Minnesota Teachers Retirement Association

A Component Unit of the State of Minnesota

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1994

Minnesota Teachers Retirement Association

A Component Unit of the State of Minnesota

Suite 500, Gallery Building
17 West Exchange Street
St. Paul, MN 55102-1043

Gary Austin, Executive Director

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1994

This report is printed on recycled paper.

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STATE OF MINNESOTA
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December 31, 1994

Members of the Board of Trustees
State of Minnesota
Teachers Retirement Association

I am pleased to present this Comprehensive Annual Financial Report of the Minnesota Teachers Retirement Association (TRA) for the fiscal year ended June 30, 1994, the 63rd year of operation of the system. This report is intended to provide readers with financial, actuarial, and statistical information in a single publication.

The report is divided into five sections:

- **Introductory Section** describes the system's management and summarizes plan benefits and guidelines;
- **Financial Section** contains the general purpose financial statements, notes to the financial statements, and the opinion of our independent auditor;
- **Investment Section** includes a summary of portfolio assets and a description of asset management;
- **Actuarial Section** contains the certification and results of the actuarial valuation performed by Milliman & Robertson as of July 1, 1994; and
- **Statistical Section** illustrates both current and historical data of interest.

Reporting Entity

The Board of Trustees has significant independence in the operations and management of the system. However, the ability of the state legislature to influence funding and laws governing the system is significant. Therefore, for reporting purposes, the Minnesota Teachers Retirement Association is considered a component unit of the State of Minnesota.

As of June 30, 1994, there were 499 reporting entities, active membership in TRA totaled 66,514 and a total of 22,137 annuitants, survivors and disabilitants were receiving monthly benefits.

Accounting Basis and Internal Control

All financial statements are prepared in conformity with Statement 1 provisions published by the National Council of Governmental Accounting and other generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements also comply with Minnesota Statutes, section 356.20, and are the responsibility of TRA management. The financial statements are prepared using the accrual basis of accounting; revenues are recorded when earned and expenditures recorded when the underlying obligation is incurred. Equity investments are presented at the lower of cost or market and fixed income investments are reported at amortized cost.

TRA management maintains a system of internal controls designed to assure responsible safeguarding of assets and reliable financial records. No material weaknesses in internal control were reported by our independent auditor for the fiscal year 1993 audit period.

Financial Highlights

The major sources of revenue for TRA are employee contributions, employer contributions, and investment earnings. Total revenues for fiscal year 1994 were $991.6 million, an increase of $38.4 million from the previous year. The comparable figures represent continued strength in TRA investment returns as amounts in the investment portfolio grow.

The expenditures of the fund consist primarily of payments made to members and beneficiaries for retirement, disability, or survivor benefits. In total, benefit payments for fiscal year 1994 were $309 million, an increase of 20% over the previous fiscal year. The effects of the 1993 early retirement incentive are responsible for much of this increase.

Eligible members may also choose to withdraw their contributions from the fund upon leaving covered employment. For fiscal year 1994, refunds to members were $3.6 million. In general, fewer members are requesting refunds because of adverse changes in the federal tax law for taking a refund. In total, benefits and refunds comprise over 96% of the fund's expenditures. For fiscal year 1994, administrative expenses were $3.3 million; this cost represented 0.16% of the current covered payroll of active members.

Funding

The actuary for the Legislative Commission on Pensions and Retirement (LCPR) determines the actuarial liabilities and reserves under the entry age normal cost method. The total net assets of the Teachers Retirement Fund on the actuarial balance sheet increased during fiscal year 1994 from $7.05 billion to $7.61 billion. The total required reserves necessary to fund current and future retirees of the fund also increased from $8.27 billion to $9.12 billion. The comparison of net assets to required reserves shows the funding ratio for fiscal year 1994 was 83.51%. This is a decrease from the comparable 85.24% for fiscal year 1993. Both the increase in accrued liability and the resulting funding ratio decrease are a result of the formula multiplier benefit improvement passed by the 1994 Legislature.

The unfunded liability increased during the year by $283 million and is currently $1.5 billion. The increase in unfunded liability due to the benefit improvement passed by the 1994 Legislature was $376.4 million but was partially offset by actuarial assumption changes approved by the LCPR. This amount will be funded over the remaining amortization period ended July 1, 2020. The current statutory employee and employer contribution rate of 14.66% is inadequate to cover the 14.73% required contribution level as determined by the actuary.

According to the certification of the LCPR actuary, TRA is being maintained and funded on an actuarial sound basis, thus protecting future benefits for our members. It is anticipated that investment earnings on TRA assets will continue to meet or exceed the actuarial assumed earnings rate of 8.5%. TRA, as mandated by law, will continue its efforts towards a fully funded position by the year 2020 as unfunded actuarial liabilities are reduced in future funding periods.

Investments

The State Board of Investment (SBI) continued to show strong performance, relative to its benchmarks, despite a fickle investment market. The portfolio of the Basic Fund (for active members) showed a return of 2.1% for fiscal year 1994. The portfolio of the Minnesota Post Retirement Investment Fund (MPRIF), the fund for retired members, showed a return of 1.6%. Despite a year of relatively flat returns, the long-term horizon of pension fund investing should be remembered. The asset allocation and other investment policies followed by the SBI are designed to best represent the long-term funding needs of TRA members.

During fiscal year 1994, the policy of diversification across world markets proved beneficial. The investment into international equities, first begun in October 1992, returned 17% for fiscal year 1994. The gains helped offset the disappointing performance in the U.S. stock and bond markets. The MPRIF added a 10% allocation to international stocks and a 5% allocation to alternative assets during fiscal year 1994. The diversification within the MPRIF is designed to enhance returns and reduce the risk/volatility of the total portfolio.

Total TRA fund assets on the balance sheet are $7.6 billion, an increase of over 9% from the previous fiscal year. Investment income continued to provide the majority (71%) of total revenues earned by the fund during fiscal year 1994. These returns provide the financial foundation for funding the benefit programs and for limiting the need for further employee and employer contributions. Further information on investments held in trust for TRA can be found under the Investments Section of the report.

Economic Conditions and Outlook

For the State of Minnesota, economic growth in fiscal year 1994 continued to outpace the rest of the nation. Minnesota wages and salaries grew by 5 percent, exceeding the U.S. average. The unemployment rate in Minnesota remained well below the nation's during the entire fiscal year.

During this period, also, the U.S. stock and bond markets' performances were disappointing in comparison to historical averages. Responding to sharp rises in interest rates during the second half of the fiscal year, the bond market dropped significantly and produced a negative rate of return for the first time in several years. The stock market, meanwhile, produced only marginally positive returns. In contrast, the international stock market generated very strong gains. This overall market performance carried over to the Basic Retirement Funds, administered by the SBI, which produced a return of 2.1 percent for the period.

The economic outlook for fiscal year 1995 continues to be cautiously optimistic. Most major forecasters expect a strong economy. However, there is considerable uncertainty about the path of interest rates and the market. As long as the pace of growth remains above historical trends, the Federal Reserve Board may attempt to counter the risk of higher inflation by slowing the economy with short-term interest rate hikes through spring 1995. Higher interest rates, in turn, are expected to hold investment gains to lower than average returns. If weak investment performance became a long-term trend, it would be detrimental to TRA's funding status as the State Board of Investment assumes a rate of return of 8.5 percent for the Basic Retirement (Active Member) Funds and 5.0 percent for the Minnesota Post Retirement Investment Fund.

Professional Services

Actuarial services are provided to the Teachers Retirement Fund by the firm W F Corroon of San Francisco. However, the actuarial report of the fund is prepared by Milliman & Robertson, Inc., which is retained by the Legislative Commission on Pensions and Retirement for the purpose of preparing actuarial reports for all the statewide funds. The Office of the Attorney General provides legal counsel to TRA. The State Office of the Legislative Auditor conducts an annual financial audit of the fund. Their report is shown on pages 14-15.

All financial transactions, including disbursements from the fund, are processed through the centralized controls of the Statewide Accounting System, under the supervision of the Minnesota Department of Finance.

Reports to Members

An annual statement of account for the fiscal year ended June 30, 1994 was mailed to each active member in December 1994. This statement provides current and cumulative information related to salaries, contributions, and service credit. Projected and deferred retirement benefit estimates are also provided for eligible members. A plan summary, with summaries of the financial and actuarial data for the year ended June 30, 1994 will be distributed to each active and retired member in the Winter 1995 newsletter.

Review of Operations and Activities

The number of TRA annuitants continued to grow during the fiscal year. At June 30, 1994, our benefits division was paying monthly benefits to 22,137 retirees, disabilitants, and other beneficiaries. Refunds of contributions plus interest were also distributed to 2,344 members during the year.

On May 1, 1994, the interest rate to repay a refund of contributions rose to 8.5% from the previous 6% rate. In the months preceding this deadline, TRA employees spent considerable time preparing repayment estimates, counseling members on the effect of the repayment on their projected benefits, and depositing and recording repayment amounts. About 3,700 active and inactive members repaid past refunds. By repaying their refund, the member reestablished their service credit previously forfeited.

Demand for pre-retirement counseling service continues to grow. In light of social security concerns, members are becoming more aware of the importance of their promised TRA benefits. Also, numerous legislative changes over the years have added to the need for and the amount of counseling. During fiscal year 1994, our counseling staff personally advised 3,207 members. Over 57,000 telephone calls were received at our St. Paul office.

In the past year, we have also made significant attempts at improving communication to our members. Our two newsletters have been combined into one, the TRIB. Our new newsletter has been streamlined with more timely articles and improved graphics. In November, we mailed *Your Handbook of Benefit Information* to over 65,000 active members. The 72-page booklet summarizes the key provisions in TRA law, presenting them in an understandable and graphical format. We have also increased our communication with our employer units as we move toward a more frequent and comprehensive reporting of member payroll data. We have begun a separate newsletter specifically for employer administrative staff and are in the process of developing a reporting manual to assist their efforts.

As demand for services rises and with the increasingly complex nature of recent legislative provisions, the workload of our office has grown significantly. Basic work processes are in need of redesign to deal with the increased volume of requests. In May 1994, the Board of Trustees authorized us to define a new mission and vision statement, reflecting the way TRA delivers its services to its customers. We are currently surveying our membership to listen to their observations and concerns. We are also incorporating the values and experience of our employees in this effort. Many financial, political, demographic and business challenges exist in providing a quality retirement benefit and service to our membership. Our mission and vision statement will provide the foundation to build the products and services our members expect and deserve.

Significant Legislation

The major legislative change impacting fund members during fiscal year 1994 was the passage of a permanent formula multiplier increase. The formula multiplier was increased by .13% per year of service resulting in an average increase in a pension benefit of 8% to 9%. The new law is precedent-setting because it allows TRA members to purchase a benefit improvement without mandating a matching employer contribution. To pay for the increase, the employee contribution rose from 4.5% to 6.5% for Coordinated members and from 8.5% to 10.5% for Basic members.

The Teachers Retirement Association has also had to administer legislation that grants college faculty the option of participating in TRA's defined benefit plan or in a defined contribution plan administered by the state's higher education board offices. Beginning July 1, 1995, technical college teachers may choose pension coverage through a defined benefit plan (TRA) or a defined contribution plan (DCR). Technical college teachers who do not make an affirmative election of a pension plan during a 60-day window period will be placed in TRA rather than DCR. In related legislation, state university and community college teachers currently in TRA will have another opportunity to choose DCR. New hires since June 30, 1989, who were automatically covered by DCR, are now able to choose TRA coverage. New hires after July 1, 1994, may elect TRA; otherwise they will be covered by DCR. In this competitive environment, TRA has prepared clear and concise publications explaining the merits of our defined benefit plan. In addition, our pre-retirement counselors have held many individual and group counseling sessions with those faced with an election decision.

The 1994 Legislature also enhanced job-sharing opportunities for teachers. Job sharing between young and more senior teachers is encouraged by permitting participants to make full-time contributions toward their pensions while actually working part-time. The job sharing opportunities were created within TRA's present part-time mobility program by reducing eligibility to three years of allowable service credit to work part-time and make full-time contributions. Under the new law, the three years may include allowable TRA service credit for full-time teaching in a Minnesota public elementary school, secondary school, or the state colleges and university system. Employers retain their authority to first approve part-time teacher program participation and must pay the entire employer contribution for participating teachers who have at least 20 years of service.

Acknowledgments

The preparation of this report is possible only through the combined efforts of TRA staff and our professional consultants. It is intended to provide a complete and reliable portrayal of the financial status of the fund. A copy of this report will be mailed to each public school building in the state.

We would like to take this opportunity to express our gratitude to the Board of Trustees, the TRA employees, the Board's advisors, and the many people who work diligently to assure the successful operation and financial soundness of the fund.

