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***Duluth  
Teachers'  
Retirement  
Fund  
Association***

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***Comprehensive Annual  
Financial Report  
June 30, 1997***

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***Duluth, Minnesota***



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**DULUTH TEACHERS' RETIREMENT  
FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1997**

**Duluth Teachers' Retirement Fund Association  
625 East Central Entrance, Suite 200  
Duluth, Minnesota 55811  
(218) 722-2894**

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***INTRODUCTORY***  
***SECTION***

# Certificate of Achievement

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

Duluth Teachers' Retirement  
Fund Association,  
Minnesota

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1996

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



*Linda N. Savitsky*  
President

*Jeffrey L. Esser*  
Executive Director

# Letter of Transmittal

## ***Duluth Teachers' Retirement Fund Association***

*625 East Central Entrance · Suite 200 · Duluth, Minnesota 55811*

*Phone (218) 722-2894 · Fax (218) 722-8208*

***J. Michael Stoffel, Executive Secretary***

---

December 5, 1997

Board of Trustees and Members of the Association  
Duluth Teachers' Retirement Fund Association  
625 East Central Entrance, Suite 200  
Duluth, MN 55811

Dear Trustees and Members of the Association:

I am pleased to present the 88th annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 1997. The contents of this report are accurate and complete in all material respects and are reported to present fairly the financial position and results of operation of the DTRFA. Responsibility for the contents of this report rests solely with the management of the Association. I trust you will find this report helpful in understanding your retirement Association.

The report consists of five sections: (1) the **Introductory Section** contains this transmittal letter, a list of the Board of Trustees and a description of the administrative organization; (2) the **Financial Section** includes the independent auditor's report, basic financial statements, notes to the financial statements, supplementary and supporting schedules; (3) the **Investment Section** contains summary information about the DTRFA investment policies, portfolio holdings and rate of return; (4) the **Actuarial Section** contains the independent actuary's certification letter, results of the July 1, 1997 actuarial valuation, other actuarial information and summaries of plan provisions; (5) the **Statistical Section** includes data pertaining to revenues, expenses and benefit payments of the Association, and also contains historical information of the Association since its creation in 1910.

### **Reporting Entity**

The DTRFA was established in 1910 to provide retirement coverage to eligible employees of the Duluth Public Schools. Eligible employees include the licensed, certified staff of Duluth Public Schools, and certain staff at Lake Superior College hired prior to July 1, 1995 who elected to continue membership in the DTRFA. At June 30, 1997, DTRFA membership consisted of current, active employees numbering 1,330 from Duluth Public Schools and 86 from Lake Superior College, and retirees and beneficiaries numbering 879.

## Letter of Transmittal - Continued

### Accounting Systems and Internal Controls

The financial statements have been prepared in conformity with Statement Number 25 provisions, and other generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The Office of the State Auditor has audited the financial statements. Their opinion is shown on page 12. A system of internal controls is maintained and is designed to ensure reasonable assurance for the safekeeping of assets and the reliability of financial records. The State Auditor during the conduct of the audit reported no material weakness in internal control.

### Investment Strategies and Results

In November 1996, the trustees formally reviewed the *Statement of Investment Objectives and Policies*. The policy statement sets standards for the direction, operation, management, and oversight of the assets of the DTRFA. The document is provided to each of our investment managers and specifies the permissible and non-permissible types of securities in which they may invest. No significant changes were made to the policy, however, a quarterly asset allocation re-balancing strategy was instituted. This policy was put in place due to the dramatic growth in equity assets over the past few years relative to the growth in fixed income assets. Additionally, in fiscal year 1997, the DTRFA hired a second small capitalization investment manager - Strong Capital Management.

In summary, for the 12 months ended June 30, 1997, the DTRFA achieved a time-weighted rate of return of 17.7% for the "Basic Retirement Fund". Over the five-year period ended June 30, 1997, the DTRFA achieved a rate of return of 13.3%, which is in the top third of a universe of public pension fund portfolios monitored by our investment consultant. This investment return was achieved with below median risk in the portfolio. In the tax shelter accounts, fiscal year 1997 returns were 31.9% in the Tax Shelter-Variable Account, 8.8% in the Tax Shelter-Fixed Account, and 5.3% in the Tax Shelter-Money Market Account. More detailed investment return data and information on asset allocation is included in the investment section of this report.

### Revenues

In the Basic Retirement Fund, the reserves needed to finance present and future benefits come from employee and employer contributions and from income on investments. Investment income accounts for the largest share, almost 85%, of total income. In fiscal year 1997, as shown below, revenues totaled \$35,106,590, which represents a 27.4% increase in revenues compared to fiscal year 1996. The higher revenue in fiscal year 1997 was due primarily to an increase in investment income, as the securities markets continued to climb over fiscal year 1996 levels. Member and employer contribution rates remained the same in fiscal year 1997.

<u>Revenue Source</u>	<u>Fiscal 1997</u>	<u>Fiscal 1996</u>	<u>% Change</u>
Member Contributions	\$ 2,643,760	\$ 2,570,171	2.9%
Employer Contributions	2,708,473	2,597,981	4.3%
Investment Income	29,735,049	22,304,595	33.3%
Other Income	19,308	74,727	-
<b>Totals</b>	<b>\$35,106,590</b>	<b>\$27,547,474</b>	<b>27.4%</b>

### Expenses

Expenses of the Basic Fund include the payment of benefits to members and beneficiaries, the refund of contributions to former members, and administrative costs. Expenses for fiscal year 1997 totaled \$10,011,637, an increase of 0.4% over fiscal year 1996 expenses, as shown below. Total benefit payments in fiscal year 1997 decreased slightly from last year. This occurred because of the process followed for discontinuing the annual lump-sum adjustment, formerly known as the "13<sup>th</sup> check".

## Letter of Transmittal - Continued

In fiscal year 1996, total benefit payments were higher because a final 13<sup>th</sup> check was paid, and, beginning on January 1, 1996, 1/12<sup>th</sup> of a recipient's last 13<sup>th</sup> check was permanently added to their monthly pension. In fiscal year 1997, benefits were increased by the 5.6% cost of living adjustment on January 1, 1997, but there was no 13<sup>th</sup> check lump-sum payment. Benefit payments continue to make up over 86% of total expenses. Investment expenses increased as the assets under management continue to increase. Fees paid to the investment managers are based on a percentage of assets managed. Administrative costs, the costs of running the office of the Association, decreased in fiscal year 1997. This was primarily caused by the implementation of a Board policy to classify a portion of the office salaries and personnel costs as investment expenses, and to assess the three tax shelter accounts a portion of the office salaries and personnel costs.

<u>Expense Type</u>	<u>Fiscal 1997</u>	<u>Fiscal 1996</u>	<u>% Change</u>
Benefit Payments	\$ 8,678,145	\$ 8,796,491	(1.4)%
Refund of Contributions	122,529	28,651	--
Investment Expense	899,584	803,866	11.9%
Administrative Costs	<u>311,379</u>	<u>338,896</u>	<u>(8.1)%</u>
<b>Totals</b>	<b>\$10,011,637</b>	<b>\$ 9,967,904</b>	<b>0.4%</b>

### Major Initiatives

Because of the need for more expansive and functional office space and a better location, it was decided in 1996 to construct a new building for the Association. On June 1, 1997, the office of the Association moved into new quarters. A second office building was constructed on the site of the building project. The decision to build the second building was viewed as a way to diversify the investment portfolio of the retirement fund. Additional real estate investments should lead to a decrease in portfolio volatility as well as provide a hedge against inflation.

### Legislation

During the 1997 legislative session, significant pension legislation was passed affecting the DTRFA. Retirement benefits formulas in all three DTRFA plans were increased by 0.07% for members retiring after June 30, 1997. The cost for the higher benefits was added to the employer cost. It was determined to be most efficient for direct state aid to flow from the state of Minnesota General Fund to the DTRFA. (The first payment of \$486,000 was received October 1, 1997.)

Additionally, age 66 was established for full normal retirement age for members hired after June 30, 1989 (New Plan, Tier II). Previously, the plan provided for normal retirement age equal to the age of eligibility for full social security retirement benefits, currently as high as age 67.

### Funding

An important measure of the health of a pension fund is the funding ratio. This ratio is the measure of total net assets compared to total actuarial accrued liability. The higher the funding ratio, the greater the level of investment income potential. A higher ratio also gives members a greater degree of assurance that their pensions are secure. At June 30, 1997 the DTRFA had a funding ratio of 86.0%, compared to a ratio of 82.9% at the end of fiscal year 1996. A number of factors had significant impact on the funding ratio for fiscal year 1997. Factors which had a positive impact include the high investment returns, which were almost twice the assumed rate, and an actuarial gain due to a smaller growth in salaries than actuarially assumed. Negative factors include the higher benefits paid during the year.

## Letter of Transmittal - Continued

### Actuarial Assumptions

Based on an experience study by the State's actuary in January, 1995, various actuarial assumptions were changed in 1997. The purpose of an experience study is to evaluate the appropriateness of the assumptions used in the annual actuarial valuations. The study was performed by comparing the actual experience of the fund over a four year period, to that which was expected based on the actuarial assumptions. At the completion of the study, the state's actuary recommended that certain assumptions be changed. The actuary retained by the DTRFA evaluated and agreed with those recommendations. On March 17, 1995, the trustees of the DTRFA approved adoption of the assumptions recommended by the State's actuary. During the 1997 legislative session, approval was obtained to implement the recommendation of the actuaries with respect to more appropriate actuarial assumptions.

### Other Information

Minnesota State Law requires the State Auditor to perform an annual audit of the DTRFA. This requirement has been met, and the independent auditor's report by the State Auditor is included. As part of the State Auditor's examination, a management and compliance letter will be issued covering the review of the Association's internal control and compliance with applicable legal provisions. The management and compliance letter will not modify or affect this annual financial report in any way.

