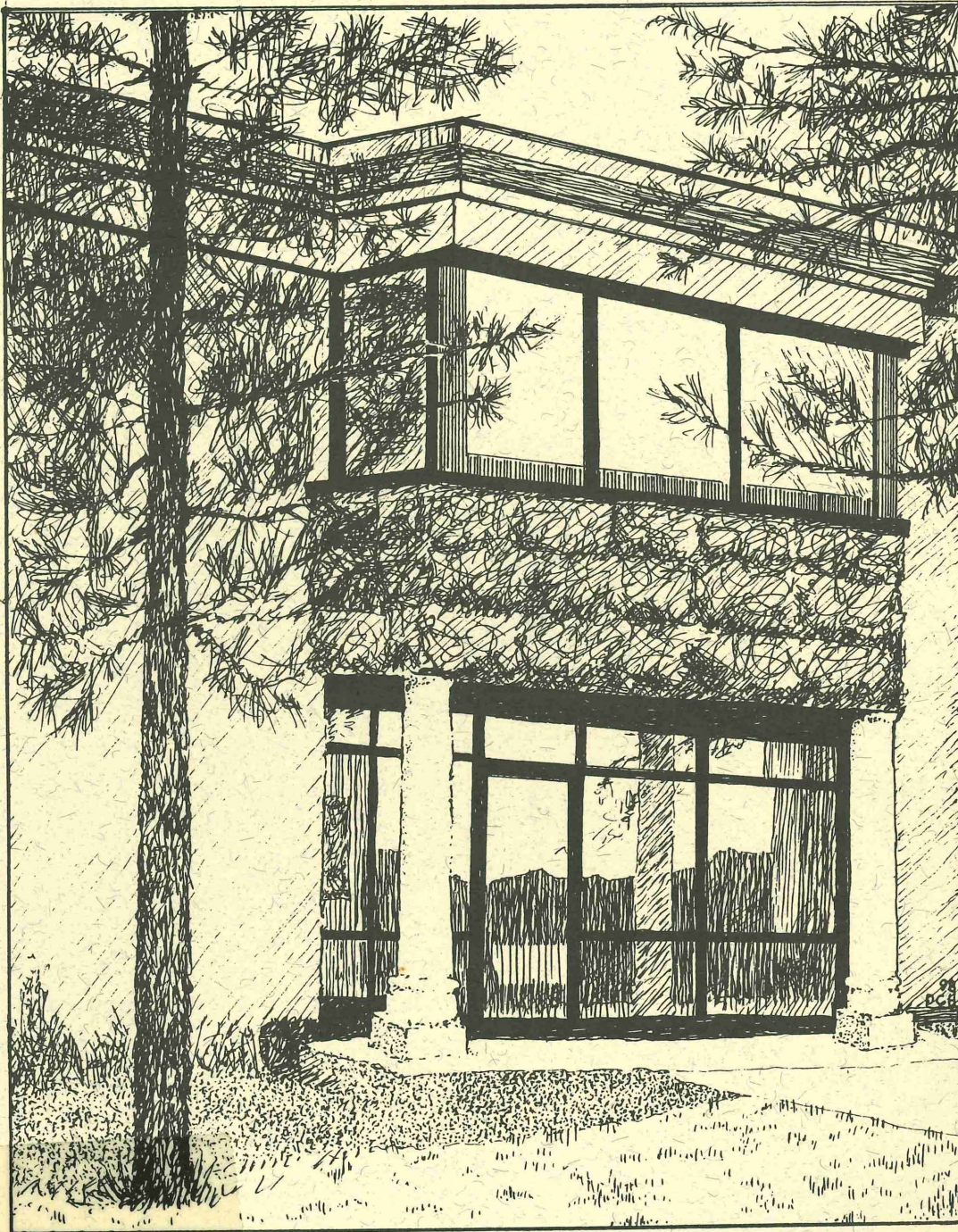




# Duluth Teachers' Retirement Fund Association Duluth, Minnesota



LB2842.2  
.D84gx  
1999

## Comprehensive Annual Financial Report Fiscal Year Ended June 30, 1999



RECEIVED

MAR 16 2000

LEGISLATIVE REFERENCE LIBRARY  
STATE OFFICE BUILDING

**DULUTH TEACHERS' RETIREMENT  
FUND ASSOCIATION**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 1999**

**Report Prepared by:  
Carole Berg, Ron Warner, Jay Stoffel**

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

*Cover art provided by Dale C. Hagen, DTRFA Retiree*

# Table of Contents

## **Introductory Section**

Certificate of Achievement.....	4
Letter of Transmittal .....	5
Board of Trustees.....	9
Administrative Organization .....	10

## **Financial Section**

Independent Auditors' Report .....	12
Basic Financial Statements	
Statement of Plan Net Assets.....	13
Statement of Changes in Plan Net Assets .....	14
Notes to the Financial Statements.....	15
Required Supplementary Information	
Schedule of Funding Progress .....	20
Schedule of Employer Contributions .....	20
Other Required Supplementary Information .....	21
Other Supplementary Information	
Schedule of Investment and Administrative Expenses .....	22
Summary Schedule of Cash Receipts and Disbursements .....	23
Schedule of Payments to Consultants .....	23

## **Investment Section**

Consultant's Certification Letter .....	25
Outline of Investment Policies.....	26
Investment Summary.....	27
Investment Returns .....	28
Schedule of Investment Fees .....	29
List of Largest Assets Held .....	30
Brokerage Commissions Paid.....	31

## **Actuarial Section**

Actuary's Certification Letter.....	33
Summary of Actuarial Assumptions and Methods .....	35
Schedule of Active Member Valuation Data.....	36
Schedule of Retirants and Beneficiaries Added to, Removed from Rolls .....	36
Solvency Test .....	37
Analysis of Financial Experience .....	38
Summary of Plan Provisions .....	39