Respectfully submitted,

Gary Austin
Executive Director

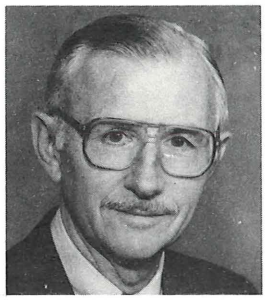
John Wicklund
Assistant Director, Finance

Board of Trustees

(As of December 1, 1994)

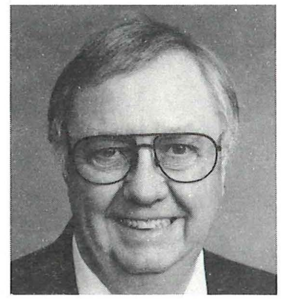
Elected Members

President



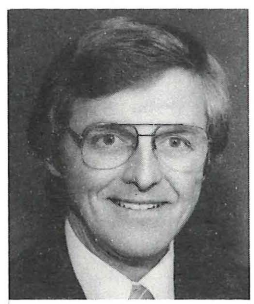
Vernell R. Jackels
Winona, MN
Member since 1985
Term expires 7/1/97

Vice President

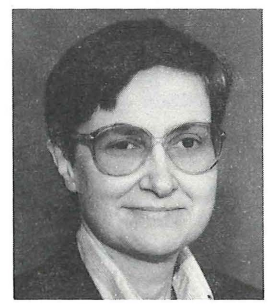


Mark Evans, Retiree
Staples, MN
Member since 1975
Term Expires 7/1/95

Carol F. Ackerson
New Ulm Public Schools
Member since 1987
Term Expires 7/1/95



Curtis D. Hutchens
St. Cloud Public Schools
Member since 1987
Term expires 7/1/95



Martha Lee Zins
Hopkins Public Schools
Member since 1989
Term expires 7/1/97

Statutory Members

Linda Powell
Commissioner of Education

Laura M. King
Commissioner of Finance

Joanne Fisher
Minnesota School Boards Association

Administrative Staff

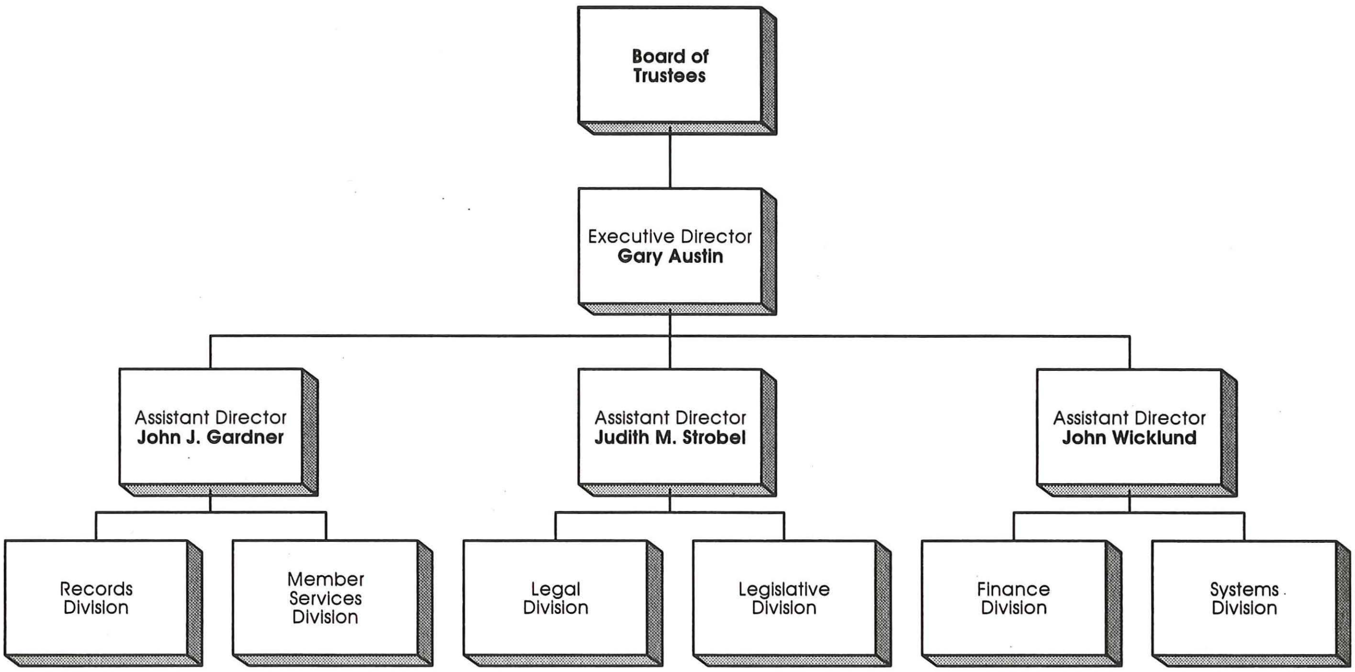
Gary Austin, Executive Director

John J. Gardner
Assistant Executive Director
Member Services and Records Division

Judith M. Strobel
Assistant Executive Director
Legal and Legislative Division

John Wicklund
Assistant Executive Director
Finance and Systems Division

Administrative Organization
(As of December 1994)



Mission Statement

The mission of the Minnesota Teachers Retirement Association is to provide a secure, dependable source of retirement income for its members.

To accomplish this, we at the Teachers Retirement Association (TRA) will:

- reliably receive and account for retirement fund contributions, precisely and dependably disburse benefits, and maintain accurate records of all related activities.
- provide quality services to assist teachers and their beneficiaries in understanding and use of the TRA program and benefits.
- support the maintenance and enhancement of a high quality, well managed teachers' retirement program.

Teachers Retirement Fund Plan Summary

Purpose

The Teachers Retirement Fund was established on July 1, 1931 by the Minnesota 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

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

Membership

All teachers employed in Minnesota's public elementary and secondary schools, state universities, community colleges and all other educational institutions maintained by the State (except those teachers employed by the cities of Minneapolis, St. Paul, and Duluth or by the University of Minnesota) are required to be members; however, no state university or community college teacher is a member except for purposes of Social Security coverage if that person elects coverage by the Defined Contribution Retirement Plan administered by the State University and Community College Boards.

Retirement Service Credit

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

Financing

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

Employee Contributions

TRA members pay a percentage of their gross annual salary as determined by their system of membership. Basic system members (without Social Security coverage) contribute 10.5% of their annual salary while Coordinated system members (with Social Security coverage) contribute 6.5% of their annual salary. The Basic system of membership is being phased out.

Employer Contributions

Local school districts and other TRA covered employer units provide contributions of 8.5% of total salary for members in the Basic system and 4.5% of total salary for members in the Coordinated system. In addition, the employer unit contributes an amount equal to 3.64% of total salary for amortizing the unfunded liability. For Coordinated system members the employer unit also makes the required matching contribution to the Social Security Administration.

Retirement Benefit

The retirement benefit is determined by formula. The formula includes three component parts: the average of the highest five successive annual salaries, an accumulated percentage factor based on the total years of service credit, and the age of the member 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.**

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:**

1.13% of average salary for the first 10 years of allowable service and 1.63% of average salary for each subsequent year of allowable service with a reduction of 0.25% for each month the member is under age 65 at the time of retirement (under age 62 with 30 or more years of allowable service) and no reduction if age plus years of allowable service totals 90 or more.

OR

1.63% of average salary for each year of allowable service with augmented actuarial reduction (approximately 4%-5% per year) for each month the member is under age 65.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service or any age with at least 30 years of allowable service.

For Basic system members (those without Social Security coverage) the formula percentages are 2.13% and/or 2.63% rather than the 1.13% and/or 1.63% shown for Coordinated system members (those with Social Security coverage).

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 as follows:

1.63% of average salary for each year of allowable service with augmented actuarial reduction (approximately 4%-5% per year) for each month the member is under the full Social Security retirement benefit eligible age. Under current federal law, the retirement age for full Social Security retirement benefits is age 65; but starting in the year 2003, Social Security will gradually increase the retirement age for full Social Security retirement benefits until it reaches age 67 in the year 2027.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service.

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. The benefit is augmented by 3% interest compounded annually until January 1 of the year following attainment of age 55 and 5% thereafter until the retirement benefit begins.

Annuity Plan Options

Six different annuity plans are available to TRA members providing monthly annuity payments for as long as the annuitant lives. Plan A-1 provides the highest possible monthly benefit, but terminates upon the member's death. The annuitant may choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features.

1. Life Plan A-1, For Life of Member
2. Life Plan B-1, Guaranteed Refund
3. Life Plan C-3, 15-Year Certain
4. Life Plan E-1, 100% Survivorship with "Bounceback"
5. Life Plan E-2, 50% Survivorship with "Bounceback"
6. Life Plan E-3, 75% Survivorship with "Bounceback"

Post Retirement Increases

The required reserves needed to pay retirement benefits are transferred from the fund's regular assets to the Minnesota Post Retirement Investment Fund (MPRIF) at the time of retirement. Benefits are increased annually based on the post-retirement adjustment calculation described in Minnesota Statute Section 11A. 18, Subdivision 9. There is a guarantee that benefits will never be decreased below the original amount established at retirement as adjusted by the annual increases.

Combined Service Annuity

Any member who has combined total years of allowable service which meet the minimum vesting requirements with any two or more of the Minnesota public retirement funds that participate in the combined service annuity program may elect to receive a combined service annuity upon compliance with eligibility requirements of the covered funds in which allowable service was established.

Refunds

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

Repayment of Refunds

Members who return to teaching service after previously withdrawing their contributions may repay these contributions upon completing two years of allowable service. The repayment must include interest of 8½%, compounded annually from the date of the refund.

Disability

Any 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. Total and permanent disability is defined as *the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to be of long continued and indefinite duration.* An indefinite duration is a period of at least one year.

Coordinated Survivor Benefits

If an active coordinated member with Social Security coverage dies before retirement, the total amount of accumulated contributions plus 6% interest compounded annually is paid to the surviving spouse or, if there is none, to the designated beneficiary. Any survivor benefits payable from Social Security are in addition to the TRA survivor benefit. In some cases, a joint and survivor annuity (described below) may be selected instead of this benefit.

Basic Survivor Benefits

If an active Basic member dies before retirement, survivor benefits are payable to a dependent spouse and/or dependent children. The minimum benefit is equal to 50% of the Basic member's monthly average salary paid in the last full fiscal year preceding death, subject to a family maximum of $1,000 per month. If the member is not married and there are no dependent children, then the total amount of accumulated contributions plus 6% interest compounded annually is paid to the designated beneficiary. In some cases, a joint and survivor annuity (described below) may be selected instead of this benefit.

Joint and Survivor Annuity

The surviving spouse of a married member with at least three years of allowable service credit, may elect to receive the joint and survivor annuity benefit instead of the lump sum benefit. The annuity is payable monthly to the spouse or to a designated beneficiary for as long as the spouse or beneficiary lives; however, payments terminate upon the death of the spouse or beneficiary with no remaining benefits for other beneficiaries. In lieu of a lifetime benefit, the spouse or beneficiary may elect to receive actuarially equivalent payments for a period certain of 5, 10, 15 or 20 years.

The amount of the annuity is based upon the High-5 Level Formula program and the ages of the member and the spouse or designated beneficiary at the time of death of the member. The member's accumulated deductions and interest plus the employer's contributions are used to provide the benefit. The surviving spouse of an eligible member has a choice of the joint and survivor annuity benefit or the lump sum benefit. If there is no surviving spouse, actuarially equivalent payments may be made for a period certain for any surviving dependent child under the age of 20.

Financial Section

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Board of Trustees
and
Executive Director
Teachers Retirement Association

We have audited the accompanying financial statements of the Teachers Retirement Fund, which is part of the Defined Benefit Pension Fund, of the State of Minnesota as of and for the year ended June 30, 1994, as listed in the financial section of the table of contents. These financial statements are the responsibility of the Teachers Retirement Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. 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.

As explained in Note 2d, investments in marketable equity securities are valued at the lower of cost or market and other investments are valued at cost as required by generally accepted accounting principles. Minnesota Statutes require valuation of all securities at cost plus one-third of the unrealized capital gains or losses. Since the statutory provision deviates from generally accepted accounting principles, the basic statements are not in compliance with the statute. Note 1e contains the disclosures which must be considered together with the basic financial statements to achieve statutory reporting requirements.

The financial statements present only the Teachers Retirement Fund as part of the Defined Benefit Pension Fund, of the State of Minnesota and are not intended to present fairly the financial position and results of operations of the Teachers Retirement Association or the State of Minnesota in conformity with generally accepted accounting principles.

Board of Trustees
and
Executive Director
Teachers Retirement Association
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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers Retirement Fund as of June 30, 1994, and the results of its operations and the changes in financial position for the year then ended in conformity with generally accepted accounting principles. In addition, except for the valuation of securities, as discussed in the preceding paragraph, the aforementioned financial statements are in compliance with the reporting requirements of Minnesota Statute Section 356.20.

Our audit was made for the purpose of forming an opinion on the individual fund financial statements. The schedule of administrative expenses included in the financial section is presented for purposes of additional analysis and is not a required part of the financial statements of the Teachers Retirement Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

November 18, 1994

Teachers Retirement Fund
Balance Sheet

June 30, 1994 with comparative totals for June 30, 1993

Assets	**1994**	**1993**
Cash	**$ 1,376,485**	$ 1,349,021
Accounts Receivable	**35,731,408**	32,718,331
Accrued Investment Income	**16,451**	1,080,740
Prepaid Expense	**1,278**	4,569
Investments:		
Outside Managed Pooled Accounts (Note 2d)	**4,117,799,017**	3,802,889,424
Short-term Cash Equivalents (Note 2d)	**3,353,987**	59,801,649
Equity in MPRI Fund (Note 2e)	**3,492,524,999**	3,038,859,000
Fixed Assets Net of Accumulated Depreciation (Note 2b)	**381,238**	336,174
Total Assets	**$ 7,651,184,863**	$ 6,937,038,908

Liabilities and Reserves Required	**1994**	**1993**
Current Liabilities:		
Accounts Payable	**$ 2,933,976**	$ 3,138,522
Due to MPRI Fund (Note 3b)	**55,778,197**	10,257,458
Accrued Compensated Absences (Note 2c)	**256,202**	228,490
Total Liabilities	**$ 58,968,375**	$ 13,624,470
Fund Balance:		
Member Reserves (Note 7a)	**$ 970,812,592**	$ 921,143,157
MPRIF Reserves (Note 2e)	**3,492,524,999**	3,038,859,000
Benefit Reserves (Note 7b)	**4,651,928,409**	4,306,056,843
Total Reserves (Note 1e)	**$ 9,115,266,000**	$ 8,266,059,000
Unreserved Fund Balance:		
Unfunded Actuarial Accrued Liability (Note 1e)	**$(1,523,049,512)**	$ (1,342,644,562)
Total Unreserved Fund Balance (Note 1e)	**$(1,523,049,512)**	$ (1,342,644,562)
Total Fund Balance	**$ 7,592,216,488**	$ 6,923,414,438
Total Liabilities and Fund Balance	**$ 7,651,184,863**	$ 6,937,038,908

The accompanying notes are an integral part of the financial statements.

Teachers Retirement Fund

Statement of Revenues, Expenses, and Changes in Fund Balance

For Fiscal Years Ended June 30, 1994 and 1993

Operating Revenues:	**1994**	**1993**
Member Contributions (Notes 1d & 4)	**$ 100,803,239**	$ 94,709,399
Employer Contributions (Notes 1d & 4)	**171,854,594**	168,070,511
Investment Income (Note 2d)	**394,385,960**	453,109,145
Distributed Income from MPRI Fund (Note 2e)	**315,803,074**	234,962,425
Other (Note 8)	**8,752,052**	2,347,431
Total Operating Revenues	**$ 991,598,919**	$ 953,198,911
Operating Expenses:		
Benefits Paid (Notes 1c, 5, 7b)	**$ 309,036,770**	$ 256,630,250
Refunds (Note 7a)	**3,583,342**	4,749,970
Administrative Expenses (Note 7b)	**3,338,007**	3,124,192
Interest Paid MPRIF (Note 2e)	**614,377**	191,470
Investment Management Fees (Note 2d)	**6,224,373**	5,579,205
Total Operating Expenses	**$ 322,796,869**	$ 270,275,087
Net Fund Balance Additions	**$ 668,802,050**	$ 682,923,824
Fund Balance, Beginning of Year	**6,923,414,438**	6,240,490,614
Fund Balance End of Year	**$7,592,216,488**	$6,923,414,438

Teachers Retirement Fund

Statement of Revenues, Expenses, and Change in Fund Balances

For Fiscal Years Ended June 30, 1994 and 1993

	Reserves	
	Member	**MPRI Funds**
Operating Revenues:		
Member Contributions (Notes 1d & 4)	$100,600,106	$ 0
Employer Contributions (Notes 1d & 4)	0	0
Investment Income (Note 2d)	0	0
Distributed Income from MPRI Fund (Note 2e)	0	315,803,074
Other (Note 8)	0	0
Total Operating Revenues	$100,600,106	$ 315,803,074
Operating Expenses:		
Benefits Paid (Notes 1c, 5, 7b)	$ 0	$ 301,238,435
Refunds (Note 7a)	3,418,494	0
Administrative Expenses (Note 7b)	0	0
Interest Paid MPRIF Fund (Note 2e)	0	0
Investment Management Fees (Note 2d)	0	0
Total Operating Expenses	$ 3,418,494	$ 301,238,435
Other Changes in Reserves:		
Change in Assumptions (Note 3b)	$ 0	$ 38,607,000
Annuities Awarded	(48,511,161)	393,235,646
Other Transfers	998,984	0
Mortality	0	7,258,715
Total Other Changes	$(47,512,177)	$ 439,101,361
Net Fund Balance Additions	$ 49,669,435	$ 453,666,000
Change in Unfunded Accrued Liability	0	0
Fund Balance, Beginning of Year	921,143,157	3,038,858,999
Fund Balance, End of Year	$970,812,592	$3,492,524,999

The accompanying notes are an integral part of the financial statements.