### National Recognition

Finally, I am proud to announce that in 1997, the DTRFA received recognition from a national organization for its fiscal year 1996 annual financial report. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of a state and local government financial reports.

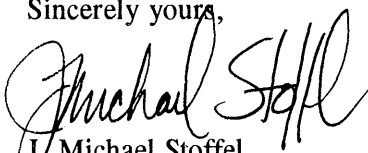
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

### Acknowledgments

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff of the DTRFA, our advisors and consultants, and the many people who have worked so diligently to assure the successful operation and financial soundness of the Association. We will continue to work for our members, retirees and beneficiaries in an effort to provide adequate benefits on a fiscally sound basis.

Sincerely yours,



J. Michael Stoffel  
Executive Secretary

# Board Of Trustees

---

## President

Paul Rigstad  
Elected, Active Trustee  
Term Expires Nov., 1997

## Vice President

James Turchi  
Elected, Active Trustee  
Term Expires Nov., 1999

Mary Glass  
School Board Representative  
Term Expires Jan., 1999

Mary Meierotto  
Elected, Active Trustee  
Term Expires Nov., 1998

John Milroy  
Elected, Active Trustee  
Term Expires Nov., 1997

## Treasurer

John Moriarity  
Elected, Retired Trustee  
Term Expires Nov., 1998

Richard Pearson  
Superintendent's Designee

Jon Vomachka  
Elected, Active Trustee  
Term Expires Nov., 1999

Mavis Whiteman  
Elected, Retired Trustee  
Term Expires Nov., 1997

# Administrative Organization

---

## Administrative Staff

J. Michael Stoffel  
*Executive Secretary*

Susan Ellefson  
*Retirement Technician/Secretary*

Marie Chapinski  
*Retirement Technician*

Carole Berg  
*Retirement Technician/Bookkeeper*

## Professional Services

Hewitt Associates LLC  
*Actuarial Services*  
Minneapolis, Minnesota

Eikill & Schilling Ltd.  
*Accounting/Auditing*  
Duluth, Minnesota

Milliman & Robertson, Inc.  
*Actuarial Services*  
Brookfield, Wisconsin

Office of the State Auditor  
*Auditing Services*  
Duluth, Minnesota

Halverson Watters Downs Reyelts & Bateman, Ltd.  
*Legal Services*  
Duluth, Minnesota

## Investment Advisors

Western Asset Management Co.  
Pasadena, California

State Street Global Advisors  
Boston, Massachusetts

Oppenheimer Capital  
New York, New York

Scudder Stevens & Clark, Inc.  
New York, New York

Diversified Growth Investors  
Minneapolis, Minnesota

Strong Capital Management, Inc.  
Milwaukee, Wisconsin

## Investment Consultant

Jeffrey Slocum & Associates  
Minneapolis, Minnesota

***FINANCIAL***  
***SECTION***

# Independent Auditor's Report



JUDITH H. DUTCHER  
STATE AUDITOR

## STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 400  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(612) 296-2551 (Voice)  
(612) 296-4755 (Fax)  
stateauditor@osa.state.mn.us (E-Mail)  
1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Duluth Teachers' Retirement Fund Association

We have audited the basic financial statements of Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 1997, as listed in the table of contents. These financial statements are the responsibility of the 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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial status of Duluth Teachers' Retirement Fund Association as of June 30, 1997, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as required supplementary information in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The accompanying financial information listed as other supplementary information in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of Duluth Teachers' Retirement Fund Association. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 1 to the financial statements, the Association adopted Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

  
JUDITH H. DUTCHER  
STATE AUDITOR

  
GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

August 28, 1997

# Statement of Plan

## Net Assets

June 30, 1997

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Fixed Fund	Variable Fund	Money Mkt Fund	
<b>Assets</b>					
Cash	\$15,660	\$14,140	\$51,016	\$70	\$80,886
Short-term investments	59,762,455	3,421,440	4,375,684	2,346,671	69,906,250
Total cash and short-term investments	59,778,115	3,435,580	4,426,700	2,346,741	69,987,136
Receivables					
Member contributions	350,440				350,440
Employer contributions	360,982				360,982
Interest	620,999	108,115	2,689		731,803
Dividends	166,304	6,950	3,685		176,939
Stock and bond sales	6,770,297	751,030			7,521,327
Other	7,907	6,907	1,219		16,033
Due from other funds	23,525				23,525
Total receivables	8,300,454	873,002	7,593		9,181,049
Investments, at fair value					
U.S. Government obligations	43,910,897	6,016,032			49,926,929
Corporate and other bonds	27,698,085	4,020,285			31,718,370
Common stock	119,444,612		16,566,841		136,011,453
Preferred stock	4,200,361	195,764			4,396,125
Mortgage loans secured by real estate	1,884,899				1,884,899
Investment in real estate	1,128,983				1,128,983
Total investments	198,267,837	10,232,081	16,566,841		225,066,759
Prepaid expense	2,015				2,015
Properties, at cost, net of accumulated depreciation of \$100,436	487,590				487,590
Total assets	266,836,011	14,540,663	21,001,134	2,346,741	304,724,549
<b>Liabilities</b>					
Accounts payable	331,877				331,877
Securities lending liabilities	49,889,523	3,014,997	3,836,989		56,741,509
Stock and bond purchases	17,172,348	2,150,307			19,322,655
Due to other funds		8,469	11,292	3,764	23,525
Total liabilities	67,393,748	5,173,773	3,848,281	3,764	76,419,566
<b>Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)</b>	<b>\$199,442,263</b>	<b>\$9,366,890</b>	<b>\$17,152,853</b>	<b>\$2,342,977</b>	<b>\$228,304,983</b>

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

# Statement of Changes in Plan Net Assets

For the Year Ended June 30, 1997

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Fixed Fund	Variable Fund	Money Mkt Fund	
<b>Additions</b>					
Contributions					
Employer	\$2,708,473				\$2,708,473
Plan members' deposits & transfers	2,643,760	\$679,378	\$2,005,375	\$942,445	6,270,958
Total contributions	<u>5,352,233</u>	<u>679,378</u>	<u>2,005,375</u>	<u>942,445</u>	<u>8,979,431</u>
Investment income					
Net appreciation in fair value of investments	24,356,233	180,804	3,917,878		28,454,915
Interest	4,366,333	600,120	23,054	100,785	5,090,292
Dividends	905,254	30,105	233,351		1,168,710
Securities lending	107,229	10,141	4,702		122,072
Total investment income	<u>29,735,049</u>	<u>821,170</u>	<u>4,178,985</u>	<u>100,785</u>	<u>34,835,989</u>
Less investment expense	(899,584)	(39,619)	(40,888)		(980,091)
Net investment income	<u>28,835,465</u>	<u>781,551</u>	<u>4,138,097</u>	<u>100,785</u>	<u>33,855,898</u>
Other income					
Miscellaneous	19,308	38	3,533		22,879
Total additions	<u>34,207,006</u>	<u>1,460,967</u>	<u>6,147,005</u>	<u>1,043,230</u>	<u>42,858,208</u>
<b>Deductions</b>					
Benefits to participants					
Retirement	8,156,315				8,156,315
Disability	90,120				90,120
Survivor	431,710				431,710
Contribution refunds	122,529				122,529
Plan members' withdrawals & transfers		1,749,659	1,159,896	331,979	3,241,534
Total benefits, refunds & withdrawals	<u>8,800,674</u>	<u>1,749,659</u>	<u>1,159,896</u>	<u>331,979</u>	<u>12,042,208</u>
Administrative expenses	311,379	11,627	14,570	5,159	342,735
Total deductions	<u>9,112,053</u>	<u>1,761,286</u>	<u>1,174,466</u>	<u>337,138</u>	<u>12,384,943</u>
Net increase (decrease)	25,094,953	(300,319)	4,972,539	706,092	30,473,265
<b>Net assets held in trust for pension benefits</b>					
- Beginning of year	<u>174,347,310</u>	<u>9,667,209</u>	<u>12,180,314</u>	<u>1,636,885</u>	<u>197,831,718</u>
- End of year	<u>\$199,442,263</u>	<u>\$9,366,890</u>	<u>\$17,152,853</u>	<u>\$2,342,977</u>	<u>\$228,304,983</u>

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

# Notes To The Financial Statements

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

The Duluth Teachers' Retirement Fund Association (Association) was created in 1910 to provide retirement and other specified benefits for its members pursuant to Minnesota Statute chapters 354A and 356. The Association membership consists of eligible employees of Independent School District 709, eligible employees of Lake Superior College (formerly employed by Independent School District 709), and the employees of the Association. The Association is governed by a nine-member board of trustees.

### Financial Reporting Entity

The Association's financial statements include the Basic Fund, a defined benefit plan, and the three funds in the defined contribution plan – the Fixed Fund, Variable Fund, and Money Market Fund. These plans are presented as pension trust funds in the financial statements. The Association's financial statements include all plans for which it is financially accountable. The Association is not included as a component unit of another financial reporting entity.

### Basis of Accounting

Association financial statements are prepared using the accrual basis of accounting. Revenues are recorded in the accounting period when they are earned and become measurable and expenses are recorded when the liability is incurred. Member and employer contributions are recorded as revenues in the period in which member services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Deposits and Investments

#### Deposits

Minnesota Statute §118A.02 authorizes the Association to deposit its cash and to invest in money market accounts and certificates of deposit in financial institutions designated by

the Association's Board of Trustees. At June 30, 1997, the Association had cash deposits totaling \$80,886. Minnesota statutes require that all the Association's deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at June 30, 1997:

<u>Covered Deposits</u>	<u>Carrying Amount</u>	<u>Bank and Trust</u>
Insured or collateralized with securities held by the Association or its agent in the Association's name.	\$80,886	\$123,534

### Investments

Minnesota Statute §356A.06 (subd. 7) and the Association's Articles of Incorporation and Bylaws designate authorized investment types and amounts. The Articles of Incorporation have adopted Minnesota Statute chapter 501B, which specifies that investments are governed primarily by an investment authority known as the "prudent person rule." The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the Association.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

There are no investments in, loans to, or leases with parties related to the Association.