## **Statistical Section**

Revenues by Source.....	43
Expenses by Type .....	43
Schedule of Benefit Expense by Type.....	45
Schedule of Retired Members by Amount and Type of Benefit .....	45
Schedule of Average Benefit Payments.....	46
Historical Information.....	47

***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, 1998

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.



*Douglas R. Ellsworth*  
President

*Jeffrey L. Esler*  
Executive Director

# Letter of Transmittal

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

625 East Central Entrance · Duluth, Minnesota 55811  
Phone (218) 722-2894 · Fax (218) 722-8208

**J. Michael Stoffel, Executive Secretary**

---

December 1, 1999

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

Dear Trustees and Members of the Association:

I am pleased to present the 90th annual financial report of the Duluth Teachers' Retirement Fund Association (DTRFA) for the fiscal year ended June 30, 1999. The contents of this report are accurate and complete in all material respects and are reported to present fairly the plan net assets and the changes in plan net assets 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, 1999 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, certified staff at charter schools located within the Duluth Public School District, certain staff at Lake Superior College hired prior to July 1, 1995 who elected to continue membership in the DTRFA, and staff of the DTRFA. At June 30, 1999, DTRFA membership consisted of current, active employees numbering 1,509 and retirees and beneficiaries numbering 939.

## 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 1998, and again in February, 1999, 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, the asset allocation was adjusted. The target weighting for fixed income securities was decreased from 35% to 30% of the total portfolio; and the target weighting for small capitalization growth equities was increased from 15% to 20% of the total.

