1
$13,001 - $ 14,000	1	1	0	0
$14,001 - $ 15,000	2	2	0	0
$15,001 - $ 16,000	0	0	0	0
$16,001 and above	1	0	0	1
Total	**55,100**	**50,193**	**597**	**4,310**

Membership Data

June 30, 2012

Distribution of Active Members*

Average Earnings in Dollars

	Years of Service as of June 30, 2012**										
Age	**<3****	**3-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40 +**	**Total**
<25	2,131	30									**2,161**
Avg. Earnings	$ 21,475	$ 39,680									**$ 21,728**
25-29	4,418	2,512	1,743								**8,673**
Avg. Earnings	$ 25,017	$ 39,365	$ 45,358								**$ 33,261**
30-34	2,006	1,488	5,646	1,423							**10,563**
Avg. Earnings	$ 22,465	$ 37,975	$ 48,192	$ 58,563							**$ 43,264**
35-39	1,321	678	2,342	4,650	919						**9,910**
Avg. Earnings	$ 20,571	$ 38,264	$ 48,637	$ 61,052	$ 68,384						**$ 51,843**
40-44	1,384	628	1,656	2,733	3,948	746					**11,095**
Avg. Earnings	$ 19,039	$ 35,758	$ 45,209	$ 59,826	$ 67,947	$ 72,270					**$ 54,921**
45-49	1,069	511	1,305	1,589	2,126	2,537	606	1			**9,744**
Avg. Earnings	$ 16,213	$ 32,106	$ 45,419	$ 58,455	$ 66,624	$ 71,468	$ 72,953	$ 49,379			**$ 56,764**
50-54	891	441	1,076	1,425	1,424	1,712	2,094	590			**9,653**
Avg. Earnings	$ 16,141	$ 28,384	$ 43,685	$ 56,270	$ 64,576	$ 69,539	$ 72,351	$ 71,547			**$ 57,890**
55-59	735	292	715	1,017	1,290	1,294	1,320	1,802	399		**8,864**
Avg. Earnings	$ 11,651	$ 26,690	$ 39,517	$ 55,443	$ 62,562	$ 68,991	$ 71,926	$ 73,002	$ 75,100		**$ 59,503**
60-64	548	172	413	545	693	799	651	416	467	113	**4,817**
Avg. Earnings	$ 7,773	$ 23,951	$ 37,723	$ 52,446	$ 62,369	$ 67,811	$ 74,144	$ 77,764	$ 77,678	$ 74,309	**$ 57,138**
65-69	288	61	97	80	117	95	62	44	30	42	**916**
Avg. Earnings	$ 4,444	$ 15,043	$ 27,626	$ 50,603	$ 58,860	$ 69,271	$ 76,077	$ 81,945	$ 80,970	$ 80,924	**$ 39,894**
70 +	131	24	20	19	9	10	7	9	6	18	**253**
Avg. Earnings	$ 4,232	$ 10,863	$ 22,850	$ 44,830	$ 65,778	$ 62,632	$ 84,293	$ 77,892	$ 90,542	$ 82,700	**$ 26,344**
Total	**14,922**	**6,837**	**15,013**	**13,481**	**10,526**	**7,193**	**4,740**	**2,862**	**902**	**173**	**76,649**
Avg. Earnings	**$ 20,188**	**$ 36,126**	**$ 46,172**	**$ 58,873**	**$ 66,132**	**$ 70,199**	**$ 72,622**	**$ 73,539**	**$ 76,733**	**$ 76,788**	**$ 50,533**