# Notes - Continued



## 1. Summary of Significant Accounting Policies (cont.)

Generally accepted accounting principles have determined three levels of custodial credit risk for securities:

- (a) securities that are insured or registered, or for which the securities are held by the Association or its agent in the Association's name;
- (b) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name; and

- (c) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the Association's name.

At June 30, 1997, the Association's investments are categorized in the table below to give an indication of the level of risk assumed by the Association at year end. The investments in the State Street S & P Domestic Index Fund, Scudder International Equity Trust Fund, Strong Small Cap Fund, real estate, short-term investments and securities on loan to brokers are not considered securities for purposes of credit risk classification.

	<u>Category (a)</u>	<u>Category (c)</u>	<u>Carrying and Market Value</u>
Investments - categorized			
Repurchase agreements	\$	\$50,187,294	\$50,187,294
Short-term investment pools		6,554,215	6,554,215
U.S. Government obligations	23,468,544		23,468,544
Corporate and other bonds	31,718,370		31,718,370
Common stock	35,079,231		35,079,231
Preferred stock	4,396,125		4,396,125
Mortgage loans	1,884,899		1,884,899
	<u>\$96,547,169</u>	<u>\$56,741,509</u>	
Investments - not categorized			
State Street S&P			
Domestic Index Fund			33,832,413
Scudder International Equity			
Trust Fund			33,404,811
Strong Small Cap Fund			5,395,172
Real estate			1,128,983
Short-term investments			13,164,741
Investments held by broker -			
dealers under securities loans			
U.S. Government obligations			26,458,385
Common stock			28,299,826
			<u>\$294,973,009</u>
Amounts from statement of plan net assets			
Short-term investments			69,906,250
Investments			225,066,759
			<u>\$294,973,009</u>

# Notes - Continued

## 1. Summary of Significant Accounting Policies (cont.)

The Association has no single investment that constitutes 5% or more of plan net assets.

### Securities Lending

During fiscal year 1997, the Association adopted Governmental Accounting Standards Board Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. Adoption of this statement resulted in reporting collateral received and invested from securities lending transactions as an asset on the Statement of Plan Net Assets. Also, a liability is reported on the Statement of Plan Net Assets for the collateral.

Minnesota statutes and the investment policies of the Association permit the Association to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Association's investment custodian acts as its agent in lending securities for cash collateral at 102% of the value of the securities loaned plus accrued income. Securities on loan at year-end are presented as unclassified in the preceding schedule of credit risk. At year-end, the Association had no credit risk exposure to borrowers because the amounts the Association owes the borrowers exceed the amounts the borrowers owe the Association.

All securities loans can be terminated on demand by either the Association or the borrower. Loan terms are open-ended and are negotiated on a daily basis. Collateral received is invested in overnight repurchase agreements and short-term investment pools. Short-term investment pools have a daily weighted-average maturity. The term to maturity of securities loaned is matched with the term to maturity of the investment of the cash collateral.

At June 30, 1997, the financial impact of securities lending transactions on the Statement of Net Assets was as follows:

	<u>Short-term Investments</u>	<u>Securities Lending Liability</u>
Basic Fund	\$49,889,523	\$49,889,523
Fixed Fund	\$3,014,997	\$3,014,997
Variable Fund	\$3,836,989	\$3,836,989

### Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 1997, receivables consisted of contributions owed by members and employers, interest and dividends from investments, and amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 1997, but settled at a later date.

### Properties

Land, building and furniture and fixtures are stated at cost. Depreciation is computed over the estimated useful lives of the properties using the straight-line method.

A summary of properties at June 30, 1997 is as follows:

<u>Class</u>	<u>Useful Life</u>	<u>Carrying Value</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land and building	30 yrs	\$428,633	\$1,177	\$427,456
Furniture and fixtures	7 yrs	<u>\$159,393</u>	<u>\$99,259</u>	<u>\$60,134</u>
Totals		<u>\$588,026</u>	<u>\$100,436</u>	<u>\$487,590</u>

# Notes - Continued

## 1. Summary of Significant Accounting Policies (cont.)

### Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 1997, liabilities consisted principally of management fees owed for the quarter ended June 30, 1997, and obligations for the purchase of investments where the trade was initiated prior to June 30, 1997, but settled at a later date.

### Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disasters. To cover its liabilities, the Association purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in the prior year, and there were no insurance claims or settlements in the past three fiscal years.

### **NOTE 2. DEFINED BENEFIT PLAN**

The following brief description of the Basic Fund plan is provided for general information purposes only.

There are three participating employers in the plan. The plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

### General

The Association administers a cost-sharing multiple employer defined benefit pension plan covering all licensed teachers and administrators of Independent School District 709, certain employees of Lake Superior College (former employees of Independent School District 709), and the employees of the Association. At June 30, 1997, membership consisted of:

Retirees and beneficiaries receiving benefits	879
Terminated plan members entitled to, but not yet receiving benefits	739
Active plan members	<u>1,416</u>
Total	<u>3,034</u>

### Pension Benefits

Association members may be eligible for benefits under three different plans depending on year of hire. Members in all three plans are covered by Social Security.

Old Plan – Covers Association members hired prior to July 1, 1981. Normal retirement benefits are earned at age 60, or if age plus service totals 90. Retirement benefits vest after 10 years or age 60. The annual normal retirement benefit is equal to 1.45% of the member's high five-year average salary multiplied by the number of years of credited service. Early retirement benefits are available at age 55 with 10 or more years of credited service with a .25% per month early retirement deduction under age 60. Old plan members may elect Tier I or Tier II plans if they produce a higher annual retirement benefit.

Tier I Plan – Covers Association members hired or rehired after June 30, 1981, and before July 1, 1989. Normal retirement benefits are earned at age 65 or with 30 plus years of service over age 62, or if age plus service totals 90. Retirement benefits vest after 3 years of service or at age 65. The annual retirement benefit is equal to 1.20% for each of the first ten years of service credit and 1.70% for each subsequent year of service credit multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service or at any age with 30 or more years of credited service with a .25% per month early retirement deduction under the normal retirement age. Tier I Plan members may elect the Tier II Plan if it produces a higher annual retirement benefit.

Tier II Plan – Covers Association members hired or rehired after June 30, 1989. Normal retirement benefits currently are earned at age 65 and are tied to the Social Security normal retirement age but cannot exceed age 66. Retirement benefits vest after 3 years or age 65. The annual normal retirement benefit is equal to 1.70% for all years of credited service multiplied by the high five successive years average salary. Early retirement benefits are available at age 55 with three or more years of credited service with an actuarial equivalence early retirement reduction under age 65.

Under all plans, members may elect to receive their pension benefits in the form of a single-life annuity, a joint and survivor annuity, or a life and term certain annuity, and have the option of electing Social Security actuarial income

# Notes - Continued



## 2. Defined Benefit Plan (cont.)

leveling. Terminating members may receive a refund of their contributions with interest computed at 6% or may elect an augmented deferred retirement benefit if retirement benefits have vested.

### Death and Disability Benefits

If active members die prior to the receipt of their first retirement allowance payment, death benefits are payable under each of the three plans.

Active members who have not reached normal retirement age and have at least three years of credited service may receive a disability benefit upon becoming permanently disabled.

### Cost of Living Adjustment

A guaranteed 2% cost-of-living adjustment (COLA) is payable to eligible benefit recipients each January 1. An additional percentage increase will be added to the guaranteed 2% COLA to the extent that five-year annualized investment returns exceed the plan's 8.5% actuarially assumed rate of interest.

### Funding

Benefit and contribution provisions are established by state law and may be amended only by the State of Minnesota Legislature.

Minnesota Statutes, Chapter 354A.12 set the rate for employee and employer contributions that, expressed as a percentage of annual covered payroll, are sufficient to cover administrative expense and to fully fund the pension plan by the year 2020. The requirement to reach full funding by the year 2020 is set in Minnesota Statutes, Chapter 356.215, Subd. 4(g). As part of the annual actuarial valuation, the actuary determines the sufficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for

amortizing any unfunded actuarial accrued liability (UAAL) by the required date for full funding, and (c) an allowance for administrative expenses.

For the fiscal year ended June 30, 1997, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

## NOTE 3. DEFINED CONTRIBUTION PLAN

The Fixed Fund, Variable Fund, and Money Market Fund were established to account for a voluntary tax sheltered program which meets the requirements of section 403(b) of the Internal Revenue Code. Each fund has different investment objectives. The two participating employers in the tax sheltered program include Independent School District 709 and Lake Superior College. Voluntary contributions may be made by eligible employees, subject to plan and Internal Revenue Code limitations. There are no employer contributions to these funds. Income tax on employee contributions and on associated earnings are deferred until amounts are withdrawn. Benefits are paid as lump-sum, or as periodic benefit payments, at the option of the participant based on the value of participant's account balance at the time of withdrawal. At June 30, 1997, there were 397 participants in the Fixed Fund, 536 participants in the Variable Fund, and 173 participants in the Money Market Fund.

A summary of the unit values at June 30, 1997, is as follows:

	<u>Fixed Fund</u>	<u>Variable Fund</u>	<u>Money Market Fund</u>
Net assets	\$9,366,890	\$17,152,853	\$2,342,977
Units outstanding	1,760,933	3,182,629	1,278,275
Net assets value per unit	\$5.3193	\$5.3895	\$1.8329

# Required Supplementary Information



## Schedule of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/92	\$116,492	\$124,140	\$7,648	93.8%	\$42,884	17.8%
7/1/93	130,856	132,700	1,844	98.6	43,282	4.3
7/1/94	133,632	137,042	3,410	97.5	43,109	7.9
7/1/95	142,852	173,965	31,113	82.1	46,528	66.9
7/1/96	157,007	189,518	32,511	82.9	44,870	72.5
7/1/97	170,059	197,820	27,761	86.0	46,770	59.4

## Schedule of Employer Contributions

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Percentage Contributed
1992	\$2,632	94.3%
1993	2,817	89.0
1994	2,171	115.0
1995	2,676	100.7
1996	3,366	77.2
1997	3,717	72.9

Note: Annual required contribution is actuarially determined based on a projected payroll. The employer is required by statute to contribute 5.79% of payroll to the fund. The employer made all contributions required by statute.