In summary, for the 12 months ended June 30, 1999, the DTRFA achieved a time-weighted rate of return of 11.6% for the "Basic Retirement Fund". Over the five-year period ended June 30, 1999, the DTRFA achieved a rate of return of 15.6%, which is in the top half of a universe of public pension fund portfolios across the country monitored by our investment consultant. This investment return was achieved with median levels of risk in the portfolio. In the tax shelter accounts, fiscal year 1999 returns were 15.7% in the Tax Shelter-Equity Account, 1.4% in the Tax Shelter-Bond Account, and 4.7% 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, over 77% of total income. In fiscal year 1999, as shown below, revenues totaled \$30,044,514, which represents a 19.8% decrease in revenues compared to fiscal year 1998. The decrease in revenue in fiscal year 1999 was due primarily to a decrease in investment income. Although investment income was strong in fiscal year 1999, it was lower than the previous year as the securities markets cooled a bit. Member and employer contribution rates remained unchanged in fiscal year 1999.

<u>Revenue Source</u>	<u>Fiscal 1999</u>	<u>Fiscal 1998</u>	<u>% Change</u>
Member Contributions	\$3,118,271	\$ 2,663,937	17.0%
Employer Contributions	3,020,978	2,724,719	10.9%
State Funding	486,000	486,000	0.0%
Investment and Securities			
Lending Income	23,342,166	31,558,291	(26.0)%
Other Income	<u>77,099</u>	<u>25,412</u>	<u>203.4%</u>
<b>Totals</b>	<b>\$30,044,514</b>	<b>\$37,458,359</b>	<b>(19.8%)</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 1999 totaled \$12,590,017, an increase of 13.0% over fiscal year 1998 expenses, as shown below. Total benefit

## Letter of Transmittal - Continued

payments in fiscal year 1999 increased from last year. This increase was due in large part to a 7.0% cost of living adjustment, effective January 1, 1999. Benefit payments continue to make up over 86% of total expenses. Investment expenses are primarily the fees paid to the professional investment managers and are based on a percentage of assets managed. As assets continue to grow, these fees increase. Administrative costs are the costs of running the office of the Association, and increased slightly in fiscal year 1999.

<u>Expense Type</u>	<u>Fiscal 1999</u>	<u>Fiscal 1998</u>	<u>% Change</u>
Benefit Payments	\$10,926,102	\$ 9,744,631	12.1%
Refund of Contributions	186,044	124,538	49.4%
Investment and Securities			
Lending Expense	1,119,839	934,446	19.8%
Administrative Costs	<u>358,032</u>	<u>340,503</u>	<u>5.1%</u>
<b>Totals</b>	<b>\$12,590,017</b>	<b>\$11,144,118</b>	<b>13.0%</b>

### 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, 1999 the DTRFA had a funding ratio of 99.2%, compared to a ratio of 95.1% at the end of fiscal year 1998.

A number of factors had significant impact on the dramatic improvement in the funding ratio. One positive factor was the 11.6% investment return for the fiscal year, which was significantly higher than the 8.5% assumed rate. There is also another source of gain that merits special attention. The actuarial value of assets increased significantly when assets were transferred to Metropolitan West Asset Management, an investment management firm hired in August 1998. The actuarial valuation calculations were affected by this event because State law requires that the actuarial value of assets recognize only one third of any unrealized market value. The transfer of assets in August 1998 resulted in the realization of 100% of the investment gains that were previously considered unrealized. This had a positive impact on the actuarial value of assets, thereby reducing the unfunded actuarial accrued liability of the pension plan.

There was an additional factor that had a large negative impact on the unfunded accrued liability for the year. The actuarial valuation assumes that each year salaries of members will increase 5.25% to 8.0%, depending on members' ages. During fiscal year 1999, the teachers union and the school board settled a labor contract that covered fiscal years 1998 and 1999. The settlement resulted in a retroactive pay adjustment to teachers in fiscal year 1999 for the two-year period covered by the contract. Total actual salary increases with the retroactive pay adjustments were higher than the actuarial assumed increases, resulting in an actuarial loss for the year. This loss, however, was offset by the actuarial gains described above.