* *Active members include 19 Basic and 76,630 Coordinated members.*

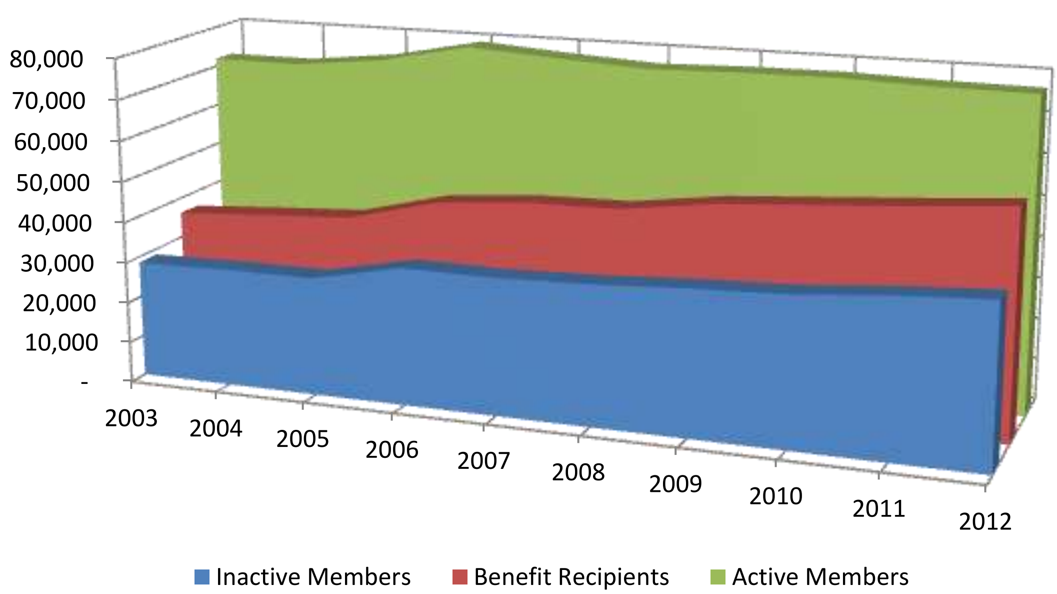
** *This exhibit does not reflect service earned in Combined Service Annuity benefits. It should not be relied upon as an indicator of non-vested status.*

In each cell, the top number is the count of active members for the age/service combination and the bottom number is the amount of average annual earnings. Earnings shown in this exhibit are actual salaries earned during the fiscal year ending June 30, 2012, as reported by the Teachers Retirement Association of Minnesota.

10-Year Summary of Membership

Year Ended June 30	Active Members	Inactive Members	Benefit Recipients
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
2007	77,694	35,550	46,538
2008	76,515	34,283	46,981
2009	77,162	35,563	50,208
2010	77,356	36,407	51,853
2011	76,755	38,433	53,537
2012	76,649	39,792	55,425

10-Year Summary of Membership



Principal Participating Employers

As of June 30, 2012

Employer Unit Name	2012 Covered Employees	2012 Rank	2012 % of Active Membership	2011 Covered Employees	2011 Rank	2011 % of Active Membership	2010 Covered Employees	2010 Rank	2010 % of Active Membership	2009 Covered Employees	2009 Rank	2009 % of Membership
Minneapolis - Special School District #1	4,088	1	5.29	3,757	1	4.89	3,772	1	4.87	3,473	1	4.50
Anoka-Hennepin - ISD #11	3,082	2	3.98	3,158	2	4.11	3,309	2	4.28	3,466	2	4.49
MnSCU (MN State Colleges & Universities)	2,708	3	3.50	2,757	3	3.59	2,876	3	3.72	3,019	3	3.91
Rosemount-Apple Valley-Eagan - ISD #196	2,472	4	3.20	2,554	4	3.33	2,711	4	3.50	2,741	4	3.55
Osseo - ISD #279	1,755	5	2.27	1,743	5	2.27	1,724	5	2.23	1,745	5	2.26
South Washington County - ISD #833	1,597	6	2.06	1,559	6	2.03	1,532	6	1.98	1,476	7	1.91
Rochester - ISD #535	1,446	7	1.87	1,434	7	1.87	1,435	7	1.86	1,483	6	1.92
Robbinsdale - ISD #281	1,095	8	1.42	1,057	8	1.38	1,101	8	1.42	1,086	8	1.41
Bloomington - ISD #271	1,025	9	1.32	1,041	9	1.36	1,030	9	1.33	1,033	9	1.34
St. Cloud - ISD #742	973	10	1.26	1,021	10	1.33	NA	NA	NA	NA	NA	NA
Burnsville - ISD #191	NA	NA	NA	NA	NA	NA	973	10	1.26	976	10	1.26
Lakeville - ISD #194	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
All Other	57,099		73.83	56,674		73.84	56,893		73.55	56,664		73.45
Total	77,340		100.00	76,755		100.00	77,356		100.00	77,162		100.00