# Notes to Required Supplementary Information

## ACTUARIAL METHODS AND ASSUMPTIONS

The actuarial accrued liability is determined as part of an annual actuarial valuation on July 1. Significant methods and assumptions are as follows:

- The most recent actuarial valuation date is July 1, 1997.
- Actuarial cost is determined using the Entry Age Normal Actuarial Cost Method.
- The amortization method assumes a level percentage of an increasing payroll using a payroll growth assumption of 5.0%.
- The amortization period is closed.
- The remaining amortization period at July 1, 1997, is 23 years.
- Actuarial value of assets is determined using cost plus one-third of unrealized gains or losses.
- The investment rate of return is 8.5%. The annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement rate of return.
- An inflation rate of 5%, and projected salary increases based on a graded age rate schedule ranging from 5.25% to 8.0%.
- Mortality rates using the *1983 Group Annuity Mortality Table*, male rates set back 2 years, and female rates set back 1 year for post-retirement; male rates set back 4 years and female rates set back 3 years for pre-retirement.

## SIGNIFICANT PLAN PROVISION AND ACTUARIAL METHODS AND ASSUMPTION CHANGES

- 1992 - Eligibility for 13<sup>th</sup> check reduced from three years on pension to one year; also, 6.5% rate of return trigger eliminated from 13<sup>th</sup> check payment.
- Minnesota actuarial standards (paragraph X.1.4) revised to account for the cash flow of payroll contributions to the pension plans. Previously, payments were assumed to occur once at beginning of each year. The change requires that payments are assumed to occur once at mid-year.
- 1993 - Survivor benefits were improved and expanded in Tier I and Tier II.
- Investment expenses removed in the calculation of actuarially required contributions.
  - Early retirement incentive program offered to members retiring between May and August 1993. Retirement formula for eligible retirees enhanced by .10% per year of service, not to exceed 30 years.
- 1994 - Interest charged on the repayment of refunds increased from 6.0% to 8.5%.
- 1995 - Benefit formulas in all plans increased by .13%.
- 13<sup>th</sup> check lump-sum post-retirement adjustment replaced with a 2% COLA.
  - Employee contribution rate increased from 4.5% to 5.5% (effective first full pay period after July 1, 1995)
  - Interest rate assumption in valuation calculations increased from 7.5% to 8.5%. (Previously, a 7.5% rate was used to account for the 13<sup>th</sup> check, which represented a distribution of 1% of fund assets.)
- 1997 - Benefit formulas in all plans increased by .07%.
- Direct state funding of \$486,000 per year added to plan.
  - Normal retirement age capped at age 66, New Law Tier II.
  - Actuarial Assumption Changes:
    - Inflation of 5% and projected salary increase based on graded age rate schedule from 5.25% - 8.0%.
    - Mortality table changed to *1983 Group Annuity Mortality Table*, male rates set back 2 years, female rates set back 1 year.

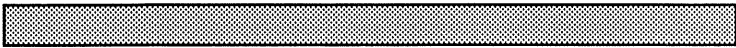
# Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 1997

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Fixed	Variable	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<b>Investment Expenses</b>					
Salaries	\$25,056				\$25,056
Payroll taxes	1,892				1,892
Group insurance	2,995				2,995
Investment management	746,208	\$28,158	\$33,767		808,133
Investment advisor	39,500				39,500
Custodial fees	41,042	7,405	5,240		53,687
Securities lending fees	42,891	4,056	1,881		48,828
<b>Total investment expenses</b>	<b>\$899,584</b>	<b>\$39,619</b>	<b>\$40,888</b>		<b>\$980,091</b>
<b>Administrative Expenses</b>					
<b>Personnel</b>					
Salaries	\$128,219	\$6,789	\$9,052	\$3,017	\$147,077
Payroll taxes	9,629	510	680	227	11,046
Group insurance	15,243	807	1,077	359	17,486
<b>Total personnel expenses</b>	<b>153,091</b>	<b>8,106</b>	<b>10,809</b>	<b>3,603</b>	<b>175,609</b>
<b>General expenses</b>					
Bank charges	4,571		164	141	4,876
Data processing	9,303				9,303
Depreciation	8,403				8,403
Dues and periodicals	2,559				2,559
Insurance	3,760				3,760
Meetings, conventions & travel	32,759				32,759
Printing, postage & office supplies	15,297	363	483	161	16,304
Real estate taxes	1,406				1,406
Rent	5,300				5,300
Repairs and service contracts	1,071				1,071
Supplies - building	4,327				4,327
Utilities and telephone	6,097				6,097
Other	1,524	323	279	139	2,265
<b>Total general expense</b>	<b>96,377</b>	<b>686</b>	<b>926</b>	<b>441</b>	<b>98,430</b>
<b>Professional fees</b>					
Actuarial	34,323				34,323
Auditing and accounting	26,396	2,835	2,835	1,115	33,181
Legal	1,192				1,192
<b>Total professional fees</b>	<b>61,911</b>	<b>2,835</b>	<b>2,835</b>	<b>1,115</b>	<b>68,696</b>
<b>Total administrative expenses</b>	<b>\$311,379</b>	<b>\$11,627</b>	<b>\$14,570</b>	<b>\$5,159</b>	<b>\$342,735</b>

# Summary Schedules

For the Year Ended June 30, 1997



## Summary Schedule of Cash Receipts and Disbursements

### Basic Fund

<b>Cash and Equivalents at Beginning of Year - July 1, 1996</b>	<u><b>\$5,343,049</b></u>
<b>Add Receipts:</b>	
Member Contributions	2,591,373
Employer Contributions	2,679,307
Investment Income	5,603,869
Investments Redeemed/Sold	310,375,238
Other	<u>19,308</u>
<b>Total Cash Receipts</b>	<u><b>321,269,095</b></u>
<b>Less Disbursements:</b>	
Benefit Payments	8,678,145
Refunds	105,386
Administrative Expense	208,928
Investment Expense	867,177
Investments Purchased	306,492,030
Other	28,794
Fixed Assets Purchased	<u>343,092</u>
<b>Total Cash Disbursements</b>	<u><b>316,723,552</b></u>
<b>Cash and Equivalents at End of Year - June 30, 1997*</b>	<u><u><b>\$9,888,592</b></u></u>

\* June 30, 1997 balance does not include cash equivalents held as collateral on securities lending transactions. At June 30, 1997 the collateral amounted to \$49,889,523.

## Schedule of Payments to Consultants

### Basic Fund

<u>Individual or Firm Name</u>	<u>Nature of Services</u>	<u>Fee Paid</u>
Eikill & Schilling Ltd.	Accounting/Consulting	\$16,615 **
Office of the State Auditor	Auditing	10,281
Hewitt Associates	Actuarial	17,098
Milliman and Robertson, Inc.	Actuarial	2,037
State of Minnesota	Actuarial	15,188
Halverson, Watters	Legal	5,416 **
Frank Holappa	Real Estate Consulting	<u>18,070 **</u>
Total		<u><u><b>\$84,705</b></u></u>

\*\*Some payments are included in cost of construction of the new building.

***INVESTMENT***  
***SECTION***

# Consultant's Certification Letter

**JEFFREY  
SLOCUM**  
& ASSOCIATES  
INCORPORATED

*Investment Performance  
Analysis and Consulting  
for Institutional Funds*

August 13, 1997

Board of Trustees  
Duluth Teachers' Retirement Fund Association  
625 East Central Entrance, Suite 200  
Duluth, MN 55811

During the past year, the DTRFA basic retirement fund portfolio had excellent performance in a very positive equity environment. For the year ended June 30, 1997, the fund achieved a 17.7% rate of return from all assets. This return ranked in the 61<sup>st</sup> percentile in the Independent Consultants Cooperative Public Pension Plan Universe. We believe this return and rank are excellent given the policy restrictions, which limited the upside potential of the portfolio. For the past five years, the fund achieved a 13.3% annualized rate of return which ranked in the 35<sup>th</sup> percentile in the Independent Consultants Cooperative Public Pension Plan Universe. The performance results were calculated in compliance with the AIMR Performance Presentation Standards. The performance calculations include the total return of the fund, including realized and unrealized gains plus income.

The DTRFA portfolio exceeded all of the investment objectives of the total fund over the last 3 and 5 years. The total portfolio exceeded the inflation (CPI) index plus 3% by 11.8% for three years and 7.6% for five years. The portfolio also exceeded the actuarial investment return assumption of 8.5% by 9.0% over the last three years and by 4.8% over the last five years.

The DTRFA portfolio is well diversified using various styles of equity and fixed income securities. The fund portfolio has substantial positions in various equity capitalization ranges, in domestic and international markets, in a broad range of industry sectors, and in active and passive investment management. This diversity has enabled the DTRFA to produce excellent risk adjusted performance. Over the last three and five years, ended June 30, 1997 the fund returns have been produced with median levels of return volatility or risk.