Benefit	Unreserved Fund Balance	Total June 30, 1994	Total June 30, 1993
$ 203,133	$ 0	**$ 100,803,239**	$ 94,709,399
171,854,594	0	**171,854,594**	$ 168,070,511
394,385,960	0	**394,385,960**	453,109,145
0	0	**315,803,074**	234,962,425
8,752,052	0	**8,752,052**	2,347,431
$ 575,195,739	$ 0	**$ 991,598,919**	$ 953,198,911
$ 7,798,335	$ 0	**$ 309,036,770**	$ 256,630,250
164,848	0	**3,583,342**	4,749,970
3,338,007	0	**3,338,007**	3,124,192
614,377	0	**614,377**	191,470
6,224,373	0	**6,224,373**	5,579,205
$ 18,139,940	$ 0	**$ 322,796,869**	$ 270,275,087
$ (38,607,000)	$ 0	**$ 0**	$ 0
(344,724,484)	0	**0**	0
(998,984)	0	**0**	0
(7,258,715)	0	**0**	0
$ (391,589,183)	$ 0	**$ 0**	$ 0
$165,466,616	$ 0	**$ 668,802,050**	$ 682,923,824
180,404,950	(180,404,950)	**0**	0
4,306,056,842	(1,342,644,562)	**6,923,414,438**	$6,240,490,614
$4,651,928,408	$(1,523,049,512)	**$7,592,216,488**	$ 6,923,414,438

Notes to the Financial Statements

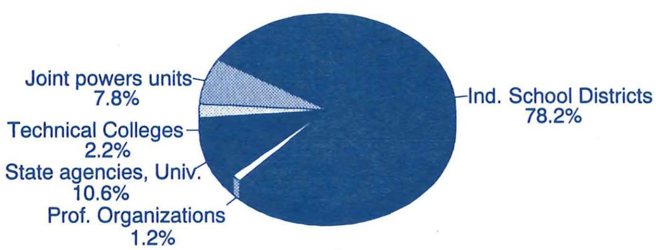
1. Plan Description

a. Organization

The State of Minnesota Teachers Retirement Association (TRA) is the administrator of a multi-employer, cost sharing Teachers Retirement Fund. TRA administers two plans: Basic and Coordinated. The plans are established and administered in accordance with Minnesota Statutes, chapters 354 and 356. The Board of Trustees has significant independence in the operations and management of the system. TRA functions as a separate statutory entity which has been construed as an agency of the state. However, the ability of the state legislature to influence funding and laws governing the system is considerable. Therefore, for reporting purposes, the Teachers Retirement Association is considered a component unit of the State of Minnesota. The TRA Fund is included in the state's Comprehensive Annual Financial Report as a pension trust fund.

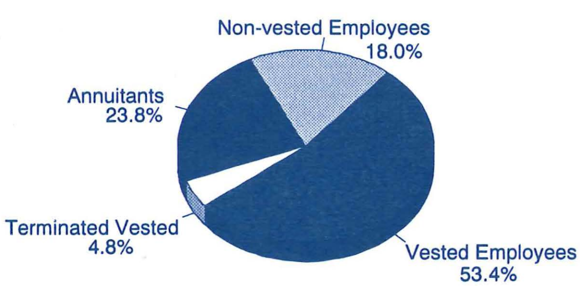
b. Participating Members and Employers

Teachers employed in Minnesota's public elementary and secondary schools, State Universities, Community Colleges and all other educational institutions maintained by the State (except those teachers employed by the cities of Minneapolis, St. Paul and Duluth and by the University of Minnesota system) are required to be TRA members. State University and Community College teachers who were first employed after June 30, 1989, or who were first employed before July 1, 1989, and elected to change coverage, are now covered by the Defined Contribution Retirement Plan (DCR) administered by the State University and Community College Boards. The number of employer units participating in TRA is as follows:



Employer Units Participating in TRA	**At June 30** **1994**	1993
Independent school districts	**390**	402
Joint powers units	**39**	42
Technical colleges	**11**	12
State agencies, colleges, universities	**53**	52
Professional organizations	**6**	6
Total Employer Units	**499**	514

The TRA membership is as follows:



Membership in TRA	**At June 30** **1994**	1993
Retirees, disabilitants and beneficiaries receiving benefits	**22,137**	20,810
Terminated employees with deferred vested benefits	**4,499**	4,062
Total	**26,636**	24,872
Current employees:		
Vested	**49,751**	49,137
Non-vested	**16,763**	16,131
Total	**66,514**	65,268

c. Benefits

TRA provides retirement benefits as well as death and disability benefits. All benefits vest after three years of credited service. For Coordinated members (those with Social Security coverage) first hired before July 1, 1989, retirement benefits are the greater of: (a) 1.13% of average salary for each year in first ten years and 1.63% of average salary for each subsequent year with 0.25% reduction for each month retiree is under age 65 (age 62 if 30 or more years of service) and no reduction if age plus service totals 90 or more; or (b) 1.63% of average salary for each year of service with augmented actuarial reduction for each month retiree is under 65.

For members first hired after June 30, 1989, retirement benefits are 1.63% of the average salary for each year of service with augmented actuarial reduction for each month the retiree is under the full Social Security benefit eligible age. Average salary is the average of highest five successive annual salaries. For Basic members (those without Social Security coverage) the formula percentages are 2.13% and 2.63% rather than the 1.13% and 1.63% of Coordinated members. Benefits are payable for life with the amount of the benefit determined by the selection of one of six available annuity payment plans. Post-retirement increases are described in note 2e. The benefit provisions stated in this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they terminate their public service.

d. Funding of Pension Costs

Pension costs of the TRA are funded from contributions made to the association by members and their employers. Members of the fund contribute an amount equal to 6.5 percent of their salary if they are in the Coordinated Plan and 10.5 percent of their salary if they are in the Basic Plan. Coordinated members of the fund are mandatorily covered by Social Security. Employer contributions to the fund are 4.5 percent and 8.5 percent of the salaries of Coordinated and Basic members, respectively. Minnesota Statutes, section 354.43, subdivision 5, currently requires an additional employer contribution of 3.64 percent of the members' salaries for the purpose of amortizing the unfunded liability of the fund.

e. Actuarial Valuation of Plan Benefits

Minnesota Statutes, section 356.215, subdivision 4, provides that annual actuarial valuations of plan benefits be computed in accordance with the entry age normal cost method. Under this method, the total actuarial liability of the fund was $9,115,266,000 and net assets were $7,592,215,000 based on equity investments at the lower of cost or market value. On this basis, required reserves were 83.3% funded and the unfunded liability was $1,523,051,000. The actuary also is required to provide this information based upon cost value of assets plus 1/3 of the amount of any unrealized gains or losses in investments. Under this method, the value of net assets is $7,611,935,000 and the total liabilities remain at $9,115,266,000. This data results in a funding ratio of 83.51% and total accrued unfunded liabilities of $1,503,331,000. This amount differs from the unfunded accrued liabilities reported on the balance sheet, because the actuarial calculation of net assets includes cost plus one third of unrealized capital gains or losses.

This funding information was determined as part of an actuarial valuation at June 30, 1994. Significant actuarial assumptions used include: (1) a rate of return on the investment of present and future assets of 8.5 percent per year compounded annually; (2) projected salary increases based on a salary inflation component of 5 percent plus an age-related merit scale factor; and (3) post retirement increases as described in note 2e.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements for the fund are on the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which they are earned and become measurable. Expenses are recorded when the liability is incurred.

b. Fixed Assets and Depreciation

Fixed assets are capitalized at cost at the time of acquisition. Expenditures for maintenance and repairs are charged to expense as incurred. Costs of assets and the related accumulated depreciation are eliminated from the accounts in the year of sale or retirement. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The estimated useful lives are from three to twenty years for equipment.

At June 30, 1994, total fixed assets were $709,746 at cost. Accumulated depreciation totaled $408,508 resulting in a net fixed asset value of $381,238.

c. 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.

d. Investment Policies and Valuation Methods

Pursuant to Minnesota Statutes, section 11A.04, the TRA's retirement fund assets are commingled with the retirement assets of other statewide retirement funds and placed in various pooled investment accounts administered by the State Board of Investment (SBI).

Investments in the pooled accounts are valued at cost for early securities and amortized cost for fixed income securities, subject to market adjustments judged to be other than temporary. Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains and losses on sales or exchanges are recognized on the transaction date. Investment income during the year for the Basic (Active) Fund was $394,385,960. The cost of security transactions is included in the transaction price. Administrative expenses of the 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. TRA's share of these expenses totaled $6,224,373 for fiscal year 1994.

The TRA Fund Investment Portfolio at June 30, 1994:

Basic (Active) Fund	**Cost**	**Market**
Pooled Accounts:		
Passive Equity	$1,075,046,782	$1,060,085,502
Active Equity	1,012,725,973	1,032,933,814
Fixed Income	1,231,932,217	1,179,858,148
Real Estate	208,567,112	188,480,986
Venture Capital	171,066,480	225,446,233
Resources Pool	37,698,370	36,077,595
Int'l Passive Pool	174,893,796	230,902,025
Int'l Country Pool	70,118,613	78,461,412
Int'l Active Pool	135,749,674	144,712,947
Total Pooled Accounts	$4,117,799,017	$4,176,958,662
Short-Term Pooled Cash	3,353,987	3,353,987
Minnesota Post Retirement Investment Account	3,492,524,999	3,617,640,917
Total Invested	$7,613,678,003	$7,797,953,566

e. Minnesota Post Retirement Investment Fund (MPRIF)

For all retiring members, the reserves required to pay the cost of retirement benefits are transferred from TRA's regular assets to the Minnesota Post Retirement Investment Fund (MPRIF) which is managed by the State Board of Investment. Participation in the MPRIF is shown at the actuarially determined required reserves level in accordance with Minnesota Statutes, section 11A.18, and any mortality gains or losses as determined by an independent actuary hired by the state legislature. TRA's pension assets in the MPRIF as of June 30, 1994, were $3,492,525,000. Interest on late reserve transfers is a normal transfer with interest at the 8.5% rate required by statute and is offset by earnings of the regular fund. These costs totalled $614,378 for fiscal year 1994. Investment income from MPRIF for fiscal year 1994 was $315,803,074.

In accordance with Minnesota Statutes, section 11A.18, subdivision 9, benefits may be increased periodically. Each year, retirees will receive an inflation-based adjustment equal to 100% of inflation, up to a maximum of

3.5%. If investment returns are above the 5.0% actuarial and 3.5% inflation assumptions, retirees will also receive an earnings-based adjustment The formula provided for a benefit increase of 3.985% for eligible retirees, effective January 1, 1995. The increase is divided into a 2.4% inflation component and a 1.585% excess earnings component.

f. Authorized Investments

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 restricted participation in foreign securities.

g. Risk Categories

Investments are categorized to give an indication of the level of risk that is assumed. Risk category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Risk category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name. Risk category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the State's name. All TRA investments are included in risk category 1.

h. Investment Information

Information on investment activity and a listing of specific investments owned by the pooled accounts can be obtained from the Teachers Retirement Association.

3. Funding Status and Progress

a. Pension Benefit Obligation Disclosure

The amount shown below as *pension benefit obligation* is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess TRA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the TRA, discussed in Note 1e. The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1994 and is printed below. Significant actuarial assumptions used are the same as those used to compute the entry age normal cost funding figures in Note 1e. At June 30, 1994, the unfunded pension obligation was $871,461,000 as follows:

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$3,717,500,000
Current Employees	
Accumulated employee contributions including allocated investment income	$2,172,694,000
Employer-financed vested	2,307,366,000
Employer-financed nonvested	266,116,000
Total pension benefit obligation	$8,463,676,000
Net assets available for benefits at cost (Market value is $7,651,375,000)	($7,592,215,000)
Unfunded benefit obligations	$ 871,461,000

b. Changes in the Actuarial Assumptions and Methods

For the July 1, 1994 actuarial valuation, the legislative commission on Pensions and Retirement adopted new mortality rates for TRA, updated to the 1983 Group Annuity Mortality Table. Also, the assumption for salary increases for TRA members was changed from a flat 6.5% increase per year to a select and ultimate table. These changes were made to reflect the actual experience of the plan.

With the adoption of the actuarial assumption changes and the new mortality tables, the unfunded actuarial accrued liability decreased by $156,685,000. The mortality assumption changes also necessitated a transfer of $38,607,000 from the TRA Benefit Reserve to the TRA MPRIF Reserve to finance the increased obligation for future retirement benefits. The change in the mortality rate assumption increased TRA's costs because pensioners are living longer than assumed previously. The change in the salary increase assumption, however, offset the additional costs because lower salary increases generally translate into lower benefit liabilities in the future. The $38,607,000 transfer was completed December 1, 1994 and is accrued as a liability "due to" MPRI fund on the balance sheet.

c. Changes in Benefit Provisions

The 1994 legislative session passed a permanent benefit increase for TRA members retiring after May 15, 1994. The formula multiplier factor increased by .13% for each of the factors used in both the step and level benefit formula percentages used at retirement. The benefit was funded solely through a 2% increase in the employee contributions rate. For coordinated members, the employee rate rose from 4.5% to 6.5%. For basic members, the rate rose from 8.5% to 10.5%. The new rates were effective July 1, 1994. Employer rates remained unchanged.

The benefit increase had the effect of increasing the unfunded actuarial accrued liability by $376,392,000. The employee contribution rate increase is expected to completely cover the increase in normal cost and unfunded accrued liability generated by this benefit increase. The July 1, 2020 target date for eliminating the unfunded actuarial liability remains unchanged.