**Information not available prior to 2007.*

2008			2007			
Covered Employees	Rank	% of Active Membership	Covered Employees	Rank	% of Active Membership	Employer Unit Name
3,406	2	4.45	4,217	1	5.43	Minneapolis - Special School District #1
3,487	1	4.56	3,506	2	4.51	Anoka-Hennepin - ISD #11
3,146	3	4.11	3,253	3	4.19	MnSCU (MN State Colleges & Universities)
2,679	4	3.50	2,685	4	3.46	Rosemount-Apple Valley-Eagan - ISD #196
1,923	5	2.52	1,973	5	2.54	Osseo - ISD #279
1,461	6	1.91	1,454	6	1.87	South Washington County - ISD #833
1,457	7	1.91	1,412	7	1.81	Rochester - ISD #535
1,181	8	1.54	1,245	8	1.60	Robbinsdale - ISD #281
1,020	9	1.33	994	10	1.28	Bloomington - ISD #271
967	10	1.26	NA	NA	NA	Burnsville - ISD #191
NA	NA	NA	NA	NA	NA	St. Cloud - ISD #742
NA	NA	NA	1,078	9	1.39	Lakeville - ISD #194
55,788		72.91	55,877		71.92	All Other
76,515		100.00	77,694		100.00	**Total**

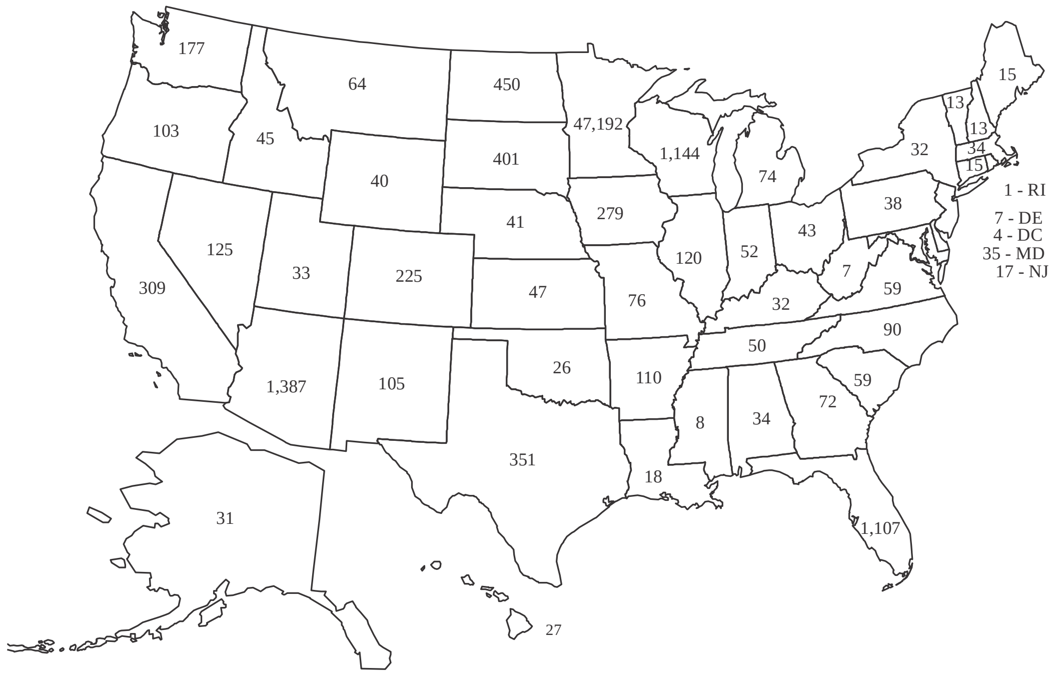
Number of Employer Units

As of June 30, 2012

Year	Independent School Districts	Joint Power Units	MN State Colleges and Universities (MnSCU)	Charter Schools	State Agencies	Others	Total
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
2007	343	37	39	139	7	1	566
2008	344	33	39	157	5	2	580
2009	347	34	39	156	5	2	583
2010	342	37	39	154	4	2	578
2011	342	37	39	155	4	2	579
2012	344	34	39	158	4	6	585