### Major Initiatives

There are two accomplishments worth noting. First, during the 1999 legislative session, Senate File 319 was passed allowing eligible members to purchase service credit in the pension fund in certain circumstances. Eligible members may purchase service credit in the fund for the time they: served in the military; were on a maternity leave or maternity related break in service; taught in a private school or a public school outside of Minnesota; served in the Peace Corp or VISTA; taught part-time in Duluth public schools prior to 1978. Eligible members purchase the service credit by paying the actuarial

## Letter of Transmittal - Continued

value of the higher benefit resulting from the additional service credit. The purchase must be made before the member retires, or by May 16, 2002 (the date the authority in law is scheduled to expire), whichever is earlier.

The second accomplishment was the development of a pre-retirement planning seminar. During the year, a committee of the Board developed a seminar for members of the Association who are approaching retirement age. The seminar provides participants with information about pension benefits, severance benefits, social security and Medicare benefits, estate and financial planning. Each topic is presented by an expert in that particular area. The seminar will be offered two to three times each year. The first seminar was held in August 1999.

### 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

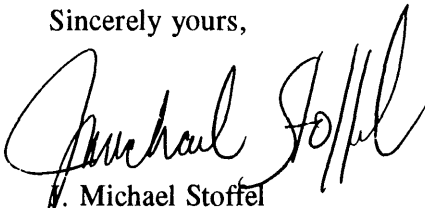
Finally, I am proud to announce that in 1999, the DTRFA received recognition from a national organization for its fiscal year 1998 Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the DTRFA for its CAFR for the fiscal year ended June 30, 1998. This is the third consecutive year the DTRFA has received this honor. 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 CAFR, 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 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,



M. Michael Stoffel  
Executive Secretary

# Board of Trustees

---

## President

**James Turchi**

Elected, Active Trustee  
Term Expires Nov., 1999

## Vice President

**Mary Meierotto**

Elected, Active Trustee  
Term Expires Nov., 2001

## Treasurer

**Jon Vomachka**

Elected, Active Trustee  
Term Expires Nov., 1999

**Mary Glass**

School Board  
Representative

**Paul Rigstad**

Elected, Retired Trustee  
Term Expires Nov., 2001

**Klenow Novitzki**

Elected, Active Trustee  
Term Expires Nov., 2000

**Mavis Whiteman**

Elected, Retired Trustee  
Term Expires Nov., 2000

**Richard Pearson**

Superintendent's Designee

**Michael Zwak**

Elected, Active Trustee  
Term Expires Nov., 2000

# 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

Metropolitan West Asset Management  
Los Angeles, California

Oppenheimer Capital  
New York, New York

Scudder Kemper Investments  
New York, New York

Disciplined Growth Investors  
Minneapolis, Minnesota

Northstar Investment Management Corp.  
Stamford, Connecticut

## 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

(651) 296-2551 (Voice)  
(651) 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 the Duluth Teachers' Retirement Fund Association as of and for the year ended June 30, 1999, 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.

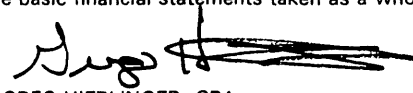
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 plan net assets of the Duluth Teachers' Retirement Fund Association as of June 30, 1999, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.


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. In addition, we do not provide assurance that the Duluth Teachers' Retirement Fund Association is or will become year 2000 compliant, that the Association's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Association does business are or will become year 2000 compliant.

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 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 the Duluth Teachers' Retirement Fund Association. Such information has been subjected to the auditing 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.