4. Contributions Required and Contributions Made

TRA's funding policy provides for periodic contributions at actuarially determined rates. 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 by using the entry age normal cost actuarial funding method described in Note 1e. TRA also uses the level percentage of payroll method to amortize the unfunded liability over a closed period ending June 30, 2020. The current payroll contribution rates are stated in Note 1d.

Contributions totaling $272,657,832 ($171,854,594 employer and $100,803,238 employee) were made in accordance with the actuarially determined contribution requirements. On page 53, these contributions are insufficient to meet the required normal costs, amortization of the unfunded liability and administrative costs. The deficiency, as a percent of covered payroll is .07%. This translates into a contribution deficit of about $1.5 million for fiscal year 1994. The Legislative Commission on Pensions and Retirement (LCPR) annually reviews the adequacy of TRA's statutory contributions. However, continued deficiencies may jeopardize TRA's ability to meet the full funding date of June 30, 2020.

5. Benefit Adjustments to Pre-1973 Retirees

Annual lump sum payments to persons receiving benefits under pre-July 1973 laws are paid out of the assets of TRA. During the fiscal year ended June 30, 1994, lump sum payments totaling $2,905,384 were made to 2,134 benefit recipients. Coordinated members received $29.80 for each year of allowable service with Basic members receiving the greater of: (a) $29.80 for each year of allowable service or (b) an annual benefit of $476.93 for each year of allowable service minus the Base (1989) amount of any Minnesota public employee pension plan benefits and Social Security benefits.

6. Historical Trend Information

Historical trend information designed to provide information about the TRA's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 26 and 54.

7. Other Reserves

a. Accumulated member contributions, without interest, less the amounts refunded, are recorded in the member reserve. Accumulated member contributions for current retirees are transferred to the Minnesota Post Retirement Investment Fund (MPRIF) upon retirement.

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

8. Repayment of Previous Refunds

On May 1, 1994, the interest rate to repay a refund of contributions increased from 6% to 8.5%. Prior to the rate change, approximately 3,700 active and inactive members repaid their refunds. By repaying their refunds, these members reestablished previously forfeited service credit. As explained on pages 47-48, the repayments had a negative, unquantified actuarial effect on the fund for the July 1, 1994 actuarial valuation. The interest paid by members primarily accounts for the large increase in *other* income recognized on the Statement of Revenues, Expenses, and Change in Fund Balances for fiscal year 1994.

9. Operating Lease

TRA is committed under a lease agreement for rental of office and storage space through March 31, 1996. For accounting purposes, this lease is considered an operating lease. Lease expenditures for fiscal year 1994 totaled $193,670. Future minimum rental payments required as of June 30, 1994 are as follows:

Fiscal Year Ended June 30	Amount
1995	$199,740
1996	173,087
1997	—
1998	—
1999	—
Total	$372,827

10. South Africa Divestment Plan

On October 27, 1993, the Minnesota State Board of Investment (SBI) rescinded all prior resolutions concerning South Africa. SBI's *divestment through attrition* policy, initiated in 1986, restricted active equity portfolio managers from purchasing the stock of companies with direct investments in South Africa.

The performance impact of SBI's restriction policy is difficult to determine for several reasons. First, the Board implemented its policy in four phases and not all companies were affected during all stages. Second, an active manager may or may not have chosen to hold one or more of the securities if there had been no restrictions. Third, the policy was not an explicit prohibition, since an active manager could have chosen to hold or to purchase a restricted stock if it believed that such "nonpurchase action" would have placed SBI members in jeopardy of violating their fiduciary responsibility.

Analysis of Funding Progress
(Dollars in Thousands)

Year Ended June 30	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4) ÷ (5)
1985	$2,542,751	$3,641,856	69.8%	$1,072,105	$1,310,748	81.8%
1986	3,000,863	4,054,734	74.0%	1,053,871	1,406,797	74.9%
1987	3,525,684	4,464,496	80.0%	939,812	1,503,546	62.5%
1988	3,905,264	4,849,460	80.5%	944,196	1,594,391	59.2%
1989	4,467,274	5,549,423	80.5%	1,082,149	1,749,856	61.8%
1990	5,045,508	6,029,037	83.7%	983,529	1,785,459	55.1%
1991	5,513,281	6,536,973	84.3%	1,023,692	1,874,365	54.6%
1992	6,240,491	6,996,540	89.2%	756,049	1,934,014	39.1%
1993	6,923,414	7,607,562	91.0%	684,148	2,025,000	33.8%
1994	7,592,215	8,463,676	89.7%	871,461	2,104,578	41.4%

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of TRF's funding status on an ongoing basis. Analysis of this percentage (column 3) over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement fund. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll (column 6) approximately adjusts for the effects of inflation and aids analysis of TRF's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement fund.

*At cost (see Note 3).

Ten Year Summary of Revenue

By Source

Year Ended June 30	Member Contributions	Employer Contributions	Net Investment Income	Other	Total
1985	$ 64,224,898	$125,067,070	$232,724,757	$ 580,674	$422,597,399
1986	68,203,337	134,298,853	368,917,920	596,378	572,016,488
1987	72,867,303	142,069,970	445,013,195	807,038	660,757,506
1988	75,488,713	148,607,095	314,711,337	600,954	539,408,099
1989	81,728,962	160,288,707	490,671,524	915,744	733,604,937
1990	84,542,414	166,098,804	520,610,905	926,288	772,178,411
1991	89,313,081	159,439,219	430,877,172	1,964,986	681,594,458
1992	91,505,605	162,369,508	712,965,243	1,942,689	968,783,045
1993	94,709,399	168,070,511	688,071,570	2,347,431	953,198,911
1994	100,803,239	171,854,594	710,189,034	8,752,052	991,598,919

Ten Year Summary of Expenditures

By Type

Ended June 30	Retirement Benefits	Survivor Benefits	Disability Benefits	Refunds	Administrative Expenses	Other	Total
1985	$ 78,843,390	$1,414,162	$1,709,737	$9,774,883	$1,900,528	$2,452,049	$ 96,094,749
1986	98,349,930	1,667,494	1,830,285	7,408,533	1,968,114	2,680,416	113,904,772
1987	121,444,548	1,894,172	1,813,239	6,856,989	2,073,334	2,853,548	136,935,830
1988	144,210,986	2,079,182	1,953,743	5,627,523	2,183,506	2,773,766	158,828,706
1989	156,417,938	2,267,668	2,164,380	5,347,598	2,493,783	2,903,073	171,594,440
1990	174,693,669	2,641,650	2,456,735	6,445,983	2,631,691	5,074,347	193,944,075
1991	194,589,338	2,921,349	2,904,585	5,554,181	2,790,089	5,061,999	213,821,541
1992	220,352,768	3,314,799	3,399,088	5,494,749	2,895,659	6,116,742	241,573,805
1993	249,018,533	3,719,037	3,892,680	4,749,970	3,124,192	5,770,675	270,275,087
1994	300,482,282	4,341,112	4,213,376	3,583,342	3,338,007	6,838,750	322,796,869

Comparative Administrative Expenses
For the Years Ended June 30, 1994 and 1993

	1994	1993
Personnel Services:		
Salaries	$1,851,380	$1,686,594
Employer Contributions to Retirement	145,367	134,003
Employer Contributions to Social Security	136,386	124,945
Insurance Contributions	178,236	153,302
Employee Training	12,244	2,896
Workers Compensation	1,154	1,687
Subtotal	2,324,767	2,103,427
Professional Services:		
Actuarial	93,072	79,589
Audit	34,003	35,114
Legal	9,986	9,473
Medical	26,790	29,164
Computer	43,592	68,911
Management Consultant	3,350	0
Subtotal	210,793	222,251
Office Administration:		
Copying and Printing	109,545	113,329
Department Head Expenses	1,324	1,496
Depreciation of Equipment	63,010	78,817
Dues and Subscriptions	4,229	4,430
Equipment Rental	1,586	0
Insurance	2,922	0
Office Space	193,669	176,287
Office Supplies	39,903	43,454
Postage	181,805	220,391
Repairs and Maintennace	44,409	37,432
State Indirect Costs	39,507	22,109
Telephone	36,934	24,367
Travel - Employee	24,934	25,647
Miscellaneous	43,504	32,969
Subtotal	787,281	780,728
Board of Trustees:		
Substitute Teachers	1,510	2,746
Travel	13,657	15,040
Subtotal	15,167	17,786
Total Administrative Expenses	$3,338,008	$3,124,192

Investments Section

Investment Summary

The assets of the Teachers Retirement Association are invested under the direction and authority of the State Board of Investment (SBI). The investment portfolio for the active members of the Teachers Retirement Fund has a market value of approximately $4.18 billion. In addition, TRA's share of the assets of the Minnesota Post Retirement Investment Fund (MPRIF) from which retiree benefits are paid, is approximately $3.5 billion. The SBI is comprised of Governor Arne H. Carlson, State Auditor Mark B. Dayton, State Treasurer Michael A. McGrath, Secretary of State Joan Anderson Growe, and Attorney General Hubert H. Humphrey III. Howard Bicker serves as Executive Director of the Board.

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

- The Board appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and St. Paul corporate investment community.
- The Commissioner of Finance, the Executive Director of the Teachers Retirement Association and the Executive Directors of the other two statewide retirement systems are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

The Council has formed three committees organized around broad investment subjects relevant to the Board's decision-making: Asset Allocation, Stock and Bond Managers and Alternative Investments.

All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to the Board for action.

The members of the Council: (as of June 30, 1994)

Gary Austin	Executive Director, Teachers Retirement Association
David Bergstrom	Executive Director, Minnesota State Retirement System
John E. Bohan	Vice President, Pension Investments, Grand Metropolitan-Pillsbury
Kenneth F. Gudorf	President, Gage Investments
John Gunyou	Commissioner, Minnesota Department of Finance
Laurie Fiori Hacking	Executive Director, Public Employees Retirement Association
Keith Johnson	Governor's Appointee, Retiree Representative
P. Jay Kiedrowski	Executive Vice President, Norwest Bank Minnesota
Han Chin Liu	Governor's Appointee, Active Employee Representative
Malcolm W. McDonald**	Director and Corporate Secretary, Space Center, Inc.
Gary R. Norstrem	Sr. Vice President, Institutional Marketing, Piper Capital Management
Barbara Schnoor	Governor's Appointee, Active Employee Representative
Deborah Veverka	Vice President, Pension Investments, Honeywell, Inc.
Jan Yeomans*	Director, Benefit Funds and Financial Markets, 3M Co.

There are three vacancies among the Board Appointees to the Council that will be filled by early calendar year, 1995.
*Chair
**Vice-Chair

Richards & Tierney, Inc. of Chicago are consultants to the SBI. Pension Consulting Alliance, Studio City, California serves as a consultant for international investments. All investments made by the State Board of Investment (SBI) are governed by the prudent person rule and other standards codified in Minnesota Statutes Chapter 11A and 356A.

Basic Retirement Fund

Basic Fund Investment Objectives

The State Board of Investment (SBI) has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement.

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

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

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

Basic Fund Asset Allocation

Based on the Basic Funds' investment objectives and the expected long run performance of the capital markets, the Board has adopted an asset allocation policy for the Basic Funds. The following table shows the actual asset mix of the Basic Fund at the end of fiscal year 1994:

Asset Mix Basic Fund
June 30, 1994

	Actual Asset Mix	Policy Target
Domestic Stocks	49.1%	50.0%
International Stocks	10.6%	10.0%
Domestic Bonds	28.1%	24.0%
Alternative Assets	10.4%	15.0%
Unallocated Cash	1.8%	1.0%
Total	100.0%	100.0%

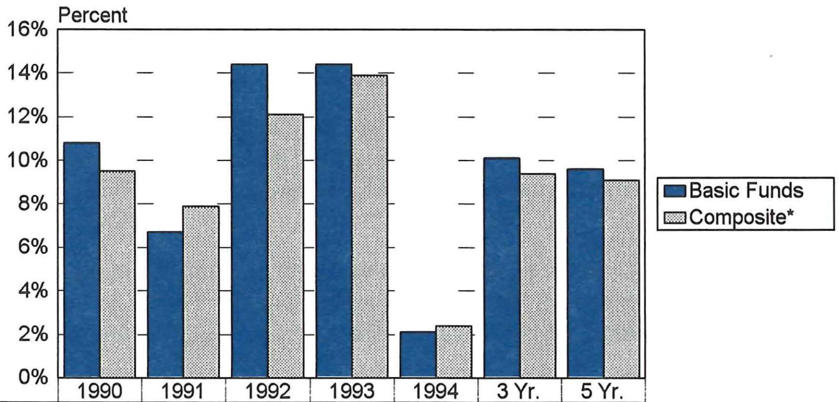
The SBI invests the majority of the Basic Funds' assets in common stocks (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous long-term risk-return characteristics of common stocks. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of alternative investments is similar. The SBI recognizes that this sizable policy allocation to common stock and venture capital likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long-run benefits of this policy are expected to compensate for this volatility.

The SBI includes other asset classes in the Basic Funds both to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility. Alternative investments such as real estate and venture capital investments provide an inflation hedge that other financial assets cannot offer. The bond component of the Basic Funds acts as a hedge against a deflationary economic environment.

Basic Retirement Fund Results

The pension contributions of active TRA members are invested through the Basic Retirement Funds administered by SBI. The Basic Retirement Funds produced a total rate of return for fiscal year 1994 of 2.1%. Over the last five years, the Basic Funds have generated an annualized return of 9.6%. The current market value of the total Basic Fund is about $9.7 billion. The TRA share of the fund is approximately 43% or $4.18 billion. Performance of specific money managers is presented later in this investment section.

Actual returns relative to the total fund composite index over the last five years are presented in the following graph:



	1990	1991	1992	1993	1994	3 Yr.	5 Yr.
Basic Funds	10.8%	6.7%	14.4%	14.4%	2.1%	10.1%	9.6%
Composite*	9.5%	7.9%	12.1%	13.9%	2.4%	9.4%	9.1%

* Adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and American Home Product restriction through 10/31/93.

Minnesota Post Retirement Investment Fund

When a member retires, the Teachers Retirement Association transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (MPRIF). The assets of MPRIF finance monthly annuity payments paid to retirees. On June 30, 1994, MPRIF had a market value of $8.8 billion; TRA's retirees' portion of this value is approximately $3.5 billion or 39.8%. The MPRIF (Post Fund) generated a return of 1.6% for fiscal year 1994.