Distribution of TRA Benefits
Mailing Address of Benefit Recipient

February 1, 2012

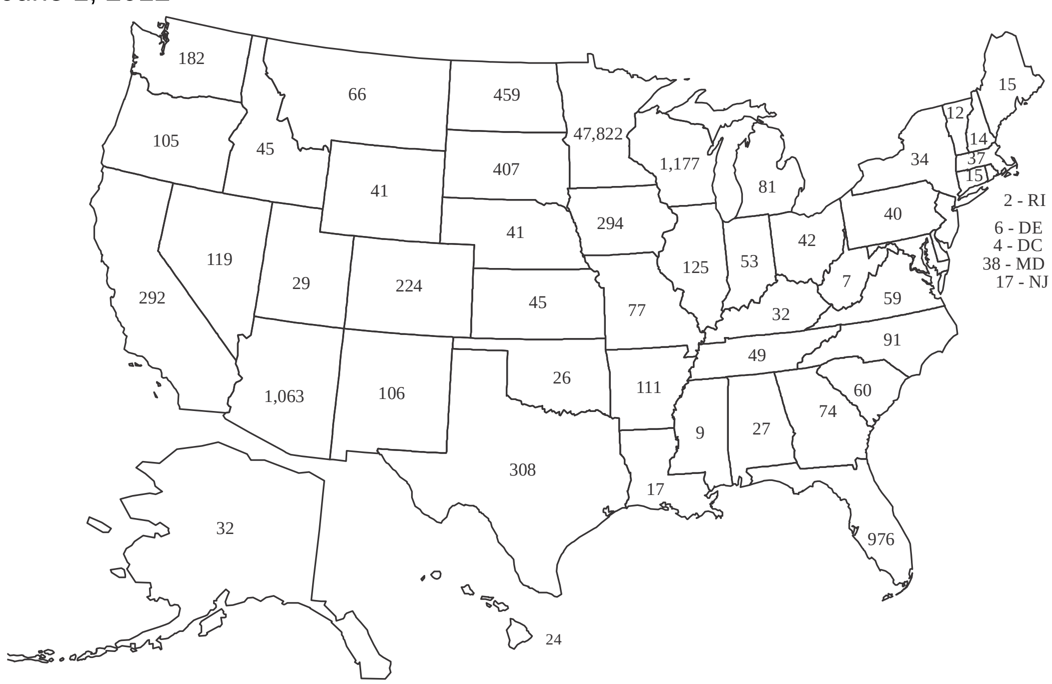


Total Recipients: 54,902

Note: 65 recipients reside outside the United States

Minnesota Recipients = 85.96 percent

June 1, 2012

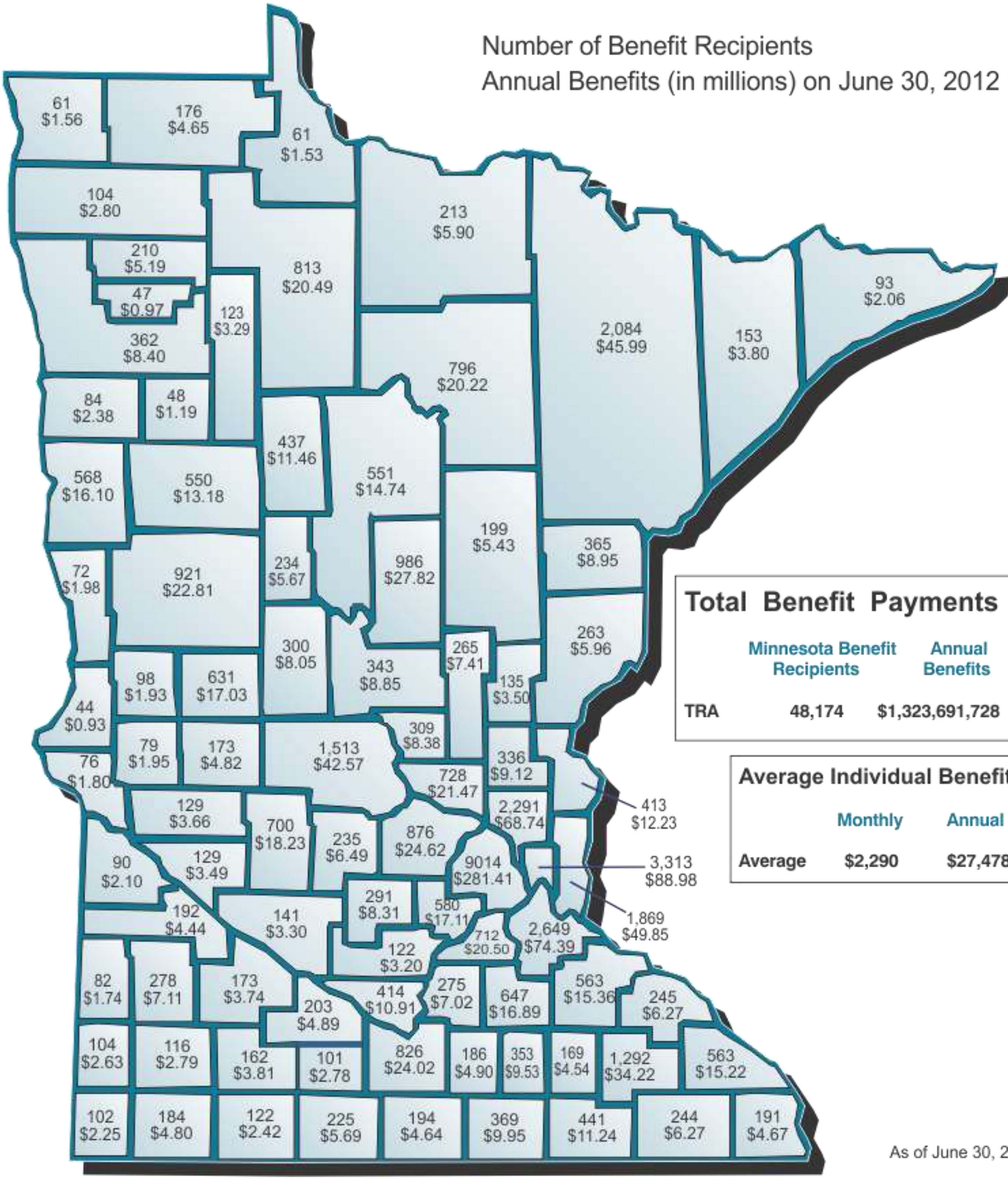


Total Recipients: 55,100

Note: 69 recipients reside outside the United States

Minnesota Recipients = 86.79 percent

Annual Benefits for Minnesota Benefit Recipients by County



Total Benefit Payments

	Minnesota Benefit Recipients	Annual Benefits
TRA	48,174	$1,323,691,728

Average Individual Benefit

	Monthly	Annual
Average	$2,290	$27,478

As of June 30, 2012

Annual Benefits and Recipients by County for the Teachers Retirement Association (TRA)

As of June 30, 2012

County	Members	Annual Benefit
Aitkin	199	$5,434,192
Anoka	2291	$68,742,321
Becker	550	$13,183,966
Beltrami	813	$20,487,896
Benton	309	$8,383,600