Sincerely,



KC Connor, CFA  
Vice President

430 First Avenue North  
Suite 720  
Minneapolis, MN 55401  
Telephone: (612) 338-7820  
Facsimile: (612) 338-7834

# Outline of Investment Policies

Year Ended June 30, 1997

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## Policy Statement

DTRFA assets are invested under the provisions of a Statement of Investment Objectives and Policies. The following is an excerpt from Section II - Investment Policy Statement:

*Assets of the funds will be invested in the sole interest, and for the exclusive purpose of providing benefits to the plan participants and beneficiaries. Investments will be made within the constraints of applicable Minnesota Statutes and the policy statements contained in this document. The fund assets must be invested with skill, care, and diligence that a prudent person acting in this capacity would use. Within this framework, the Association seeks to optimize total return on the Fund's portfolio through a policy of diversified investments to achieve maximum rates of return within a parameter of prudent risk. These objectives may be modified from time to time based on changes in plan provisions or the nature of the capital markets.*

## Policy Guidelines

Section III - Policy Guidelines of the Statement of Investment Objectives and Policies includes subsections which specifically outline the overall objectives of the DTRFA investment program, indicate the asset allocation targets and ranges for each of the various asset classes, and define the investment universe and parameters of allowable investments by the DTRFA investment managers. Included in the Policy Guidelines are the following subsections:

- |                                |                                                  |
|--------------------------------|--------------------------------------------------|
| A. Statutory Constraints       | G. Asset Guidelines - Fixed Income               |
| B. Investment Objectives       | H. Securities Lending                            |
| C. Time Horizon                | I. Market Valuation                              |
| D. Volatility                  | J. Performance Measurement                       |
| E. Asset Allocation            | K. Investment Manager Selection<br>and Retention |
| F. Asset Guidelines - Equities |                                                  |

## Other Policies

Sections IV, V, and VI delineate the duties and responsibilities of DTRFA investment consultants and advisors. One section covers the investment managers, one section covers the custodian bank, and one covers the investment consultant.

In order to preclude actual or potential conflicts of interest, Section VII of the Statement covers personal investments of the Trustees and staff of the Association.

## Regular Review

The Statement of Investment Policies is formally reviewed and updated by the Trustees annually. In addition, as part of their quarterly analysis, the investment consultant reports on compliance with the Statement of Investment Objectives and Policies by each of the investment managers.

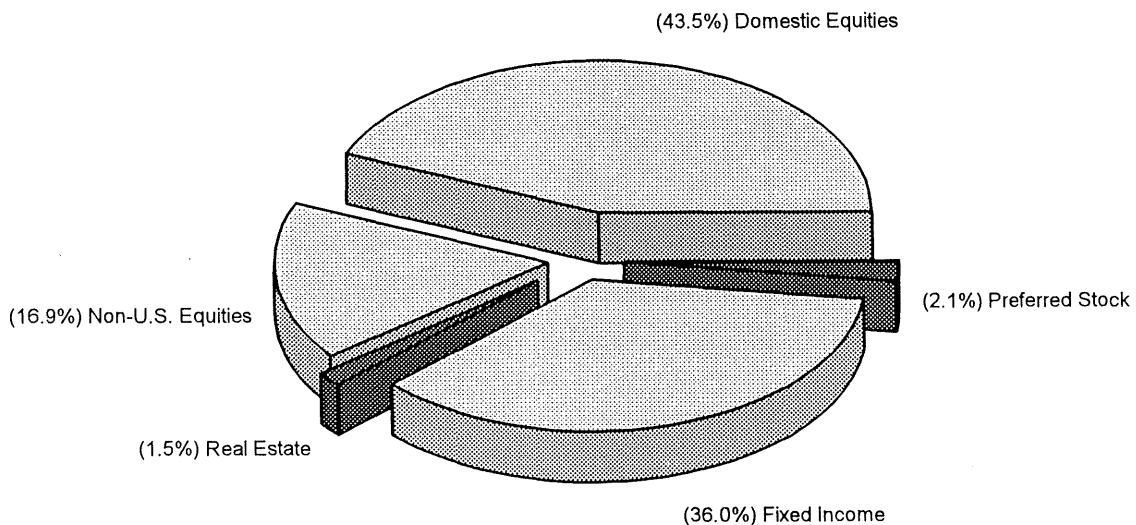
# Investment Summary

## Schedule of Investments - June 30, 1997

	Percent of Market Value	Market Value	Cost	Market Value Over(Under) Cost
<b>Basic Fund</b>				
U.S. Government bonds	22.1%	\$43,910,897	\$43,494,062	\$416,835
Corporate and other bonds	14.0%	27,698,085	27,510,739	187,346
Domestic equities	43.4%	86,039,801	55,872,966	30,166,835
International equities	16.9%	33,404,811	20,000,000	13,404,811
Preferred stock	2.1%	4,200,361	4,302,119	(101,758)
Mortgage loan pools		25,224	25,224	
Other mortgages	0.9%	1,859,675	1,859,675	
Real estate	0.6%	1,128,983	1,128,983	
<b>Total Basic Fund</b>	<b>100.0%</b>	<b>198,267,837</b>	<b>154,193,768</b>	<b>44,074,069</b>
<b>Fixed Fund</b>				
U.S. Government bonds	58.8%	6,016,032	5,946,630	69,402
Corporate and other bonds	39.3%	4,020,285	3,992,244	28,041
Preferred stock	1.9%	195,764	200,000	(4,236)
<b>Total Fixed Fund</b>	<b>100.0%</b>	<b>10,232,081</b>	<b>10,138,874</b>	<b>93,207</b>
<b>Variable Fund</b>				
Domestic equities	100.0%	16,566,841	9,879,121	6,687,720
<b>Total all funds</b>		<b>\$225,066,759</b>	<b>\$174,211,763</b>	<b>\$50,854,996</b>

### Asset Allocation - Basic Fund

June 30, 1997



# Investment Returns

(Last Five Years)

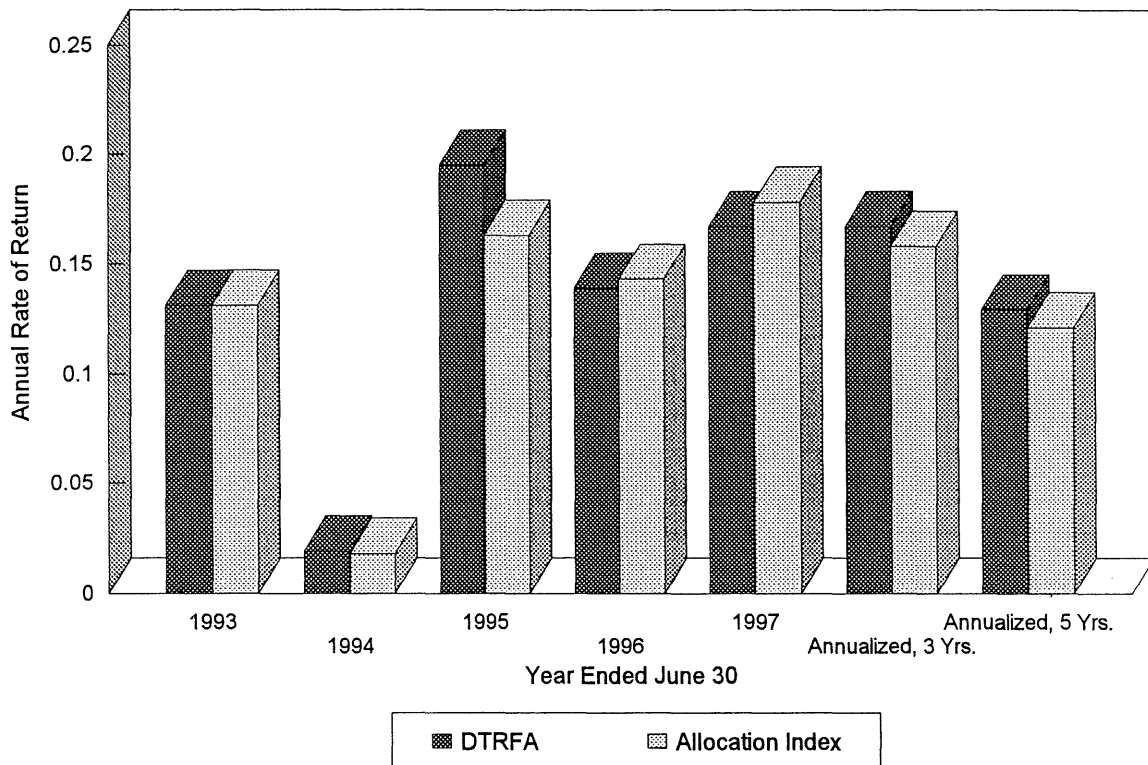
A time-weighted performance measure includes the effect of income earned as well as realized and unrealized market value changes. In addition, the time-weighted total rate of return nets out the influence of contributions made to and distributions taken from the manager or fund. The time-weighted rates of return below are based on market rate returns in accordance with Association for Investment Management Research (AIMR) performance presentation standards.

## Annualized Returns for Periods Ended June 30, 1997 - Basic Fund

<u>Investment</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
Total portfolio	17.7%	17.5%	13.3%
Allocation index*	17.8%	15.8%	12.1%
U.S. equity segment	24.6%	26.1%	17.9%
S & P 500	34.7%	28.8%	19.7%
Russell 2000	16.3%	20.1%	17.9%
International equity segment	21.8%	15.4%	-
EAFE Index	12.8%	9.1%	-
Fixed income segment	8.9%	8.9%	7.3%
Lehman Aggregate Bond Index	8.2%	8.5%	7.1%
Real estate segment	9.5%	9.5%	9.5%
NCREIF Property Index	10.7%	9.4%	5.6%
Cash equivalents segment	6.2%	5.6%	4.7%
91-day Treasury Bills	5.4%	5.4%	4.6%

*\*The allocation index is comprised of the S&P 500, the Russell 2000, the EAFE, the Lehman Aggregate, the NCREIF, and treasury bills in proportion to the weights of the respective asset class in the total Basic Retirement Fund.*