MPRIF Investment Objectives

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

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

MPRIF Asset Allocation

The SBI revised its asset allocation strategy for the Post Fund in fiscal year 1993 in order to reflect the goals associated with the new post retirement benefit increase formula (described later). Throughout fiscal year 1993, the actual asset mix of the Post Fund moved gradually toward a 50% allocation to common stocks. During fiscal year 1994, the Board added allocations to international stocks and alternative investments. The current long-term asset allocation policy and actual asset mix of the Post Fund at the end of fiscal year 1994 is presented in the following table:

	Actual Assets	Policy Target
Domestic Stocks	50.3%	50.0%
Int'l. Stocks	11.2	10.0
Domestic Bonds	36.7	32.0
Alternative Assets	*	5.0
Unallocated Cash	1.8	3.0
Total	100.0%	100.0%

* less than 0.1%

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

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

The SBI includes other asset classes in the Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

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

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

MPRIF Investment Management

Effective July 1, 1993, assets of the Post Fund were transferred to external managers. As a result, the Basic and Post Funds now share the same domestic stock, domestic bond and international stock managers. The performance of the stock and bond segments of both the Basic and Post Fund will, therefore, be the same effective for fiscal year 1994.

MPRIF Investment Performance

Total Fund Performance As stated earlier, the Post Fund is expected to exceed the return of a composite of market indices over a five-year period. Since the asset allocation changed dramatically during fiscal year 1993, performance relative to this standard is available only for fiscal year 1994. For the year, the Post Fund matched its composite index with a return of 1.6%.

MPRIF Benefit Increase Formula

The retirement benefit increase formula of the Post Fund was changed through legislation enacted by the 1992 Legislature. The new formula was effective beginning in fiscal year 1993 and is based on a combination of two components:

- ***Inflation Component.*** Each year, retirees will receive an inflation-based adjustment equal to 100% of inflation, up to a maximum of 3.5% specified in statute. The inflation component will be granted regardless of investment performance. The limit, or cap, will maintain the actuarial soundness of the entire plan and is the difference between the 8.5% return assumption for the Basic Funds, and the 5.0% return assumption for the Post Fund.
- ***Investment Component.*** Each year, retirees will also receive an investment-based adjustment, *provided* net investment gains are above the amount needed to finance the Post Fund's actuarial assumption of 5% and the inflation adjustment. Investment gains and losses will be spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an investment-based adjustment is granted.

Because the investment-based component of the new formula will not be implemented fully during the initial years, a temporary transition adjustment may be paid during a phase-in period. The transition adjustment provided in law is:

FY 1993	1.00%
FY 1994	0.75%
FY 1995	0.50%
FY 1996	0.25%

By statute, retirees will receive either the investment-based component or the transition adjustment, whichever is higher, for the respective year.

The new formula has two primary advantages:

- It provides benefit increases that are more sensitive to inflation than those granted under the old formula.
- It allows the Post Fund to maximize the long-term earning power of its assets. Without the need to generate the higher levels of current income required under the old formula, the Post Fund can increase its stock exposure and thereby enhance its prospects for higher total rates of return over the long run.

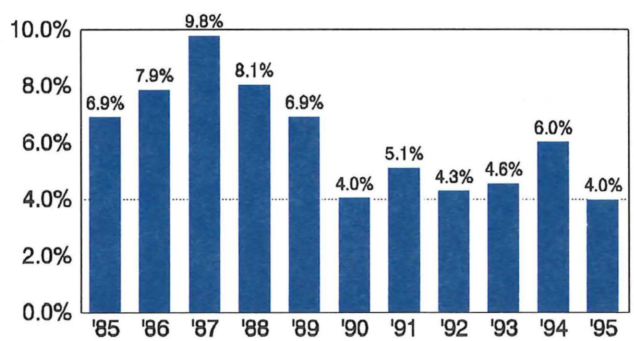
The Post Fund will provide a benefit increase of 3.985% for fiscal year 1994 payable January 1, 1995. As noted earlier, this increase is comprised of two components:

- *Inflation adjustment* of 2.4% which is equal to 100% of the reported Consumer Price Index for wage earners (CPI-W) increase for the twelve months ending June 30, 1994. (This is the same inflation index used to calculate increases in Social Security payments.)
- *Investment adjustment* of 1.585%. This represents one-fifth of the market value in excess of the amount needed to cover the actuarial assumed rate of return (5.0%) and the inflation adjustment (2.4%).

Benefit increases granted for the past ten years are shown in the graph below. Prior to fiscal year 1993, the benefit increase formula was dependent on the level of excess realized income generated by the Post Fund. The 3.985% increase granted for fiscal year 1994 represents the second post retirement adjustment provided under the new benefit increase formula described above.

Recent Post Retirement Benefit Increases

(Rounded to the nearest tenth of a percent.)



The Basic Retirement Fund and the Minnesota Post Retirement Investment Fund (MPRIF) share many of the same stock and bond managers. This is accomplished by grouping managers together, by asset class, into several Investment Pools. The individual funds participate in the Investment Pools by purchasing *units* which function much like shares of a mutual fund.

This investment management structure allows the State Board of Investment (SBI) to gain greater operating efficiency within asset classes and to keep money management costs as low as possible for all participants.

Stock and Bond Money Managers Retained by the SBI

Domestic Stocks

The stock manager performance for FY 1994 was as follows:

Active Managers	Total Portfolio Return	Benchmark Return
Alliance Capital	0.5%	1.5%
Brinson Partners	4.2	1.4
Forstmann Leff	0.9	(1.6)
Franklin Portfolio	0.2	1.6
GeoCapital	4.6	3.5
Investment Advisors	2.6	3.3
IDS Advisory	3.2	2.8
Independence Associates	2.6	1.1
Jundt Associates	(5.7)	1.6
Lincoln Capital	1.3	0.6
Lynch & Mayer	(2.7)	3.0
Oppenheimer	2.9	1.9
Waddell & Reed	2.2	5.9
Weiss Peck & Greet	(9.0)	(1.2)
Passive Manger		
Wilshire Associates	0.8	1.1
Aggregate Domestic Stock Pool*	0.7%	—
Stock Segment Performance Standards		
Wilshire 5000 Adjusted	0.9%	—
Inflation	2.5%	—

* includes emerging manager (see below)

The annualized return for the stock portfolio for the last 5 years is 9.6%.

The Emerging Managers Program

The Emerging Managers Program is designed to add performance value to the stock portfolio by investing funds with smaller firms which have the potential for strong returns during the initial years of their existence.

	Total Portfolio Return	Benchmark Return
CIC Asset Management	(0.1)%	0.5%
Cohen Davis & Marks	2.0	0.5
Compass Capital	(1.7)	(0.5)
First Capital Advisors	(0.5)	0.5
Kennedy Capital	(3.1)	(3.9)
New Amsterdam	(4.6)	(0.2)
Valenzuela Capital	1.3	0.5
Wilke/Thompson	(6.6)	(3.5)
Winslow Capital	(2.8)	(1.0)
Zevenbergen Capital	(5.1)	(1.0)

Note: These managers were funded on April 1, 1994, therefore the return figures include data for only one quarter.

Stock and Bond Money Managers Retained by the SBI

International Stocks

A summary of international stock manager performance for FY 1994 was as follows:

	Total Portfolio Return	Benchmark Return
Active Managers		
Baring International	21.1%	17.0%
Brinson Partners	10.4	17.0
Marathon Asset Mgmt.	15.4*	6.4*
Rowe Price-Fleming	5.7*	6.4*
Scudder, Stevens & Clark	3.1*	6.4*
Templeton Investment Counsel	3.2*	6.4*
Passive Manager		
State Street Global Advisors	17.7	17.0
Aggregate International Pool	17.3	—
Performance Standard		
EAFE**	17.0	—

* Manager retained on November 1, 1993. Actual and benchmark returns include data since retention date, which is less than the full fiscal year.

** Morgan Stanley Capital International Index of Europe, Australia, and Far East including dividends and net taxes.

The annualized return for the international portfolio since its October 1, 1992 inception is 19.5%.

Domestic Fixed Income

A summary of bond manager performance for FY 1994 was as follows:

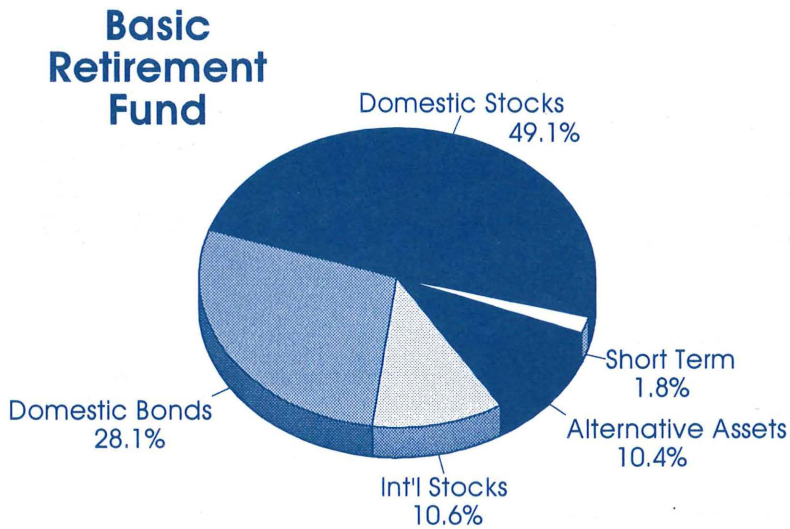
	Total Portfolio Return	Benchmark Return
Active Managers		
BEA Associates	(1.2%)	(1.2%)
Investment Advisors	(2.2)	(1.2)
IDS Advisory	(1.2)	(1.3)
Miller, Anderson & Sherrerd	(1.7)	(1.2)
Standish, Ayer & Wood	(1.5)	(1.2)
TCW	(4.6)	(0.9)
Western Asset Management	(1.2)	(1.2)
Semi-Passive Managers		
Fidelity Management	(0.1)	(1.2)
Goldman Sachs	(0.4)	(1.2)
Lincoln Capital	(1.1)	(1.2)
Aggregate Bond Pool	(1.1%)	—
Bond Segment Performance Standards		
Salomon Broad Investment Grade Bond Index	(1.2%)	—
Inflation	2.5%	—

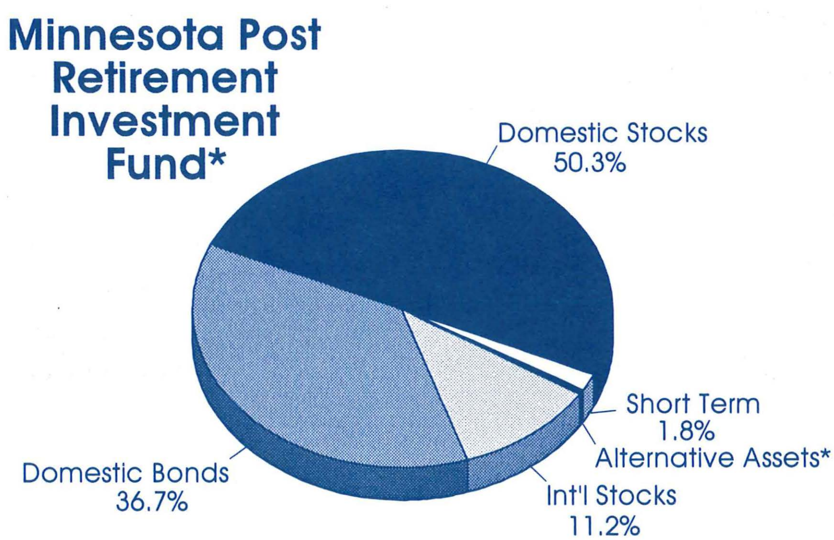
The annualized return for the bond portfolio for the last 5 years averaged 8.9%.

Additional Information: Further information concerning the Basic Retirement Funds and the Minnesota Post Retirement Investment Fund is available, upon request, from the Teachers Retirement Association.

Portfolio Distribution
Teachers Retirement Fund

June 30, 1994





* less than 0.1%

TRA Basic Fund
Comparative Statement of Earnings*
For the Years Ended June 30, 1994 and 1993

Unaudited

	1994	1993
Investment Earnings:		
Interest on Cash Equivalent Investments	**$ 1,681,806**	$ 2,020,018
Managed Pooled Accounts	**298,673,802**	328,633,957
Net Gain on Sales of Pools	**93,976,597**	121,440,118
Earnings from Investments	**$394,332,205**	$452,094,093
Miscellaneous Interest Income:		
Miscellaneous Interest Income	**61,502**	1,030,572
Total Earnings and Interest Income	**$394,393,707**	$453,124,665
Less Investment Management Fees:		
Investment Management Fees	**(6,224,373)**	(5,579,205)
Total Net Investment Income	**$388,169,334**	$447,545,460
Less Transfers to MPRIF	**(614,378)**	(191,470)
Undistributed Excess Earnings	**(2,261,297)**	2,957,916
Total Income Available for Distribution	**$385,293,659**	$450,311,906
Distribution:		
Teachers' Deposits	**$240,583,748**	$275,202,162
Employer Contributions	**144,313,625**	177,411,772
Excess Earnings Reserve	**396,286**	(2,302,028)
Total Distribution	**$385,293,659**	$450,311,906

*Basic TRA Fund only. Does not include earnings of TRA's participation in the Minnesota Post Retirement Investment Fund (MPRIF).

Per Minnesota Statutes, section 354.07, subdivision 5, the annual interest rate is 10% for 1994 and 12.25% for 1993.

Summary of Investments*
As of June 30, 1994

	Book		Market	
	Book Value	Total Book Value	Market Value	Total Market Value
Fixed Income Investments:				
Fixed Income Pools	$1,231,932,217		$1,179,858,148	
Total Fixed Income Investments		$1,231,932,217		$1,179,858,148
Equity Investments:				
Indexed Equity Pool	$1,075,046,782		$1,060,085,502	
Active Managed Equity Pool	1,012,725,973		1,032,933,814	
International Passive Equity Pool	174,893,796		230,902,025	
International Active Country Pool	70,118,613		78,461,412	
International Active Stock Pool	135,749,674		144,712,947	
Total Equity Investments		$2,468,534,838		$2,547,095,700
Alternative Investments:				
Venture Capital Pool	$ 171,066,480		$ 225,446,233	
Real Estate Fund Pool	208,567,112		188,480,986	
Resource Fund Pool	37,698,370		36,077,595	
Total Alternative Investments		$ 417,331,962		$ 450,004,814
Short Term Investment:				
Short Term Cash Equivalents	$ 3,353,987		$ 3,353,987	
Total Short Term Investments		3,353,987		3,353,987
Total Investments		$4,121,153,004		$4,180,312,649

*Basic TRA Fund only. Does not include investments in the Minnesota Post Retirement Investment Fund.

General Information Regarding Investment of Funds

Investments for the State Teachers Retirement Association are made by the State Investment Board 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 Regular TRA Fund and the Post Retirement Investment Fund. Norwest Bank is the current custodian of short term investments of TRA. Examination and verification of securities held by the custodians is performed periodically by the Minnesota Legislative Auditor.