Big Stone	76	$1,799,959
Blue Earth	826	$24,017,743
Brown	203	$4,885,252
Carlton	365	$8,949,854
Carver	580	$17,107,982
Cass	551	$14,740,449
Chippewa	129	$3,494,774
Chisago	413	$12,229,428
Clay	568	$16,097,444
Clearwater	123	$3,290,632
Cook	93	$2,064,717
Cottonwood	162	$3,809,904
Crow Wing	986	$27,824,302
Dakota	2,649	$74,385,097
Dodge	169	$4,537,681
Douglas	631	$17,030,916
Faribault	194	$4,643,827
Fillmore	244	$6,267,898
Freeborn	369	$9,949,875
Goodhue	563	$15,355,406
Grant	98	$1,934,726
Hennepin	9,014	$281,406,792
Houston	191	$4,672,038
Hubbard	437	$11,457,959
Isanti	336	$9,116,366
Itasca	796	$20,222,251
Jackson	122	$2,416,932
Kanabec	135	$3,503,055
Kandiyohi	700	$18,225,172
Kittson	61	$1,560,268
Koochiching	213	$5,903,719
Lac Qui Parle	90	$2,102,789
Lake	153	$3,803,272
Lake of the Woods	61	$1,530,635
Le Sueur	275	$7,017,765
Lincoln	82	$1,741,641
Lyon	278	$7,113,662
Mahnomen	48	$1,193,931
Marshall	104	$2,797,344