## Five-Year Investment Returns



## Schedule of Investment Fees

Year Ended June 30, 1997

<u>Investment Managers' Fees - Basic Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Western Asset Management	\$78,091,184	\$189,947	24.3%
Scudder, Stevens & Clark	33,404,811	206,181	61.7%
Disciplined Growth Investors	21,661,216	163,414	75.4%
Oppenheimer Capital	38,282,331	169,636	44.3%
Strong Capital Management	5,396,230	6,164	11.4%
State Street Global Advisors	25,091,718	10,866	4.3%
<b>Total Investment Managers' Fees</b>	<b>\$201,927,490</b>	<b>\$746,208</b>	<b>37.0%</b>
<u>Other Investment Service Fees - Basic Fund</u>	<u>Nature of Services</u>	<u>Fees Paid</u>	
Jeffrey Slocum & Associates	Consulting	\$39,500	
First Trust National	Custodian	41,042	
<b>Total Investment Service Fees</b>		<b>\$80,542</b>	

# List of Largest Assets Held

June 30, 1997

## Basic Retirement Fund - Largest Equity Holdings (By Market Value)

Shares	Company	Market Value	% of Portfolio
66,000	Federal Home Loan Mortgage	\$2,310,000	1.93
7,066	Wells Fargo & Company	1,904,287	1.59
15,500	Citicorp	1,868,727	1.56
31,000	Aflac Incorporated	1,464,750	1.23
27,200	Becton Dickinson	1,377,000	1.15
20,000	McDonnell Douglas	1,370,000	1.15
25,880	Exel Limited	1,365,170	1.14
31,500	Monsanto Company	1,356,485	1.14
17,800	Ace Limited	1,314,975	1.10
11,000	Caterpillar Incorporated	1,181,125	0.99

## Basic Retirement Fund - Largest Bond Holdings (By Market Value)

Par	Description	Coupon	Maturity	Rating	Market Value
\$9,400,000	Federal National Mortgage Assn.	7.00%	07/01/2027	AAA	\$9,148,344
4,620,000	US Treasury Notes	3.38	01/15/2007	AAA	4,510,275
4,040,000	US Treasury Notes	6.50	05/31/2002	AAA	4,055,150
3,460,000	US Treasury Notes	6.63	07/31/2001	AAA	3,494,600
35,413	Western Asset International			Not rated	3,458,043
3,720,000	US Treasury Bonds	6.00	02/15/2026	AAA	3,328,239
2,750,000	Federal National Mortgage Assn.	4.82	10/21/1998	AAA	2,711,225
2,000 shares	Home Ownership Fund			AAA	1,950,000
1,830,000	US Treasury Notes	6.00	06/30/1999	AAA	1,827,145
1,613,378	Securitized Asset Sales	7.29	08/25/2033	AAA	1,603,302

*A complete list of portfolio holdings is available upon request.*

***ACTUARIAL***  
***SECTION***

# Actuary's Certification Letter



**MILLIMAN & ROBERTSON, INC.**  
Actuaries & Consultants

*Internationally WOODROW MILLIMAN*

Suite 400, 15800 Bluemound Road, Brookfield, Wisconsin 53005-6069  
Telephone: 414/784-2250  
Fax: 414/784-7287

December 1, 1997

Board of Trustees  
Duluth Teachers Retirement Fund Association  
Suite 200  
625 E. Central Entrance  
Duluth, MN 55811

Members of the Board:

We have completed our annual actuarial valuation of the Duluth Teachers Retirement Fund Association (DTRFA) to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the DTRFA as of July 1, 1997.

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

The results of the valuation indicate that the DTRFA is slightly behind schedule to meet the required date for full funding. The deficiency is 0.57% of payroll and is the result of the actuarial computation requirement of 12.87% exceeding the statutory contribution of 12.30%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 1997. In the aggregate, the basic financial membership data provided to us by the association office appears reasonable in comparison to last year, we have relied upon the data as submitted in performing the actuarial valuation. It is our understanding that the data has subsequently been audited with no significant changes made.

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

Albany, Atlanta, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo

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Board of Trustees  
December 1, 1997  
Page Two

For the July 1, 1997 Actuarial Valuation, there were changes to the plan provisions and to the actuarial assumptions. Based on a recent experience study, the retirement decrement assumption was significantly modified; mortality and other demographic assumptions were moderately adjusted to more closely match current expectations. The salary increase assumption was changed from a flat 6.5% per year to an age-related table graded from 8.0% to 5.25%. The combined effect of these assumption changes was a reduction in the actuarial accrued liability of \$11.9 million. Benefit changes adopted as part of the Pension Uniformity Bill increased the benefit multiplier by 0.07% per year and also capped the Normal Retirement Age at 66 for employees hired after June 30, 1989. The combined effect of these benefit changes was an increase in actuarial accrued liability of \$3.3 million.

The following table shows the date for full funding of the plan and the funding percentage for the 1997 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funded Percentage
DTRFA	2020	85.97%

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

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.



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

TKC/bh

MILLIMAN & ROBERTSON, INC.

# Summary of Actuarial Assumption & Methods

- Investment Rate of Return\* ..... 8.5%. Adopted 1989.
- Asset Valuation\* ..... Cost plus one-third unrealized gain or loss. Adopted 1984.
- Post-retirement Mortality\*\* ..... 1983 Group Annuity Mortality Table, male rates set back 2 years, and female rates set back 1 year. Adopted 1997.
- Retirement Age\*\* ..... Graded rates. See table below for sample rates. Adopted 1997.
- Rate of Withdrawal\*\* ..... Graded rates. See table below for sample rates. Adopted 1975.
- Pay Increase and Inflation\* ..... Age related merit increases which incorporates a 5% base inflation assumption. See table below for sample rates. Adopted 1997.
- Actuarial Cost Method\* ..... Entry age normal. Actuarial gains and losses reduce and increase the unfunded actuarial accrued liability.
- Post-retirement Benefit Increase\* ..... An annual 2% post-retirement adjustment is accounted for by using a 6.5% post-retirement rate of return. Adopted 1995.
- Payment on Unfunded Liability\* ..... A level percent of payroll each year to the year 2020, assuming payroll increases 5.0% per year. Adopted 1997.
- Date of Last Experience Study ..... January 1995. (Covering fiscal years 1990-1994.) Assumptions used in the July 1, 1997 valuation are based on that experience study.

\*specified by state law, Minnesota Statutes, Section 356.215  
 \*\*approved by the Legislative Commission on Pensions and Retirement

Age	Sample Annual Rates per 100 Employees:				
	Retirement Age		Withdrawal		Pay Increases All Employees
	Old Plan	New Plan	Male	Female	
20	0	0	20.00	15.00	8.00%
25	0	0	11.32	8.00	7.70%
30	0	0	6.43	4.60	7.20%
35	0	0	4.91	3.60	6.70%
40	0	0	3.68	2.60	6.20%
45	0	0	2.60	1.90	5.70%
50	0	0	1.43	1.40	5.35%
55	15	10	0.13	0.13	5.25%
60	15	10	0.00	0.00	5.25%
65	40	20	0.00	0.00	5.25%

### Changes in 1997:

In fiscal year 1997, new plan provisions were implemented. The three benefit formulas were increased by 0.07%. This increased total actuarial accrued liability (AAL) by \$3,336,000. In addition, new actuarial assumptions were used in the actuarial valuation dated July 1, 1997, based on recommendations in the 1995 experience study. The following actuarial assumptions were changed: mortality rates, retirement age, pay increases and inflation. These changes in assumptions reduced the AAL by \$11,932,000.

# Schedule of Active Member Valuation Data (Last Six Years)



<u>Fiscal Year</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase in Average Pay</u>
1992	1,558	\$41,717,000	\$26,776	1.5%
1993	1,453	39,569,000	27,233	1.7%
1994	1,484	42,626,000	28,724	5.5%
1995	1,512	45,490,000	30,086	4.7%
1996	1,415	43,901,000	31,026	3.1%
1997	1,416	45,348,000	32,025	3.2%

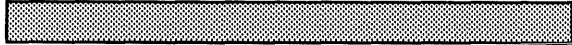
# Schedule of Retirants and Beneficiaries Added to and Removed From Rolls (Last Six Years)



<u>Fiscal Year</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		<u>% Increase in Annual Allowances</u>	<u>Average Annual Allowance</u>
	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		
1992	50	\$593,908	27	\$121,185	728	\$5,458,327	8.9%	\$7,498
1993	118	2,024,930	24	86,189	822	5,891,901	7.9%	7,168
1994	31	344,165	21	125,652	832	7,757,900	31.7%	9,324
1995	32	450,201	23	151,591	841	7,700,323	-0.7%	9,156
1996	50	677,053	31	94,803	860	8,796,491	14.2%	10,228
1997	60	1,000,848	41	289,712	879	8,678,145	-1.3%	9,873

# Solvency Test

## (Last Six Years)



The DTRFA funding objective is to pay long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. In this way, members and the employer in each year pay their fair share for retirement service earned in that year by DTRFA members. Occasionally, rates are increased, but only to add or improve benefit provisions. If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – *the ultimate test of financial soundness*.

A short term solvency test is one means of checking the funding progress of the DTRFA. In a short term solvency test, the fund's present assets are compared to:

- 1) Member contributions on deposit;
- 2) Liabilities for future benefits to present retirees;
- 3) Liabilities for service already rendered by active members.

In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retirees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time. It is unusual for liability 3 to be fully funded.

The schedule below illustrates the progress of funding liability 3 and is indicative of the policy of the DTRFA to follow the discipline of level contribution rate funding.

Fiscal Year	Aggregate Accrued Liabilities For:			Net Asset Value	Portion of Accrued Liabilities Covered by Net Assets		
	(1) Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1992	\$17,442,000	\$42,847,000	\$63,851,000	\$116,492,000	100%	100%	88.0%
1993	16,664,000	58,935,000	57,101,000	130,856,000	100%	100%	96.8%
1994	18,268,000	58,933,000	59,841,000	133,632,000	100%	100%	94.3%
1995	19,592,000	79,529,000	74,844,000	142,852,000	100%	100%	58.4%
1996	21,215,000	91,985,000	76,318,000	157,007,000	100%	100%	57.4%
1997	22,339,000	104,668,000	70,813,000	170,059,000	100%	100%	60.8%

# Analysis of Financial Experience

Actual financial experience will not coincide exactly with assumed financial experience because the future cannot be predicted with certainty. The annual actuarial valuations reveal the differences between actual and assumed experience in the various risk areas. Differences between actual and assumed

experience result in changes in liabilities, which are called actuarial gains (if the experience was financially favorable) and actuarial losses (if the experience was financially unfavorable). In the actuarial valuations, such gains and losses reduce and increase the unfunded actuarial accrued liability.