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Wendell Milliman, F.S.A. (1976)
Stuart A. Robertson, F.S.A.
Chairman Emeritus

December 6, 1994

Legislative Commission on
Pensions and Retirement
55 State Office Building
St. Paul, Minnesota 55155

RE: **Teachers Retirement Association Fund**

Commission Members:

Pursuant to the terms of our Actuarial Services Contract, we have performed an actuarial valuation of the Fund as of July 1, 1994.

The results of our calculations are set forth in the following report, as are the actuarial assumptions upon which our calculations have been made. We have relied on the basic employee data and asset figures as submitted by the Teachers Retirement Association.

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 has been prepared in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work, adopted by the Commission on July 8, 1992.

Respectfully submitted,

Thomas K. Custis

Thomas K. Custis, F.S.A., M.A.A.A.
Consulting Actuary

William V. Hogan

William V. Hogan, F.S.A., M.A.A.A.
Consulting Actuary

TKC/WVH/bh

Albany • Atlanta • Boston • Chicago • Cincinnati • Dallas • Denver • Hartford • Houston
Indianapolis • Irvine • Los Angeles • Milwaukee • Minneapolis • New York • Omaha • Philadelphia • Phoenix
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Philippines • Spain • Sweden • United Kingdom • United States • West Indies

Summary of Actuarial Assumptions and Methods

Age	Salary Increases
20	7.25
25	7.10
30	7.00
35	7.00
40	6.70
45	6.05
50	5.60
55	5.35
60	5.25

1. Interest:

Pre-Retirement -- 8.5% per annum

Post-Retirement -- 5.0% per annum

2. Salary Increases:

Reported salary for prior fiscal year, with new hires annualized, increased according to the table on the right to current fiscal year and annually for each future year.

3. Mortality:

Pre-Retirement:
Male - 1983 Group Annuity Mortality Table for males set back eight years.
Female - 1983 Group Annuity Mortality Table for females set back four years.

Post-Retirement:
Male - Same as above except set back four years.
Female - Same as above except set back two years.

Post-Disability:
Male - 1977 Railroad Retirement Board Mortality for Disabled Annuitants.
Female - 1977 Railroad Retirement Board Mortality for Disabled Annuitants.

4. Retirement Age:

Age 62, or if over age 62, one year from valuation date. In addition, 45% of Basic Members and 30% of Coordinated Members are assumed to retire each year that they are eligible for the Rule of 90.

5. Separation From Service:

Select and ultimate rates were based on plan experience as of June 30, 1989. Ultimate rates after the third year are illustrated in the Annual Separation table of sample values below. Select rates for the first three years are as follows:

	First Year	Second Year	Third Year
Less than 35	.3	.15	.1
35-44	.25	.125	.08
45-60	.3	.15	.1

Annual Separation Rate Per 10,000 Employees
(Sample Values)

	Pre-Retirement Death		Withdrawal		Disability	
Age	Male	Female	Male	Female	Male	Female
20	3	1	600	600	4	4
30	4	3	565	565	6	6
40	7	5	210	210	8	8
50	15	11	70	70	17	17
60	48	28	0	0	63	63

6. **Disability:**	Graduated rates illustrated in table of sample values on previous page.
7. **Expenses:**	Prior year expenses expressed as percentage of prior year payroll.
8. **Return of Contributions:**	All employees withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.
9. **Family Composition:**	85% of male members and 65% of female members are assumed to be married. Female is three years younger than male. Assume members have no children.
10. **Social Security:**	N/A
11. **Benefit Increases After Retirement:**	Payment of earnings on retired reserves in excess of 5% accounted for by 5% post-retirement assumptions.
11. **Special Consideration:**	Married Members assumed to elect subsidized joint and survivor form of annuity as follows: Males -- 15% elect 50% J&S option 50% elect 100% J&S option Females -- 10% elect 50% J&S option 10% elect 100% J&S option
12. **Actuarial Cost Method:**	Entry Age Normal Actuarial Cost Method with normal costs expressed as a level percentage of earnings. Under this method, Actuarial Gains (Losses) reduce (increase) the Unfunded Actuarial Accrued Liability.
13. **Asset Valuation Method:**	Cost Value plus one-third Unrealized Gains or Losses.
14. **Payment on the Unfunded Actuarial Accrued Liability:**	A level percentage of payroll each year to the statutory amortization date assuming payroll increases of 5% per annum.

Valuation Report Highlights (Dollars in Thousands)

	1994	1993
A. Contributions		
1. Statutory Contributions -- Chapter 354 % of Payroll	**14.66%**	12.68%
2. Required Contributions -- Chapter 356 % of Payroll	**14.73%**	12.75%
3. Sufficiency (Deficiency) (A.1-A.2)	**-0.07%**	-0.07%
B. Funding Ratios		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	**$7,611,936**	$ 7,045,937
b. Current Benefit Obligations (Table 2)	**$8,463,676**	$ 7,607,562
c. Funding Ratio (a/b)	**89.94%**	92.62%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	**$7,611,936**	$ 7,045,937
b. Actuarial Accrued Liability (Table 3)	**$9,115,266**	$ 8,266,059
c. Funding Ratio (a/b)	**83.51%**	85.24%
3. Projected Benefit Funding Ratio (Table 2)		
a. Current and Expected Future Assets	**$11,407,437**	$10,349,382
b. Current and Expected Future Benefit Obligations	**$11,434,495**	$10,380,086
c. Funding Ratio (a/b)	**99.76%**	99.70%
C. Plan Participants		
1. Active Members		
a. Number	**66,514**	65,268
b. Projected Annual Earnings	**$2,235,636**	$ 2,156,739
c. Average Annual Earnings (Actual $)	**$33,612**	$ 33,044
d. Average Age	**42.80**	42.90
e. Average Service	**12.50**	12.40
2. Others		
a. Service Retirements	**20,563**	19,343
b. Disability Retirements	**345**	354
c. Survivors	**1,229**	1,113
d. Deferred Retirements	**4,499**	4,030
e. Terminated Other Non-vested	**16,147**	15,994
f. Total	**42,783**	40,834

Actuary's Commentary

Purpose

The purpose of this valuation is to determine the financial status of the Plan. In order to achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Minnesota Statutes, Section 356.215.

Report Highlights

The financial status of the Plan can be measured by three different funding ratios:

- The Accrued Benefit Funding Ratio is a measure of current funding status, and when viewed over a period of years, presents a view of the funding progress. It is based upon benefits which have been earned by service to the valuation date. This year's ratio is 89.94%. The corresponding ratio for the prior year was 92.62%.
- The Accrued Liability Funding Ratio is also a measure of funding status and funding progress. It is based on the actuarial cost method that has historically been used by the State. For 1994 the ratio is 83.51%, which is an decrease from the 1993 value of 85.24%.
- The Projected Benefit Funding Ratio is a measure of the adequacy or deficiency in the contribution level. This year's ratio of 99.76% shows that the current statutory contributions are inadequate.

Asset Information (Table 1)

Minnesota Statutes require that the asset value used for actuarial purposes recognize only a third of the unrealized gains and losses. This requirement exists because market values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year.

The calculation of the Actuarial Value of Assets is shown in Table 1 on lines F1 to F6. It combines the cost value of the Assets Available for Benefits and one-third of the difference between the market value and cost value of those assets.

The term *Actuarial Value of Assets* is used to indicate that the value was determined for use in this actuarial valuation. Since Minnesota Statutes refer to this value as *Current Assets*, the latter phrase will be used in the remainder of this report.

This Plan participates in the Minnesota Post Retirement Investment Fund (MPRIF). After the MPRIF liability has been calculated for each participating Plan, the State Board of Investments (SBI), will determine each Plan's portion of the excess earnings for the January benefit increase as well as the Plan's allocated market share of MPRIF.

Actuarial Balance Sheet (Table 2)

An actuarial balance sheet provides a method for evaluating current and future levels of funding.

The Current Benefit Obligation used to measure current funding levels is calculated in accordance with Statement No. 5 of the Governmental Accounting Standards Board (GASB). Those requirements are:

- For Active Members - salary and service are projected to retirement to determine benefits for each member and the ratio of credited service to total service establishes the portion of the projected benefit to be used in calculating the current funding level.
- For Non-active Members - the discounted value of benefits, including augmentation in cases where benefits have not commenced.

GASB Disclosure

The Current Benefit Obligation amounts in Table 2 are required to be disclosed by Statement No. 5 of the Governmental Accounting Standards Board (GASB). However, Statement No. 5 uses the terms *Actuarial Present Value of Credited Projected Benefits* and *Pension Benefit Obligation* rather than *Current Benefit Obligation.*

The July 1, 1994 Pension Benefit Obligation reported in Table 2 is reformatted for GASB reporting purposes in the following table:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$3,717,500,000
Current Employees	
Accumulated employee contributions including allocated investment income	2,172,694,000
Employer-financed vested	2,307,366,000
Employer-financed nonvested	266,116,000
Total Pension Benefit Obligation	$8,463,676,000
Net Assets Available for Benefits at Cost	$7,592,215,000
Total Benefit Obligation Less Assets	$ 871,461,000
Funded Ratio	89.70%

Actuarial Cost Method (Table 3)

The approach used by the State of Minnesota to determine contribution sufficiency is the Entry Age Normal Actuarial Cost Method. The primary characteristic of this method is that it allocates costs as a level percentage of payroll.

A comparison of this actuarial method (Table 3) to the actuarial balance sheet (Table 2) illustrates the two techniques for allocating liabilities of active members to past and future. As noted in the prior section, the balance sheet allocates benefits and the corresponding liabilities, on the basis of service. The method used in Table 3 allocates liabilities so that the cost each year will be a constant percentage of payroll. Both approaches, however, calculate the value of all future benefits the same way (see line F of Table 2 and line A6, column 1, of Table 3).

An Unfunded Actuarial Accrued Liability is computed under the Entry Age Normal Actuarial Cost Method by comparing the liabilities allocated to past service (Actuarial Accrued Liability) to the Current Assets. This amount, line B3, is funded over the remaining years to the amortization date of July 1, 2020, by a series of payments that remain a constant percentage of payroll each year.

The payments will increase 5% each year because that is the assumed rate of increase in payroll. Although the payment schedule will be adequate to amortize the existing unfunded, the lower payments in the earlier years will not be sufficient to cover the interest on the unfunded liability. After a few years the annual payment will cover the interest and also repay a portion of the unfunded.

Sources of Actuarial Gains and Losses (Table 4)

The assumptions used in making the calculations using the Entry Age Normal Actuarial Cost Method are based on long-term expectations. Each year the actual experience will deviate from the long-term expectation. For a detailed analysis of the major components, refer to Table 4. It has come to our attention as we have worked with Minnesota Retirement Funds that a source of gain/loss exists with respect to the repayment of refunds by members. As a result of legislation passed, a larger than normal amount of this activity has occurred during the past year. While not specifically quantified due to our concern about complete data, we believe that this item has had an impact on the overall gain/loss of the fund. The impact is included in the amount shown in line D6 of Table 4.

Contribution Sufficiency (Table 5)

This report determines the adequacy of Statutory Contributions by comparing the Statutory Contributions of the Required Contributions.

The Required Contributions, set forth in Chapter 356, consist of:

- Normal Costs based on the Entry Age Normal Actuarial Cost Method.
- A Supplemental Contribution for amortizing any Unfunded Actuarial Accrued Liability.
- An Allowance for Expenses.

Table 5 shows the Plan has a contribution deficiency since the Statutory Contribution Rate is 14.66% compared to the Required Contribution Rate of 14.73%.

Changes in Actuarial Assumptions

Mortality rates were updated to the 1983 Group Annuity Mortality table, salary increases were changed to an age related table and payroll growth was changed from 6.5% to 5%. These changes were made to reflect experience of the plan. The table below illustrates the impact of these assumption changes on key results:

	Without Assumption Changes	With Assumption Changes
A. Contributions (Table 4)		
1. Statutory Contributions - Chapter 354 % of Payroll	14.66%	14.66%
2. Required Contributions - Chapter 356 % of Payroll	14.84%	14.73%
3. Sufficiency (Deficiency): (A1 - A2)	-0.18%	-0.07%
B. Funding Ratios		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	$7,611,936	$7,611,936
b. Current Benefit Obligations (Table 2)	8,612,477	8,463,676
c. Funding Ratio: (a/b)	88.38%	89.94%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	$7,611,936	$7,611,936
b. Actuarial Accrued Liability (Table 3)	9,271,569	9,115,266
c. Funding Ratio: (a/b)	82.10%	83.51%
3. Projected Benefit Funding Ratio (Table 2)		
a. Current and Expected Future Assets	$11,632,546	$11,407,437
b. Current and Expected Future Benefit Obligations	11,713,754	11,434,495
c. Funding Ratio: (a/b)	99.31%	99.76%

Changes in Plan Provisions

Benefit accrual rates were increased by .13% and member contribution rates were increased by 2% of payroll. The combined change in benefits and assumptions did not result in a change in the amortization date.