County	Members	Annual Benefit
Martin	225	$5,693,549
McLeod	291	$8,305,080
Meeker	235	$6,485,291
Mille Lacs	265	$7,410,206
Morrison	343	$8,845,781
Mower	441	$11,243,410
Murray	116	$2,786,048
Nicollet	414	$10,910,099
Nobles	184	$4,800,994
Norman	84	$2,382,693
Olmsted	1,292	$34,221,702
Otter Tail	921	$22,805,920
Pennington	210	$5,194,777
Pine	263	$5,959,779
Pipestone	104	$2,630,976
Polk	362	$8,396,122
Pope	173	$4,822,869
Ramsey	3,313	$88,980,295
Red Lake	47	$973,860
Redwood	173	$3,738,635
Renville	141	$3,295,454
Rice	647	$16,885,244
Rock	102	$2,246,654
Roseau	176	$4,647,537
Saint Louis	2,084	$45,985,157
Scott	712	$20,502,366
Sherburne	728	$21,468,388
Sibley	122	$3,203,196
Stearns	1,513	$42,569,292
Steele	353	$9,532,250
Stevens	79	$1,949,427
Swift	129	$3,663,329
Todd	300	$8,051,446
Traverse	44	$925,406
Wabasha	245	$6,273,015
Wadena	234	$5,671,649
Waseca	186	$4,899,457
Washington	1,869	$49,849,179
Watonwan	101	$2,780,801
Wilkin	72	$1,983,018
Winona	563	$15,220,913
Wright	876	$24,623,734
Yellow Medicine	192	$4,441,298
Grand Total	**48,174**	**$1,323,691,728**

Projected Benefit Payments

Fiscal Year Ended June 30, 2012

The table below shows estimated benefits expected to be paid over the next 26 years, based on the assumptions used in the valuation. The "Actives" column shows benefits expected to be paid to members currently active on July 1, 2012. The "Retirees" column shows benefits expected to be paid to all other members. This includes those who, as of July 1, 2012, are receiving benefit payments or who terminated employment and are entitled to a deferred benefit.

(Dollars in Thousands)

Year Ending June 30	Active	Retirees	Total
2013	$ 112,340	$ 1,467,888	$ 1,580,228
2014	178,406	1,450,025	1,628,431
2015	244,685	1,437,438	1,682,123
2016	310,846	1,424,636	1,735,482
2017	376,782	1,413,216	1,789,998
2018	444,535	1,402,457	1,846,992
2019	514,278	1,390,183	1,904,460
2020	584,653	1,376,603	1,961,256
2021	654,537	1,360,213	2,014,750
2022	723,706	1,342,241	2,065,947
2023	790,673	1,322,093	2,112,766
2024	856,962	1,299,404	2,156,366
2025	925,294	1,273,530	2,198,824
2026	997,881	1,244,910	2,242,791
2027	1,075,809	1,214,348	2,290,157
2028	1,159,408	1,181,452	2,340,860
2029	1,249,149	1,145,884	2,395,033
2030	1,345,358	1,107,790	2,453,148
2031	1,448,163	1,067,089	2,515,252
2032	1,557,106	1,024,215	2,581,320
2033	1,671,650	979,320	2,650,970
2034	1,792,325	933,359	2,725,684
2035	1,917,669	885,600	2,803,268
2036	2,047,001	836,421	2,883,422
2037	2,175,964	785,770	2,961,734
2038	2,301,685	733,321	3,035,006

Teachers Retirement Association of Minnesota
A Pension Trust Fund of the State of Minnesota

Plan Statement

Plan Statement

June 30, 2012

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 the Minnesota Department of Management and Budget (MMB) 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) may elect TRA coverage within one year of their eligible employment. Newly-tenured MnSCU members also have a one-year period to elect TRA coverage. If electing TRA, the individual must pay for the past service covered by TRA, and the cost of past service is based on full actuarial cost. 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

Beginning July 1, 2012, service credit earned for benefit determination is based on a teacher's earned salary relative to an annual base salary established for an employer unit. Minnesota statute defines the base salary for each employer as the lowest salary paid to a full-time Bachelor of Arts (BA) base contract in the previous fiscal year. For example, a school district's annual base salary is determined to be $40,000. A teacher with an earned salary of $30,000 for that year will earn 0.75 year of service credit.