Below are the gains and losses in accrued liabilities during years ended June 30, 1994, 1995, 1996, 1997 resulting from differences between assumed experience and actual experience:

Types of Activity	Amount of Gain (or Loss) for the Year			
	1994	1995	1996	1997
<b>Pay Increases</b> If there are smaller pay increases than assumed, there is an actuarial gain. If there are greater pay increases than assumed, there is an actuarial loss.	\$3,161,000	\$1,353,000	\$3,402,000	\$2,683,000
<b>Investment Income</b> If there is greater investment income than assumed, there is an actuarial gain. If there is less investment income than assumed, there is an actuarial loss.	(4,474,000)	1,355,000	3,113,000	(64,000)
<b>Mortality After Retirement</b> If retirants live longer than assumed, there is an actuarial loss. If retirants live not as long as assumed, there is an actuarial gain.	(500,000)	(1,949,000)	(267,000)	1,084,000
<b>Other Items</b>	(127,000)	(55,000)	(5,380,000)	(5,548,000)
<b>Gain (or Loss) During Year From Financial Experience</b>	(\$1,940,000)	\$704,000	\$868,000	(\$1,845,000)
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments</b>	0	(28,436,000)	0	(3,336,000)
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions</b>	0	0	0	11,932,000
<b>Composite Gain (or Loss) During Year</b>	(\$1,940,000)	(\$27,732,000)	\$868,000	\$6,751,000

# Plan Summary - Old Plan

## For Members First Hired Before July 1, 1981

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

### Eligibility for Retirement Benefits:

**Full Retirement Benefits:** Eligible at age 60, or if age plus years of service totals at least 90.

**Early Retirement Benefits:** Eligible at age 55 with ten or more years of service. An early retirement reduction is applied equal to  $\frac{1}{4}$  % per month under full retirement age.

Annual Benefit Formula: 1.45% times high 5 average salary, times total years of service.

Vesting: Retirement benefits vest after 10 years of service, or at age 60.

Disability Benefits: Eligible after 5 years of service. Must be totally and permanently disabled from teaching. Full benefits are paid regardless of age. Termination of employment is required.

### Survivor Benefits:

**Death Before Retirement** - Refund of two times member contributions, plus 6% interest, to surviving beneficiaries. If member had at least ten years of service at time of death, a surviving spouse may instead, elect an annuity equal to 120% of the refund amount.

**Death While Eligible to Retire** - If member had at least 10 years of service and was over age 55 at death, a surviving spouse may elect to receive a 100% joint and survivor annuity of equivalent actuarial value.

**Death After Retirement** - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current taxation.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

# Plan Summary - New Plan, Tier I

For Members First Hired July 1, 1981 to June 30, 1989

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**Contributions:** Employees contribute 5.5% of covered salary. Employer contributes 5.79% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

## Eligibility for Retirement Benefits:

**Full Retirement Benefits** - Eligible at age 65, or age 62 with 30 years of service, or if age plus years of service totals at least 90.

**Early Retirement Benefits** - Eligible at age 55 with 3 or more years of service, or any age with at least 30 years of service. An early retirement reduction is applied equal to  $\frac{1}{4}\%$  per month between retirement and age 65.

**Annual Benefit Formula:** 1.20% for each of the first ten years of credited service, 1.70% for each year over ten, times high 5 average salary.

**Vesting:** Retirement benefits vest after 3 years of service, or at age 65.

**Disability Benefits:** Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

## Survivor Benefits:

**Death Before Retirement:** Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or term certain annuity of equivalent actuarial value. A reduction is applied to the benefit amount based on the years of service and age of the member at time of death. Term certain benefits are payable to dependent children if there is no spouse.

**Death After Retirement:** The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

**Refunds:** 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current tax.

**Deferred Benefits:** A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

**Cost of Living Adjustment:** Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

# Plan Summary - New Plan, Tier II

For Members First Hired After June 30, 1989

---

Contributions: Employees contribute 5.5% of covered salary. Employer contributes 5.79% of covered salary; and direct state funding of \$486,000 for all plans on October 1 of each year.

## Retirement Benefits

**Full Retirement Benefits:** Age at which full Social Security retirement benefits are payable, but no higher than age 66. (There is no Rule-of-90 in Tier II.)

**Early Retirement Benefits:** Eligible at age 55 with 3 or more years of service. There is an actuarial reduction, which is 5-6% per year, for each year between retirement and age 65.

Annual Benefit Formula: 1.70% times high 5 average salary, times total years of service credit.

Vesting: Retirement benefits vest after 3 years of credited service, or at age 65.

Disability Benefits: Eligible after 3 years of service. Must be totally and permanently disabled from any substantial, gainful employment. Full benefits paid regardless of age. Termination of employment with the school district is not required.

## Survivor Benefits:

**Death Before Retirement** - Refund of member contributions, plus 6% interest, to beneficiary. If member had at least 3 years of service, a surviving spouse may elect to receive a 100% joint and survivor annuity or a term certain annuity of equivalent actuarial value. A reduction is applied to the benefit amount based on the years of service and age of the member at time of death. Term certain benefits are payable to dependent children if there is no spouse.

**Death After Retirement** - The optional annuity elected at retirement is payable. Options include a 50% joint and survivor annuity, a 100% joint and survivor annuity, or a life and term certain annuity for 5, 10, 15 or 20 years.

Refunds: 30 days after ceasing to render teaching service, a member may receive a refund of their contributions with 6% interest. Refunds may be rolled into an IRA to defer current tax.

Deferred Benefits: A vested, terminated member may leave contributions in the fund until eligible for retirement. The annuity formula at time of termination is used. Benefit is increased 3% per year between termination and age 55, and increased 5% per year after age 55 until benefit payments begin.

Cost of Living Adjustment: Eligible benefit recipients receive an automatic 2% increase in their benefits each January 1. An additional increase is allowed to the extent that 5-year annualized returns of the fund exceed the plan's assumed rate of return of 8.5%.

***STATISTICAL***  
***SECTION***

# Revenues By Source

(Last Six Years)

<u>Fiscal Year</u>	<u>Member Deposits and Transfers</u>	<u>Employer Contributions</u>	<u>Investment Income</u>	<u>Other</u>	<u>Total</u>
1992	\$2,123,735	\$2,482,517	\$12,537,810	\$29,143	\$17,173,205
1993	2,126,385	2,506,010	16,285,152	23,089	20,940,636
1994	2,230,247	2,496,279	8,513,927	11,062	13,251,515
1995	2,144,382	2,694,103	27,123,547 *	15,130	32,588,967 *
1996	2,570,171	2,597,981	21,500,729	74,727	26,743,608
1997	2,643,760	2,708,473	28,835,465	19,308	34,207,006

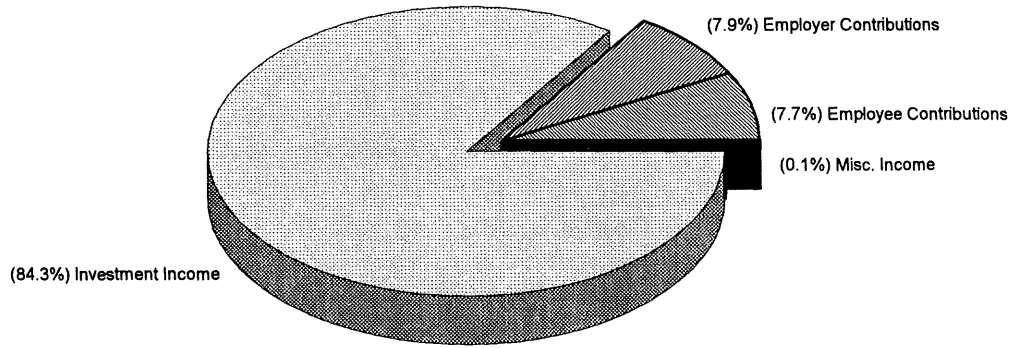
\*Including \$1,905,780 of cumulative effect on prior years of a change in accounting principle.

# Expenses By Type

(Last Six Years)

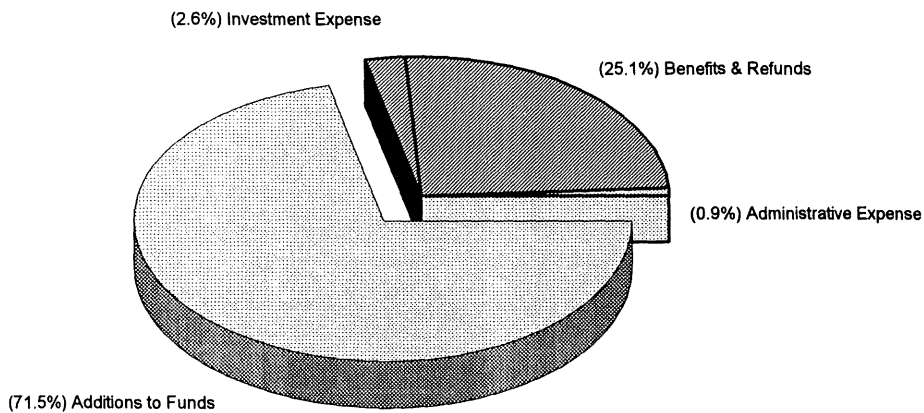
<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative</u>	<u>Refunds</u>	<u>Total</u>
1992	\$5,458,327	\$358,437	\$93,840	\$5,910,604
1993	5,891,901	369,840	152,401	6,414,142
1994	7,757,900	319,941	375,991	8,453,832
1995	7,700,323	336,902	168,382	8,205,607
1996	8,796,491	338,896	28,651	9,164,038
1997	8,678,145	311,379	122,529	9,112,053