Accounting Balance Sheet

Table 1

(Dollars in Thousands)
July 1, 1994

	Market Value	Cost Value
A. Assets		
1. Cash, Equivalents, Short-term Securities	$ 4,730	$ 4,730
2. Investments		
a. Fixed Income	1,179,858	1,231,932
b. Equity	2,997,101	2,885,867
c. Real Estate	0	0
3. Equity in Minnesota Post-Retirement Investment Fund (MPRIF)	3,492,525	3,492,525
4. Other	36,130	36,130
B. Total Assets	$7,710,344	$7,651,184
C. Amounts Currently Payable	$ 58,969	$ 58,969
D. Assets Available for Benefits		
1. Member Reserves	970,813	970,813
2. Employer Reserves	3,188,037	3,128,877
3. MPRIF Reserves	3,492,525	3,492,525
4. Non-MPRIF Reserves	0	0
5. Total Assets Available for Benefits	$7,651,375	$7,592,215
E. Total Amounts Currently Payable and Assets Available for Benefits	$7,710,344	$7,651,184

F. Determination of Actuarial Value of Assets		
1. Cost value of Assets Available for Benefits (D5)		$7,592,215
2. Market Value (D5)	$7,651,375	
3. Cost Value (D5)	7,592,215	
4. Market Over Cost: (F2-F3)	$ 59,160	
5. 1/3 of Market Over Cost: (F4)/3		19,720
6. Actuarial Value of Assets (F1 + F5) (Same as *Current Assets*)		$7,611,935

Actuarial Balance Sheet

Table 2

(Dollars in Thousands)

July 1, 1994

A. Current Assets (Table 1, F6)			$ 7,611,935
B. Expected Future Assets			
1. Present Value of Expected Future Statutory Supplemental Contributions			1,476,273
2. Present Value of Future Normal Costs			2,319,229
3. Total Expected Future Assets			$ 3,795,502
C. Total Current and Expected Future Assets			$11,407,437

D. Current Benefit Obligations	**Non-Vested**	**Vested**	**Total**
1. Benefit Recipients			
a. Retirement Annuities		$3,385,484	$ 3,385,484
b. Disability Benefits		46,053	46,053
c. Surviving Spouse and Child Benefits		128,076	128,076
2. Deferred Retirements with Future Augmentation		143,417	143,417
3. Former Members without Vested Rights		14,470	14,470
4. Active members			
a. Retirment Annuities	11,255	4,318,775	4,330,030
b. Disability Benefits	211,977	0	211,977
c. Survivor's Benefits	42,027	0	42,027
d. Deferred Retirements	857	119,478	120,335
e. Refund Liability Due to Death or Withdrawal	0	41,807	41,807
5. Total Current Benefit Obligations	$266,116	$8,197,560	$ 8,463,676
E. Expected Future Benefit Obligations			2,970,819
F. Total Current and Expected Future Benefit Obligations			$11,434,495
G. Current Unfunded Actuarial Liability (D5-A)			$ 851,741
G. Current and Future Unfunded Actuarial Liability (F-C)			$ 27,058

Determination of Unfunded Actuarial Accrued Liability (UAAL) and Supplemental Contribution Rate — Table 3

(Dollars in Thousands)
July 1, 1994

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
	(1)	(2)	(3)=(1)-(2)
A. Determination of Actuarial Accrued Liability (AAL)			
1. Active			
a. Retirement Annuities	$ 7,043,139	$1,810,809	$5,232,330
b. Disability Benefits	344,425	136,198	208,227
c. Survivor's Benefit	65,280	24,409	40,871
d. Deferred Retirements	182,166	102,529	79,637
e. Refunds Due to Death or Withdrawal	81,984	245,284	(163,300)
f. Total	$ 7,716,994	$2,319,229	$5,397,765
2. Deferred Retirements with Future Augmentation	143,417		143,417
3. Former Members without Vested Rights	14,470		14,470
4. Annuitants in MPRIF	3,492,525		3,492,525
5. Recipients Not in MPRIF	67,089		67,089
6. Total	$11,434,495	$2,319,229	$9,115,266
B. Determination of Unfunded Actuarial Accrued Liability (UAAL)			
1. AAL (A6)			$9,115,266
2. Current Assets (Table 1, F6)			7,611,935
3. UAAL (B1 - B2)			$1,503,331
C. Determination of Supplemental Contribution Rate			
1. Present Value of Future Payrolls through the amortization date of July 1, 2020			$38,048,270
2. Supplemental Contribution Rate (B3/C1)			3.95%

Changes in Unfunded Actuarial Accrued Liability (UAAL)

(Dollars in Thousands) **Table 4**

Year Ending June 30, 1994

A. UAAL at Beginning of Year	$1,220,122
B. Change Due to Interest Requirements and Current Rate of Funding	
1. Normal Cost and Expenses	215,477
2. Contribution	(272,658)
3. Interest on A, B1 and B2	101,280
4. Total (B1 + B2 + B3)	$ 44,099
C. Expected UAAL at End of Year (A + B4)	$1,264,221
D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations from Expected	
1. Salary Increases	($ 168,255)
2. Investment Return	50,479
3. MPRIF Mortality	7,259
4. Mortality of Other Benefit Recipients	(3,843)
5. Repayment of Refunded Contributions	0
6. Other Items	133,763
7. Total	$ 19,403
E. UAAL at End of Year Before Plan Amendments and Changes in Actuarial Assumption (C + D7)	$1,283,624
F. Change in Actuarial Accrued Liability Due to Plan Amendments	376,392
G. Change in Actuarial Accrued Liability Due to Changes in Actuarial Assumptions	(156,685)
H. UAAL at End of Year (E + F + G)	$1,503,331

Determination of Contribution Sufficiency — Table 5

(Dollars in Thousands)

July 1, 1994

	Percent of Payroll	Dollar Amount
A. Statutory Contributions - Chapter 354		
1. Employee Contributions	6.51%	$145,617
2. Employer Contributions	8.15%	182,281
3. Total	14.66%	$327,898
B. Required Contributions - Chapter 356		
1. Normal Cost		
a. Retirement Benefits	8.35%	$186,689
b. Disability Benefits	0.62%	13,757
c. Survivors	0.11%	2,567
d. Deferred Retirement Benefits	0.44%	9,828
e. Refunds Due to Death or Withdrawal	1.11%	24,892
f. Total	10.63%	$237,733
2. Supplemental Contribution Amortization by July 1, 2020 of UAAL	3.95%	88,308
3. Allowance for Expenses	0.15%	3,353
4. Total	14.73%	$329,394
C. Contribution Sufficiency (Deficiency) [A3-B4]	(0.07%)	$ (1,496)

Note: Projected annual payroll for fiscal year beginning on July 1, 1994 is $2,235,636.

Summary of Actuarial and Unfunded Actuarial Liabilities

(Dollars in Thousands)

Valuation as of June 30	Aggregate Actuarial Liabilities	Valuation Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
1985	$4,166,166	$2,585,778	62.1%	$1,580,338	$1,310,748	120.6%
1986	4,681,573	3,104,264	66.3%	1,577,309	1,406,797	112.1%
1987	5,172,415	3,638,835	70.4%	1,533,580	1,503,546	102.0%
1988	5,586,441	3,978,898	71.2%	1,607,543	1,594,391	100.8%
1989	6,249,413	4,567,997	73.1%	1,681,416	1,723,122	97.6%
1990	6,611,074	5,131,999	77.6%	1,479,075	1,785,459	82.8%
1991	7,213,720	5,614,924	77.8%	1,598,796	1,874,365	85.3%
1992	7,662,522	6,324,733	82.5%	1,337,789	1,934,014	69.2%
1993	8,266,059	7,045,937	85.2%	1,220,122	2,024,000	60.3%
1994	9,115,266	7,611,935	83.5%	1,503,331	2,104,578	71.4%

Solvency Test

(Dollars in Thousands)

	Aggregate Accrued Liabilities for:				Portion of Actuarial Accrued Liabilities Covered by Reported Assets		
Valuation as of June 30	(1) Member Contributions	(2) Retirees and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)
1985	$475,439	$1,060,246	$2,630,431	$2,585,778	100%	100%	39.9%
1986	515,553	1,275,542	2,890,478	3,104,264	100%	100%	45.4%
1987	558,562	1,534,789	3,079,055	3,638,835	100%	100%	50.2%
1988	616,436	1,682,034	3,287,971	3,978,898	100%	100%	51.1%
1989	733,650	1,880,080	3,635,683	4,567,997	100%	100%	53.8%
1990	787,514	2,093,209	3,730,351	5,131,999	100%	100%	60.4%
1991	838,160	2,370,851	4,004,709	5,614,924	100%	100%	60.1%
1992	886,618	2,662,744	4,113,160	6,324,733	100%	100%	67.5%
1993	921,143	3,120,037	4,224,879	7,045,937	100%	100%	71.1%
1994	970,813	3,559,614	4,584,839	7,611,935	100%	100%	67.2%

Schedule of Active Member Valuation Data

Year Ended June 30	Active Members	Annual Payroll	Annual Average	% Increase in Average Pay
1985	58,854	$1,310,747,913	$22,271	5.2%
1986	60,149	1,406,795,764	23,389	5.0%
1987	61,283	1,503,701,316	24,537	4.9%
1988	63,326	1,594,391,290	25,178	2.6%
1989	64,796	1,723,121,553	26,593	5.6%
1990	64,324	1,785,459,190	27,757	4.4%
1991	65,093	1,874,364,682	28,795	3.7%
1992	65,557	1,934,014,000	29,501	2.5%
1993	65,268	2,024,000,000	31,017	5.0%
1994	66,514	2,104,578,000	31,641	2.1%

Schedule of Retirants and Beneficiaries

Year Ended June 30	Added During Year	Removed During Year	Number End of Year	Total Annual Benefits	% Increase in Total Annual Benefits	Average Annual Benefits
1985	1,393	427	13,633	$81,967,289	21.2%	$ 6,012
1986	1,356	429	14,560	101,847,710	24.3%	6,995
1987	1,354	455	15,459	125,151,959	22.9%	8,096
1988	889	456	15,892	148,243,910	18.5%	9,328
1989	994	501	16,385	160,849,985	8.5%	9,817
1990	1,262	511	17,136	179,792,053	11.8%	10,492
1991	1,499	541	18,094	200,415,271	11.5%	11,076
1992	1,630	512	19,212	227,066,655	16.7%	11,819
1993	2,166	568	20,810	256,630,249	13.0%	12,332
1994	1,886	559	22,137	309,036,770	20.2%	13,960

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Statistical Section

Summary of Changes in Membership 1993-94

Active and Inactive Members

	Active		Inactive	
	Basic	Coordinated	Basic	Coordinated
Total June 30, 1993	271	64,997	131	20,178
Additions	—	7,111	27	4,439
Deletions				
Service retirement	(100)	(1,304)	(33)	(219)
Death	(2)	(53)	(1)	(39)
Refunds	—	(558)	—	(897)
Writeoffs	—	—	(2)	(1,244)
Terminated (no refund)	(4)	(3,833)	—	—
Returns to active	—	—	—	(1,447)
Other	(3)	(8)	—	8
Total June 30, 1994	**162**	**66,352**	**122**	**20,779**

	Basic System	Coordinated System	Total
Active	162	66,352	66,514
Inactive	122	20,779	20,901
Total	284	87,131	87,415

Annuitants - Regular Fund

	Basic			Coordinated		
	Men	Women	Total	Men	Women	Total
Total annuitants June 30, 1993	2,071	3,282	5,353	5,934	8,036	13,970
Members retired during year	72	65	137	871	658	1,529
Adjustments	—	—	—	—	—	—
Annuities terminated by law	—	—	—	—	—	—
Annuities cancelled	—	—	—	(2)	—	(2)
Annuitants deceased during year	(39)	(95)	(134)	(121)	(189)	(310)
Total annuitants June 30, 1994	2,104	3,252	5,356	6,682	8,505	15,187
Annuitants not receiving warrants June 30, 1994	(2)	(1)	(3)	(4)	(6)	(10)
Total active annuitants June 30, 1994	2,102	3,251	5,353	6,678	8,499	15,177

Beneficiaries of Members Deceased Prior to Retirement

	Joint & Survivor Annuities			Basic Survivor Annuities		
	Men*	Women*	Total	Men	Women	Total
June 30, 1993	227	65	292	5	75	80
Added during year	23	19	42	—	1	1
Terminated during year	(1)	(1)	(2)	—	(2)	(2)
Cancellation	—	(1)	(1)	—	—	—
Total June 30, 1994	**249**	**82**	**331**	**5**	**74**	**79**

* Gender of member

Disabilitants

	Basic System			Coordinated System		
	Men	Women	Total	Men	Women	Total
June 30, 1993	19	12	31	141	156	297
Added during year	1	—	1	30	29	59
Resumed benefits	—	—	—	—	—	—
Died during year	(1)	—	(1)	(8)	(9)	(17)
Transferred to retirement	(1)	(2)	(3)	(10)	(8)	(18)
Resumed employment	—	—	—	(3)	(1)	(4)
Total June 30, 1994	**18**	**10**	**28**	**150**	**167**	**317**
Disabilitants not receiving warrants June 30, 1994	—	—	—	—	—	—
Total Active Disabilitants June 30, 1994	**18**	**10**	**28**	**150**	**167**	**317**

Beneficiaries of Retired Members

	Basic System			Coordinated System		
	Men*	Women*	Total	Men*	Women*	Total
June 30, 1993	144	59	203	417	126	543
Added during year	18	12	30	61	26	87
Annuities terminated by law	(6)	(10)	(16)	(14)	(13)	(27)
Deaths	(2)	(1)	(3)	(5)	(5)	(10)
Total June 30, 1994	**154**	**60**	**214**	**459**	**134**	**593**

* Gender of member

Distribution of Active Members
As of June 30, 1994

Age	< 1	1-4	5-9	10-14	15-19	20-24	25-29	30+	All
				Years of Service					
< 25	1,664	144							1,808
25-29	2,446	4,066	571						7,083
30-34	1,285	2,020	3,196	268					6,769
35-39	1,160	1,737	1,839	2,402	576	1			7,715
40-44	1,408	1,799	2,001	1,597	3,761	902			11,468
45-49	935	1,435	1,684	1,414	2,139	4,750	1,232		13,589
50-54	407	740	852	896	1,023	2,172	3,453	513	10,056
55-59	257	314	364	347	575	964	1,520	1,490	5,831
60-64	147	145	110	127	217	339	434	332	1,851
65+	75	66	28	23	29	25	41	57	344
All	**9,784**	**12,466**	**10,645**	**7,074**	**8,320**	**9,153**	**6,680**	**2,392**	**66,514**

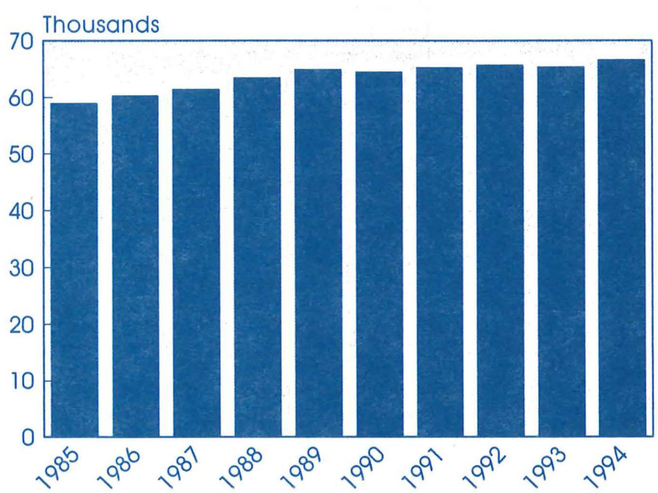
Average Annual Earnings of Active Members
for Fiscal Year Ended June 30, 1994

Age	< 1	1-4	5-9	10-14	15-19	20-24	25-29	30+	All
				Years of Service					
< 25	15,396	23,832							16,068
25-29	12,840	22,541	27,470						19,588
30-34	12,902	22,688	29,630	34,461					24,574
35-39	12,201	21,703	30,144	34,233	39,111	29,238			27,488
40-44	11,340	20,339	30,524	36,171	40,446	42,956			31,589
45-49	10,520	18,324	31,241	35,934	40,803	43,739	45,003		36,061
50-54	8,966	15,775	28,111	34,304	40,605	45,468	46,413	46,811	39,239
55-59	7,382	13,782	24,867	32,301	39,855	45,422	47,021	48,262	40,571
60-64	6,907	8,013	21,480	29,139	39,920	46,176	47,499	49,216	37,553
65+	5,502	5,176	20,969	36,156	41,686	40,733	49,124	50,626	27,035
All	**12,320**	**20,777**	**29,634**	**34,848**	**40,415**	**44,330**	**46,379**	**48,140**	**31,699**