  
JUDITH H. DUTCHER  
STATE AUDITOR

  
GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

October 20, 1999

 Recycled paper with a minimum of  
15% post-consumer waste



An Equal Opportunity Employer

# Statement of Plan Net Assets

June 30, 1999

	Pension Trust Funds				Total
	Defined Benefit Plan	Defined Contribution Plan			
	Basic Fund	Bond Fund	Equity Fund	Money Mkt Fund	
<b>Assets</b>					
Cash	\$32,224	\$35,508	\$283,439	\$102	\$351,273
Short-term investments	33,224,103	2,455,065	4,462,427	3,568,930	43,710,525
Total cash and short-term investments	33,256,327	2,490,573	4,745,866	3,569,032	44,061,798
Receivables					
Member contributions	426,109				426,109
Employer contributions	448,575				448,575
Interest	929,878	92,570	105,110		1,127,558
Dividends	108,815		5,585		114,400
Stock and bond sales	7,618,755	2,089,087	180,073		9,887,915
Variation margin on futures contracts	762,500		238,750		1,001,250
Other	4,071		12,605	125	16,801
Total receivables	10,298,703	2,181,657	542,123	125	13,022,608
Investments, at fair value					
U.S. Government obligations	49,640,232	5,377,167	2,073,363		57,090,762
Corporate and other bonds	48,291,076	3,327,390	6,582,867		58,201,333
Common stock	119,164,398		11,891,804		131,056,202
Preferred stock	5,378,281	535,952	563,755		6,477,988
Real estate mortgage loans	2,841,652				2,841,652
Investment in real estate	1,374,294				1,374,294
Total investments	226,689,933	9,240,509	21,111,789		257,042,231
Invested securities lending collateral	43,597,797	1,799,230	5,485,656		50,882,683
Properties, at cost, net of accumulated depreciation of \$78,749	506,329				506,329
Total assets	314,349,089	15,711,969	31,885,434	3,569,157	365,515,649
<b>Liabilities</b>					
Accounts payable	240,966	2,361	2,405		245,732
Securities lending liabilities	43,597,797	1,799,230	5,485,656		50,882,683
Stock and bond purchases	27,299,325	4,858,388	380,662		32,538,375
Deferred contributions		27,177	125,519	8,812	161,508
Total liabilities	71,138,088	6,687,156	5,994,242	8,812	83,828,298
<b>Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 20)</b>	<b>\$243,211,001</b>	<b>\$9,024,813</b>	<b>\$25,891,192</b>	<b>\$3,560,345</b>	<b>\$281,687,351</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, 1999

	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<b>Additions</b>					
Contributions					
Employer	\$3,020,978				\$3,020,978
Plan members' deposits & transfers	3,118,271	\$2,015,047	\$3,212,709	\$2,644,283	10,990,310
State funding	486,000				486,000
Total contributions	<u>6,625,249</u>	<u>2,015,047</u>	<u>3,212,709</u>	<u>2,644,283</u>	<u>14,497,288</u>
Investment activities income					
Net appreciation (depreciation) in fair value of investments	15,604,951	(371,763)	2,745,576		17,978,764
Interest	6,479,623	552,475	606,384	110,813	7,749,295
Dividends	965,839	33,454	158,767		1,158,060
Rental income (net)	118,784				118,784
Total investment activities income	<u>23,169,197</u>	<u>214,166</u>	<u>3,510,727</u>	<u>110,813</u>	<u>27,004,903</u>
Less investment expense	(1,050,669)	(40,656)	(57,835)		(1,149,160)
Net investment activities income	<u>22,118,528</u>	<u>173,510</u>	<u>3,452,892</u>	<u>110,813</u>	<u>25,855,743</u>
Securities lending					
Securities lending income	172,969	10,417	13,617		197,003
Less securities lending expense	(69,170)	(4,166)	(5,359)		(78,695)
Net income from securities lending	<u>103,799</u>	<u>6,251</u>	<u>8,258</u>		<u>118,308</u>
Total net investment income	<u>22,222,327</u>	<u>179,761</u>	<u>3,461,150</u>	<u>110,813</u>	<u>25,974,051</u>
Other income (expense)	77,099	3,095	(5,243)		74,951
Total additions	<u>28,924,675</u>	<u>2,197,903</u>	<u>6,668,616</u>	<u>2,755,096</u>	<u>40,546,290</u>
<b>Deductions</b>					
Benefits to participants					
Retirement	10,226,258				10,226,258
Disability	138,145				138,145
Survivor	561,699				561,699
Contribution refunds	186,044				186,044
Plan members' withdrawals & transfers		3,074,155	4,093,374	805,601	7,973,130
Total benefits, refunds & withdrawals	<u>11,112,146</u>	<u>3,074,155</u>	<u>4,093,374</u>	<u>805,601</u>	<u>19,085,276</u>
Administrative expenses	358,032	13,638	16,926	5,962	394,558
Total deductions	<u>11,470,178</u>	<u>3,087,793</u>	<u>4,110,300</u>	<u>811,563</u>	<u>19,479,834</u>
Net increase (decrease)	17,454,497	(889,890)	2,558,316	1,943,533	21,066,456
<b>Net assets held in trust for pension benefits</b>					
- Beginning of year	225,756,504	9,914,703	23,332,876	1,616,812	260,620,895
- End of year	<u>\$243,211,001</u>	<u>\$9,024,813</u>	<u>\$25,891,192</u>	<u>\$3,560,345</u>	<u>\$281,687,351</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 Statutes 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), eligible employees of charter schools within 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 Bond Fund, Equity 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