Service credit for MnSCU members is based on a full-time equivalence method.

No more than one year of service credit may be earned by any member during a fiscal year.

Financing

Benefits are financed by employee contributions, employer contributions, investment earnings and turnover gains. Turnover gains are employer contributions retained by the fund when members take refunds of their employee 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 9.5 percent of their annual salary, while Coordinated Plan members (coordinated with Social Security coverage) contribute 6.0 percent of their annual salary.

On July 1, 2012, the employee contribution will be raised annually by 0.50 percent for three years. On July 1, 2014, the employee contribution rate for Coordinated members will be 7.5 percent.

	Percent Contribution Rate on July 1		
Member Type	**2012**	**2013**	**2014**
Basic (without Social Security coverage)	10.0	10.5	11.0
Coordinated (with Social Security coverage)	6.5	7.0	7.5

Employer Contributions

Local school districts and other TRA-covered employer units provide contributions of 10.0 percent of total salary for members in the Basic Plan and 6.0 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.

Beginning July 1, 2012, the employer contribution will be raised annually by 0.50 percent for three years. On July 1, 2014, the employer contribution rate for Coordinated members will be 7.5 percent.

	Percent Contribution Rate on July 1		
Member Type	**2012**	**2013**	**2014**
Basic (without Social Security coverage)	10.5	11.0	11.5
Coordinated (with Social Security coverage)	6.5	7.0	7.5

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.

TRA also receives approximately $21.5 million annually in state and local direct aid. The aid payments are designed to offset unfunded liabilities assumed with the 2006 merger of the Minnesota Teachers Retirement Fund Association (MTRFA).

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:

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.

or

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

- For certain eligible members first hired prior to July 1, 1969, 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)

TRA has 42 active and inactive Basic members from the former Minneapolis Teachers Retirement Fund Association (MTRFA) who were transferred to TRA effective June 30, 2006. Under the merger legislation, this group of former MTRFA members retains 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 the age first eligible for a normal retirement benefit.

or

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 benefit, depending on the member's age and teaching service.

Basic Members (Non-MTRFA)

As of June 30, 2012, TRA had six inactive members who retain eligibility for the Basic Plan and who 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 in this group 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.

Members who defer their benefits will receive a deferral increase as follows:

Members hired prior to July 1, 2006	Prior to July 1, 2012: 3.0 percent annually through December 31 of the year in which the member would have reached 55 and 5.0 percent annually thereafter each year the benefit is deferred After July 1, 2012: 2.0 percent
Members hired on or after July 1, 2006	Prior to July 1, 2012: 2.5 percent After July 1, 2012: 2.0 percent

The deferral period must be at least three months. If on a leave of absence, the member is not eligible for the deferral increase on a deferred annuity for any portion of time on leave.

Annuity Plan Options

Six different annuity plan options are available to TRA members that provide 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 that have survivorship features.

A married member must choose one of the three survivorship plans (plans 4 through 6) listed below at retirement, unless the member's spouse waives the right to this type of annuity.

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

Annual Post-Retirement Increases

Once retired, each January, if specified by law, a post-retirement increase may be made to a member's monthly benefit.

The annual post-retirement increase for benefit recipients was suspended for 2012. Beginning January 1, 2013, annual post-retirement increases will be 2.0 percent. Once the TRA Fund reaches a market value funding ratio of 90 percent, the annual post-retirement increase would be restored to 2.5 percent.

When an increase is granted, members who have been receiving a benefit for at least 18 months will receive the full increase. Members who have been receiving a benefit for at least 6 months, but less than 18 months, will receive a prorated increase.

Combined Service Annuity

Any vested member having combined service credit with any two or more Minnesota public retirement funds that participates 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. Effective July 1, 2011, all account balances accrue interest at a rate of 4 percent annually, regardless of date of termination.

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 at least 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 that can be expected to be of a 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 single members and married 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 prior to July 1, 2011, and 4 percent annually beginning July 1, 2011. 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. 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*** 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 on account balances is compounded annually at 6 percent prior to July 1, 2011, and 4 percent annually beginning July 1, 2011. 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 on account balances is compounded annually at 6 percent prior to July 1, 2011, and 4 percent annually beginning July 1, 2011. 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.

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