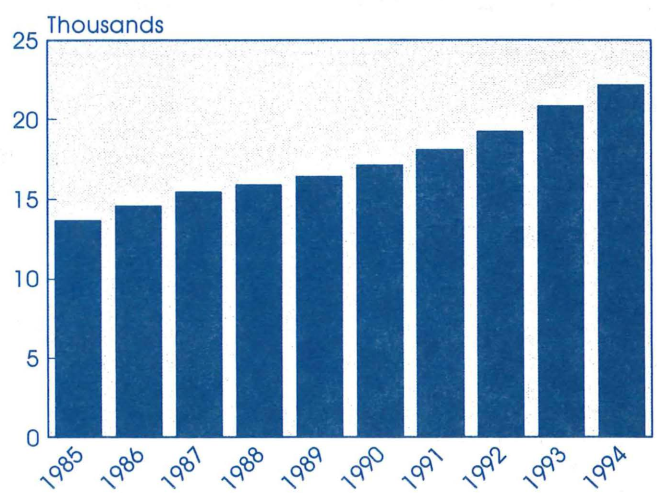
Ten Year Summary of Membership

Year Ended June 30	Active Members	Inactive Members	Benefit Recipients
1985	58,854	15,601	13,633
1986	60,149	14,967	14,560
1987	61,283	15,032	15,459
1988	63,326	15,188	15,892
1989	64,796	16,092	16,385
1990	64,324	17,311	17,136
1991	65,093	18,273	18,094
1992	65,557	19,242	19,212
1993	65,268	20,309	20,810
1994	66,514	20,901	22,137

Active Members
in Thousands



Benefit Recipients
in Thousands



Schedule of Participating Employers

Independent School Districts

Ada #521
Adrian #511
Aitkin #1
Albany #745
Albert Lea #241
Alden #242
Alexandria #206
Annandale #876
Anoka-Hennepin #11
Argyle #437
Arlington #731
Ashby #261
Atwater #341
Audubon #21
Austin #492
Badger #676
Bagley #162
Balaton #411
Barnesville #146
Barnum #91
Barrett #262
Battle Lake #542
Beardsley #57
Becker #726
Belgrade-Elrosa #736
Belle Plaine #716
Bellingham #371
Belview #631
Bemidji #31
Benson #777
Bertha-Hewitt #786
Big Lake #727
Bird Island-Olivia-Lake Lillian #2534
Blackduck #32
Blooming Prairie #756
Bloomington #271
Blue Earth #2148
Borup #522
Braham #314
Brainerd #181
Brandon #207
Breckenridge #846
Brewster #513
Brooklyn Center #286
Brooten #737
Browerville #787
Browns Valley #801
Brownton #421
Buffalo #877
Buffalo Lake-Hector #2159
Burnsville #191
Butterfield #836
Byron #531
Caledonia #299
Cambridge-Isanti #911
Campbell-Tintah #852
Canby #891
Cannon Falls #252
Carlton #93
Cass Lake #115
Centennial #12
Ceylon #451
Chandler-Lake Wilson #918
Chaska #112
Chatfield #227
Chisago Lakes #2144
Chisholm #695
Chokio-Alberta #771
Clara City #126
Clarkfield #892
Clearbrook #161
Cleveland #391
Climax #592
Clinton-Graceville #55
Cloquet #94
Cold Spring #750
Coleraine #316
Columbia Heights #13
Comfrey #81
Cook County #166
Cosmos #461
Cottonwood #412
Cromwell #95
Crookston #593
Crosby-Ironton #182
Cyrus #611
Danube #648
Dassel-Cokato #466
Dawson #378
Deer River #317
Delano #879
Delavan #218
Detroit Lakes #22
Dilworth #147
Dover-Eyota #533
Duluth #709
Eagle Bend #790
East Central #2580
East Grand Forks #595
Echo #893
Eden Prairie #272
Eden Valley #463
Edgerton #581
Edina #273
Elbow Lake #263
Elgin-Millville #806
Elk River #728
Ellendale-Geneva #762
Ellsworth #514
Elmore #219
Ely #696
Emmons #243
Esko #99
Evansville #208
Eveleth-Gilbert #2154
Fairmont #454
Faribault #656
Farmington #192
Fergus Falls #544
Fertile-Beltrami #599
Finlayson #570
Fisher #600
Floodwood #698
Foley #51
Forest Lake #831
Fosston #601
Franklin #650
Frazee #23
Fridley #14
Fulda #505
Gaylord #732
Gibbon-Fairfax-Winthrop #2365
Glencoe #422
Glenville #245
Glyndon-Felton #145
Gonvick #158
Goodhue #253
Goodridge #561
Granada-Huntley-E. Chain #2536
Grand Meadow #495
Grand Rapids #318
Granite Falls #894
Greenbush #678
Grey Eagle #791
Grove City #464
Grygla #447
Kittson Central #2359
Hancock #768
Harmony #228
Hastings #200
Hawley #150
Hayfield #203
Hendricks #402
Henning #545
Herman-Norcross #264
Hermantown #700
Heron Lake-Okabena #330
Hibbing #701
Hill City #2
Hills-Beaver Creek #671
Hinckley #573
Hoffman #265
Holdingford #738
Hopkins-Golden Valley #270
Houston #294
Howard Lake #880
Hutchinson #423
International Falls #361
Inver Grove #199
Isle #473
Ivanhoe #403
Jackson #324
Janesville-Waldorf-Pemberton #2835
Jasper #582
Jordan #717
Karlstad-Strandquist #2358
Kasson-Mantorville #204
Kelliher #36
Kennedy #354
Kensington #209

Kenyon #254
Kerkhoven-Murdock-Sunburg #775
Kimball #739
Kingsland #2137
La Crescent-Hokah #300
Lake Benton #404
Lake City #813
Lake Crystal-Wellcome Memorial #2071
Lake of the Woods #390
Lake Park #24
Lake Superior #381
Lakefield #325
Lakeville #194
Lamberton #633
Lancaster #356
Lanesboro #229
Laporte #306
Le Center #392
Le Roy #499
Lester Prairie #424
Le Sueur-Henderson #2397
Lewiston #857
Litchfield #465
Little Falls #482
Littlefork-Big Falls #362
Long Prairie #792
Luverne #670
Lyle #497
Lynd #415
Mabel-Canton #238
Madelia #837
Madison-Marietta-Nassau #2153
Magnolia #669
Mahnomen #432
Mahtomedi #832
Mankato #77
Maple Lake #881
Maple River #2135
Marshall #413
Martin Co. W #2448
Maynard #127
McGregor #4
Medford #763
Melrose #740
Menahga #821
Mentor #604
Mesabi East #2711
Middle River #440
Milaca #912
Milan #128
Milroy # 635
Minneota #414
Minnetonka #276
Minnewaska #2149
Montevideo #129
Montgomery #394
Monticello #882
Moorhead #152
Moose Lake #97
Mora #332
Morgan #636
Morris #769
Morton #652
Motley #483
Mounds View #621
Mountain Iron-Buhl #712
Mountain Lake #173
Nashwauk-Keewatin #319
Nett Lake #707
Nevis #308
New London-Spicer #345
New Prague #721
New Richland #827
New Ulm #88
New York Mills #553
Newfolden #441
Nicollet #507
Norman Co. E. #523
Halstrum-Hendrum #2527
North Branch #138
North St. Paul-Maplewood #622
Northfield #659
Norwood #108
Ogilvie #333
Oklee #627
Onamia #480
Orono #278
Ortonville #62
Osakis #213
Oslo #442
Osseo #279
Owatonna #761
Park Rapids #309
Parkers Prairie #547
Paynesville #741
Pelican Rapids #548
Pequot Lakes #186
Perham #549
Pierz #484
Pillager #116
Pine City #578
Pine Island #255
Pine Point #3333
Pine River-Backus #2174
Pipestone #583
Plainview #810
Plummer #628
Preston-Fountain #233
Princeton #477
Prinsburg #815
Prior Lake #719
Proctor #704
Randolph #195
Raymond #346
Red Lake #38
Red Lake Falls #630
Red Wing #256
Redwood Falls #637
Remer #118
Renville #654
Richfield #280
Robbinsdale #281
Rochester #535
Rockford #883
Roseau #682
Rosemount-Apple Valley-Eagan #196
Roseville #623
Rothsay #850
Round Lake #516
Royalton #485
Rush City #139
Rushford-Peterson #239
Russell #418
Ruthton #584
Sacred Heart #655
St. Anthony-New Brighton #282
St. Charles #858
St. Clair #75
St. Cloud #742
St. Francis #15
St. James #840
St. Louis County #2142
St. Louis Park #283
St. Michael-Albertville #885
St. Peter #508
Sanborn #638
Sartell #748
Sauk Centre #743
Sauk Rapids #47
Sebeka #820
Shakopee #720
Silver Lake #425
Sioux Valley #328
Slayton #504
Sleepy Eye #84
So. Koochiching #363
So. St. Paul #6
So. Washington County #833
Southland #500
Spring Grove #297
Spring Lake Park #16
Springfield #85
Staples #793
Stephen #443
Stewart #426
Stewartville #534
Stillwater #834
Storden-Jeffers #178
Swanville #486
Thief River Falls #564
Tracy #417
Triton #2125
Truman #458
Twin Valley #526
Tyler #409
Ulen-Hitterdal #914
Underwood #550
United South Central #2134
Upsala #487
Verndale #818

Virginia #706
Wabasha-Kellogg #811
Wabasso #640
Waconia #110
Wadena-Deer Creek #2155
Walker-Akeley #113
Walnut Grove #641
Wanamingo #258
Warren-Alvarado #2163
Warroad #690
Waseca #829
Watertown-Mayer #111
Waterville-Elysian-Morristown #2143
Waubun #435
Wayzata #284
West St. Paul-Mendota Heights-Eagan #197
Westbrook #175
Westonka #277
Wheaton #803
White Bear Lake #624
Willmar #347
Willow River #577
Windom #177
Win-E-Mac #2609
Winona #861
Winsted #427
Wood Lake #896
Worthington #518
Wrenshall #100
Zumbrota-Mazeppa #2805

Joint Powers Units

Bemidji Regional Interdist. Council #96-1
Benton-Stearns Ed. Dist. #96-19
Border Region Ed. Dist. #94-9462
Carver-Scott Ed. Coop. #94-9455
Central Minnesota ERDC #94-940
Central Minnesota ECSU #96-25
Data Processing (TIES) #95-950
Educational Cooperative Unit #5 #96-16
Fergus Falls Area Special Ed. Coop. #96-7
Freshwater Ed. Dist. #94-9432
Goodhue Co. Ed. Dist. #96-27
Hiawatha Valley Ed. Dist. #94-9459
Lac qui Parle Valley #94-9458
Lake Agassiz Special Ed. Coop. #96-21
Meeker & Wright Special Ed. Coop #96-9
Metro Education Coop. Unit #96-11
Mid State Ed. Dist. #94-9413
Midwest Special Ed. Coop. #96-23
MN River Valley Special Ed. Coop. #96-24
MN Valley Ed. Dist. #96-3
MN Valley Cooperative #94-9408
N. Country Vocational Coop. Center #94-9456
Northeastern Ed. Dist. #96-13
Northeast Voc. Ed. Center #94-9449
Northwest ECSU #96-22
Northwest Reg. Interdist. Council #96-17
Pine to Prairie Coop. Center #94-9421
Red Lake Falls Spec. Ed. Coop. #96-4
River Bend Ed. Dist. #94-9409
Root River Ed. Dist. #96-26
Runestone Area Ed. Dist. #94-9401
SW/W. Central ECSU #94-944
South Central ECSU #96-10
South Central Ed. Dist. #94-9464
Southeast ECSU #96-15
West Central Ed. Dist. #94-9460
West Central Migrant Project #98-2
West Central ECSU #96-8
Wright Technical Center #94-9414

Technical Colleges

South Central Tech. College #99-2246
Brainerd-Staples Reg. Tech. College #99-2190
Dakota County Tech. College #99-917
Hennepin Tech. College #99-287
Hutchinson-Willmar Reg. Tech. Col. #99-2337
Minnesota Riverland Tech. College #99-2501
Northeast Metro Tech. College #99-916
Northwest Tech. College #99-2200
Range Tech. College #99-2020
Red Wing-Winona Tech. College #99-2186
Southwestern Reg. Tech. College #99-900

State Agencies, Colleges, Universities

Akita Japan State University #90-908
Anoka Regional Treatment Ctr. #91-15
Anoka-Ramsey Community College #93-15
Arrowhead Community College #93-21
Austin Community College #93-1
Bemidji State University #90-1
Brainerd Community College #93-2
Brainerd Regional Human Services Center #91-1
Cambridge Community College #93-20
Cambridge Regional Human Services Center #91-2
Community College Board #93-0
Department of Education #88-37
Duluth Community College Center #93-9323
East Range Secondary Tech. Center #94-9433
Faribault Regional Treatment Ctr. #91-5
Faribault Residential Schools #37001
Fergus Falls Community College #93-6
Fergus Falls Regional Treatment Ctr. #91-13
Fond du Lac Community College Center #93-22
Hibbing Community College #93-7
Higher Education Board #88-60
Inver Hills Community College #93-18
Itasca Community College #93-3
Lakewood Community College #93-16
Mankato State University #90-2
Mesabi Community College #93-9
Metropolitan State University #90-7
Minneapolis Community College #93-14
Moorhead State University #90-3
Moose Lake Regional Treatment Ctr. #91-11
MN Center for Art Educ. #88-25000
MN Correctional Facility, Red Wing #92-1
MN Correctional Facility, Sauk Center #92-2
MN Correctional Facility, Thistledew #92-14
MN Correctional Facility, Willow River #92-9212
MN Library for the Blind #88-2037
North Hennepin Community College #93-12
Normandale Community College #93-17
Northland Community College #93-13
Rainy River Community College #93-5
Rochester Community College #93-8
Southwest State University #90-6
St. Cloud State University #90-4
St. Peter Regional Treatment Ctr. #91-10
State Board of Technical Colleges #88-3600
State University Board #90-0
Teachers Retirement Association #88-69
Vermillion Community College #93-4
Vocational Rehabilitation Dept. #88-210
Willmar Community College #93-9310
Willmar Regional Treatment Ctr. #91-14
Winona State University #90-5
Worthington Community College #93-11

Professional Organizations

Alliance of MN School Administrators #97-3
MN Assoc. of School Administrators #97-2
MN Education Association #97-4
MN Federation of Teachers #97-5
Osseo Federation of Teachers #97-9
Robbinsdale Federation of Teachers #97-6

Notes

Notes