The Association's 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 Statutes, Section 356A.06, Subd. 8a 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, 1999, the Association had cash deposits totaling \$351,273. 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, 1999:

<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.	\$351,273	\$363,665

#### Investments

Minnesota Statutes, Sections 354A.08, 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, 1999, 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 Scudder International Equity Trust Fund, real estate, commingled investment funds, and securities on loan to brokers are not considered securities for purposes of credit risk classification.

	Category (a)	Category (c)	Reported Amount & Fair Value
Investments - categorized:			
Short-term investments	\$ 17,042,548		\$ 17,042,548
Repurchase agreements-Invested securities lending collateral		\$50,882,683	50,882,683
U.S. Government obligations	41,917,985		41,917,985
Corporate and other bonds	56,697,595		56,697,595
Common stock	61,393,136		61,393,136
Preferred stock	5,341,720		5,341,720
Mortgage loans	2,841,652		2,841,652
Totals	<u>\$185,234,636</u>	<u>\$50,882,683</u>	
Investments - not categorized:			
Scudder International Equity Trust Fund			38,044,022
Real estate			1,374,294
Commingled investment funds			26,667,977
Investments held by broker - dealers under securities loans:			
U.S. Government obligations			15,172,777
Common stock			31,619,044
Preferred stock			1,136,268
Corporate and other bonds			1,503,738
Total investments			<u>\$351,635,439</u>
Amounts from statement of plan net assets:			
Short-term investments			\$ 43,710,525
Investments			257,042,231
Invested securities lending collateral			50,882,683
Total investments			<u>\$351,635,439</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

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. Securities on loan include U.S. Government securities and common stocks. 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 exceeds 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.

### Derivative Investments

The Association invests in futures contracts. The objective of the strategy that utilizes these investments is to exceed the total return of the S&P 500 Index by using enhanced equity strategies.

Upon entering into a futures contract, each party is required to deposit with the broker an amount, referred to as an initial margin, equal to a fixed dollar amount per futures contract, as determined by the Chicago Mercantile Exchange. In lieu of a cash initial margin, the broker holds U.S. Treasury Bills on behalf of the Association as collateral. Subsequent cash flows, referred to as variation margins, are received or paid each day by each party equal to the daily fluctuations in the value of the contract.

Futures contracts involve, to varying degrees, credit and market risks. The Association enters into contracts only on

exchanges where the exchange acts as the counterparty to the transaction. Thus, credit risk on such transactions is limited to the failure of the exchange. Losses in value may arise from changes in the value of the underlying instruments or if there is an illiquid secondary market for the contracts.

### Receivables

Receivables are recognized in the period in which amounts are due pursuant to formal commitments as well as contractual requirements. At June 30, 1999, receivables consisted of contributions owed by members and employers, interest and dividends from investments, amounts due from the sales of stocks and bonds where the trade was initiated prior to June 30, 1999, but settled at a later date, and variation margins from futures contracts.