### Revenues By Source-Fiscal Year 1997



*Investment earnings make up over 80% of DTRFA revenue in fiscal year 1997.*

### Allocation of Revenues-Fiscal Year 1997



*Over 71% of DTRFA revenues were added to the Fund in fiscal year 1997.*

# Benefit Expense by Type

(Last Six Years)

<u>Fiscal Year</u>	<u>Retirement</u>	<u>Survivor</u>	<u>Disability</u>	<u>Refund</u>	<u>Total</u>
1992	\$5,114,368	\$249,963	\$93,996	\$93,840	\$5,552,167
1993	5,561,474	275,373	55,054	152,401	6,044,302
1994	7,366,138	306,513	85,249	375,991	8,133,891
1995	7,282,236	336,355	81,732	168,382	7,868,705
1996	8,286,598	410,527	99,366	28,651	8,825,142
1997	8,156,315	431,710	90,120	122,529	8,800,674

# Schedule of Retired Members by Amount & Type of Benefit

<u>Amount of Monthly Benefit</u>	<u>Annuitant</u>	<u>Disabilitant</u>	<u>Survivor</u>	<u>Total</u>
\$1 - 200	107	2	3	112
201 - 400	100	0	9	109
401 - 600	97	0	10	107
601 - 800	112	2	10	124
801 - 1,000	104	1	2	107
1,001 - 1,200	85	0	6	91
1,201 - 1,400	60	1	5	66
1,401 - 1,600	40	0	3	43
1,601 - 1,800	36	1	1	38
1,801 - 2,000	31	0	0	31
Over 2,000	<u>51</u>	<u>0</u>	<u>0</u>	<u>51</u>
<b>Totals</b>	823	7	49	879

# Schedule of Average Benefit Payments

(Last Five Years)



Retirement Effective Dates	Years of Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
<b>July 1, 1992 to June 30, 1997</b>							
Period 7/1/92 to 6/30/93:							
Average Monthly Benefit	\$161	\$369	\$659	\$958	\$1,241	\$1,567	\$1,861
Number of Active Retirants	11	3	2	5	11	23	28
Period 7/1/93 to 6/30/94:							
Average Monthly Benefit	\$279	\$250	\$1,203	\$928	\$1,216	\$1,502	\$2,225
Number of Active Retirants	11	1	1	4	13	15	13
Period 7/1/94 to 6/30/95:							
Average Monthly Benefit	\$118	\$267	\$0	\$1,033	\$1,222	\$1,517	\$1,990
Number of Active Retirants	6	3	0	4	3	8	3
Period 7/1/95 to 6/30/96:							
Average Monthly Benefit	\$109	\$198	\$720	\$1,221	\$1,016	\$1,648	\$2,376
Number of Active Retirants	16	2	1	2	4	10	9
Period 7/1/96 to 6/30/97:							
Average Monthly Benefit	\$66	\$355	\$836	\$910	\$1,457	\$1,876	\$2,527
Number of Active Retirants	9	1	2	4	12	8	16
<b>Aggregate During Five Year Period 7/1/92 to 6/30/97:</b>							
Average Monthly Benefit	\$149	\$291	\$819	\$985	\$1,271	\$1,597	\$2,157
Number of Active Retirants	53	10	6	19	43	64	69

# Chronology of Significant Events

- 1909 - Legislature authorizes formation of Teachers' Retirement Fund Associations
- 1910 - Duluth Association incorporated, 4% interest paid on refunds
- 1911 - First investments were in Municipal bonds
- 1919 - Fund is put on an actuarial reserve basis. Formula is  $1/70 \times$  years of service  $\times$  high 10 year average salary. Full retirement at age 55.
- 1921 - First home mortgage was made
- 1943 - First stock investment made
- 1948 - Normal retirement age raised to age 60 over next 5 years
- 1957 - Social Security was adopted for all Duluth educators
  - Formula is  $1/140 \times$  high 10 years average salary  $\times$  years of service. Additional contributions allowed to build higher pension.
- 1964 - 403(b) Tax Sheltered Annuity program started and qualified by the IRS
- 1965 - Last home mortgage issued directly by the Association
- 1966 - Post-retirement adjustment: 10%
- 1968 - Post-retirement adjustment: 9%
- 1969 - Post-retirement adjustment: 4%
- 1971 - Formula is  $1.15\% \times$  high 5 average salary  $\times$  years of service. Full retirement: age 60
  - Post-retirement adjustment: 5%
- 1973 - Tax Shelter Variable Fund started for equity investment
- 1975 - Post-retirement adjustment: 9.5%
- 1976 - Post-retirement adjustment: 3%
- 1978 - Part time and hourly educators gained Social Security and pension coverage
- 1981 - Formula is  $1.25\% \times$  high 5 average salary  $\times$  years of service
  - Post-retirement adjustment: 8.7%
  - Tier I formula instituted for members hired after 6/30/81
- 1983 - Contributions to the fund are treated as tax deferred for Federal income tax
- 1985 - Contributions to the fund are treated as tax deferred for State income tax
  - Lump-sum cost of living adjustment (COLA) established. Unit value \$34
  - Interest paid on refunds increased to 6%
- 1986 - Lump-sum COLA Unit Value: \$44
- 1987 - Lump-sum COLA Unit Value: \$48
- 1989 - Tier II formula instituted for members hired after 6/30/89
  - Lump-sum COLA Unit Value: \$46
- 1990 - Lump-sum COLA Unit Value: \$50
- 1991 - Lump-sum COLA Unit Value: \$52
- 1992 - Lump-sum COLA Unit Value: \$50
  - Minimum investment earnings removed as prerequisite for COLA. Waiting period for COLA reduced from 3 years to 1 year.
- 1993 - Lump-sum COLA Unit Value: \$55
  - Survivor benefits improved for "New Law" members (those hired after 6/30/81)
  - Three new investment managers hired. First international investments made.
- 1994 - Lump-sum COLA Unit Value: \$52
- 1995 - Lump-sum COLA Unit Value: \$55
  - Benefit formulas increased by 0.13%; Lump-sum COLA replaced with 2% COLA
  - Employee contribution rate increased from 4.5% to 5.5%
- 1997 - Benefit formulas increased by 0.07%. State aid of \$486,000 annually obtained.
  - DTRFA moves in to new office building.

# Historical Information

<u>Fiscal Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liabilities</u>	<u>Percent Funded</u>	<u>Rate of Return</u>	<u>Membership</u>		<u>Annual Benefits</u>
					<u>Active</u>	<u>Retired</u>	
1997	\$170,059,000	\$197,820,000	86.0 %	17.7 %	1,416	879	\$8,800,674
1996	157,007,000	189,518,000	82.8	14.9	1,415	860	8,825,142
1995	142,852,000	173,965,000	82.1	20.0	1,512	841	7,868,705
1994	133,632,000	137,042,000	97.5	2.0	1,484	832	8,133,891
1993	130,856,000	132,700,000	98.6	13.5	1,453	822	6,044,302
1992	116,492,000	124,140,000	93.8	12.4	1,558	728	5,552,167
1991	105,087,000	117,582,000	89.4	10.0	1,615	694	5,284,465
1990	97,187,000	103,824,000	93.6	10.5	1,553	676	5,014,008
1989	86,539,000	99,899,000	86.6	13.7	1,620	668	3,780,247
1988	76,279,000	90,759,000	84.0	-6.3	1,578	665	4,644,406
1987	75,130,000	85,504,000	87.9	20.9	1,605	665	3,994,779
1986	64,673,000	78,011,000	82.9	33.4	1,251	608	3,575,077
1985	53,839,000	71,154,000	75.7	29.3	1,183	593	3,014,161
1984	47,859,000	73,174,000	65.4	-4.0	1,137	562	2,323,413
1983	42,901,000	63,631,000	67.4	35.0	1,119	557	2,215,013
1982	39,004,000	58,568,000	66.6	5.8	1,173	531	2,163,562
1981	35,984,924	46,786,496	76.9	12.5	1,221	508	1,827,912
1980	32,102,869	42,014,869	77.3	11.0	1,268	501	1,765,742
1979	29,421,634	37,529,680	78.4	10.0	1,272	494	1,731,360
1978	27,999,592	35,738,048	78.3		1,182	494	1,630,382
1977	26,703,470	34,484,488	79.7		1,207	483	1,513,682
1976	24,718,012	31,109,358	79.5		1,175	473	1,451,889
1975	23,537,352	29,438,620	80.0		1,173	487	1,426,309
1973	22,635,801	24,463,370	92.5		1,136	432	1,203,739
1971	19,782,599	25,644,571	77.1		1,158	378	977,952
1969	18,893,566	16,995,875	111.2		1,159	331	778,023
1967	15,989,940	15,193,619	105.2		939	315	633,374
1965	13,383,460	13,297,963	100.6		874	285	489,480
1962	10,793,087	11,530,817	93.6		775	286	467,317
1959	9,149,200	10,396,897	88.0		716	242	344,378
1954	6,542,424	8,202,803	79.8		632	198	234,172
1952	5,603,225	7,035,678	79.6		575	172	176,255
1949	4,511,251	5,710,673	79.0		565	167	160,999
1946	3,894,364	5,632,563	69.1		581	125	112,672
1943	3,530,411	4,736,725	74.5		615	111	97,786
1940	3,184,300	4,161,948	76.5		678	86	77,302
1937	2,790,459	3,718,979	75.0		690	67	50,421
1934	2,385,690	3,360,525	71.0		713	53	38,386
1931	1,787,097	2,762,428	64.7		736	46	27,258
1928	1,202,626	2,168,376	55.5		724	42	21,009
1925	714,317	1,700,474	42.0		679	39	17,533
1922	313,523	1,287,310	24.4		587	30	12,844
1919	95,879	836,550	11.5				
1916	69,716						
1911	7,725						

# Notes