### 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, 1999 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.	\$466,337	\$31,407	\$434,930
Furniture and fixtures	7 yrs.	118,741	47,342	71,399
Totals		<u>\$585,078</u>	<u>\$78,749</u>	<u>\$506,329</u>

### Liabilities

Liabilities for benefits and refunds are recognized when due and payable in accordance with the terms of the plan. At June 30, 1999, liabilities consisted principally of management fees owed for the quarter ended June 30, 1999, obligations to return securities lending collateral, member deposits in the defined contribution plan which will be credited to the members' accounts after the computation of the monthly unit value, and obligations for the purchase of investments where the trade was initiated prior to June 30, 1999, but settled at a later date.

# Notes - Continued

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

### 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 potential 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 four 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), licensed teachers of charter schools within Independent School District 709, and the employees of the Association. At June 30, 1999, membership consisted of:

Retirees and beneficiaries receiving benefits	939
Terminated plan members entitled to, but not yet receiving benefits	704
Active plan members	<u>1,509</u>
Total	<u>3,152</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 at 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 full retirement age.

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 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.

# Notes - Continued

## 2. Defined Benefit Plan (cont.)

### 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 is 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, and to the extent that contribution rates are determined to be actuarially sufficient.

### Funding

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

Minnesota Statutes, Section 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, Section 356.215, Subd. 4(g) and Section 354A.026. 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, 1999, members were required to contribute 5.5% of their salaries to the Association. Employer contributions were 5.79% of the members' salaries.

Pursuant to legislation, the State of Minnesota provided direct aid to the Duluth Teachers' Retirement Fund Association of \$486,000. This funding will continue at the same level annually in future years, until the accrued liability funding ratio of the Association equals or exceeds the accrued liability funding ratio of the Minnesota Teachers' Retirement Association.

## NOTE 3. DEFINED CONTRIBUTION PLAN

The Bond Fund, Equity 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 participating employers in the tax sheltered program include Independent School District 709 and Duluth Charter Schools. 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, 1999, there were 398 participants in the Bond Fund, 592 participants in the Equity Fund, and 175 participants in the Money Market Fund.

A summary of the unit values at June 30, 1999, is as follows:

	Bond Fund	Equity Fund	Money Mkt. Fund
Net assets	\$9,024,813	\$25,891,192	\$3,560,345
Units outstanding	1,494,381	3,297,254	1,764,679
Net assets value per unit	\$6.0392	\$7.8524	\$2.0176

# 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)
7/1/94	\$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
7/1/98	187,482	197,078	9,596	95.1	47,064	20.4
7/1/99	218,698	220,540	1,842	99.2	52,176	3.5

(unaudited)

## Schedule of Contributions From Employers and the State of Minnesota

(Dollars in Thousands)

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Employer Percentage Contributed	Additional State Contributions	State Percentage Contributed
1994	\$ 2,171	\$ 2,496	115.0%	-	-
1995	2,676	2,694	100.7	-	-
1996	3,366	2,598	77.2	-	-
1997	3,717	2,708	72.9	-	-
1998	3,393	2,725	80.3	\$486	14.3%
1999	2,225	3,021	135.8	486	21.8

Note: Annual required contribution is actuarially determined based on projected payroll. The employer is required by statute to contribute 5.79% of payroll to the fund, and the State of Minnesota is required to contribute \$486,000 annually. The employer and the State made all contributions required by statute.

(unaudited)

# Other 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, 1999.
- 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, 1999, is 21 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

- 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 - Plan Provision Changes
- 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 a graded age rate schedule from 5.25% to 8.0%.
  - Mortality table changed to *1983 Group Annuity Mortality*, male rates set back 2 years, female rates set back 1 year.

## YEAR 2000

The Duluth Teachers' Retirement Fund Association has taken steps to implement a year 2000-compliant system and is nearing completion of the process. The process has four stages, including:

- Awareness - establishing a project plan and budget.
- Assessment - identifying and checking systems and components of systems for year 2000 compliance, giving special attention to mission critical systems.
- Remediation - converting existing systems or switching to compliant systems.
- Validation/Testing - testing, correcting, and retesting the newly converted or upgraded systems to determine compliance.

Suppliers and vendors of mission critical systems have been identified. Written verification of year 2000 compliance has been completed as of June 30, 1999. Remediation and validation/testing is targeted for completion by November 30, 1999.

The above description of the stages of work completed to address year 2000 issues is not a guarantee those systems and equipment will be year 2000 compliant.

(unaudited)

# Schedule of Investment & Administrative Expenses

For the Year Ended June 30, 1999



	Pension Trust Funds				Total
	Defined	Defined Contribution Plan			
	Benefit Plan	Bond	Equity	Money Mkt	
	Basic Fund	Fund	Fund	Fund	
<b>Investment Expenses</b>					
Salaries	\$27,670				\$27,670
Payroll taxes	1,914				1,914
Group insurance	3,483				3,483
Investment management	912,567	\$29,554	\$50,220		992,341
Investment advisor	29,000				29,000
Custodial fees	76,035	11,102	7,615		94,752
<b>Total investment expenses</b>	<b>\$1,050,669</b>	<b>\$40,656</b>	<b>\$57,835</b>		<b>\$1,149,160</b>
<b>Administrative Expenses</b>					
<b>Personnel</b>					
Salaries	\$138,532	\$6,897	\$9,853	\$2,955	\$158,237
Payroll taxes	10,597	515	736	221	12,069
Group insurance	17,606	795	1,136	341	19,878
Total personnel expenses	166,735	8,207	11,725	3,517	190,184
<b>General expenses</b>					
Bank charges	3,770				3,770
Data processing	3,218	140	200	60	3,618
Depreciation	34,758				34,758
Dues and periodicals	3,293				3,293
Insurance	1,953				1,953
Meetings, conventions & travel	23,196				23,196
Printing, postage & office supplies	15,410	344	491	147	16,392
Real estate taxes	4,925				4,925
Repairs and service contracts	1,343				1,343
Supplies - building	11,025				11,025
Utilities and telephone	8,472				8,472
Other	4,839	437		42	5,318
Total general expense	116,202	921	691	249	118,063
<b>Professional fees</b>					
Actuarial	42,476				42,476
Auditing and accounting	30,016	4,510	4,510	2,196	41,232
Legal	2,603				2,603
Total professional fees	75,095	4,510	4,510	2,196	86,311
<b>Total administrative expenses</b>	<b>\$358,032</b>	<b>\$13,638</b>	<b>\$16,926</b>	<b>\$5,962</b>	<b>\$394,558</b>

# Summary Schedules

For the Year Ended June 30, 1999

## Summary Schedule of Cash Receipts and Disbursements

### Basic Fund

Cash and Equivalents at Beginning of Year - July 1, 1998	<u>\$19,046,584</u>
<b>Add Receipts:</b>	
Member Contributions	3,025,408
Employer Contributions	2,923,212
State Funding	486,000
Investment Income	6,557,146
Investments Redeemed/Sold	641,312,460
Other	<u>78,704</u>
<b>Total Cash Receipts</b>	<u>654,382,930</u>
<b>Less Disbursements:</b>	
Benefit Payments	10,926,102
Refunds	186,044
Administrative Expense	321,453
Investment Expense	1,092,442
Investments Purchased	626,522,801
Rental Property Purchased	93,207
Loans Made	1,000,000
Fixed Assets Purchased	<u>31,138</u>
<b>Total Cash Disbursements</b>	<u>640,173,187</u>
Cash and Equivalents at End of Year - June 30, 1999	<u><u>\$33,256,327</u></u>

## 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	\$19,715
Office of the State Auditor	Auditing	10,301
Hewitt Associates	Actuarial	26,114
Milliman & Robertson	Actuarial	4,362
State of Minnesota	Actuarial	12,000
Halverson, Watters	Legal	<u>2,603</u>
Total		<u><u>\$75,095</u></u>

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

# Consultant's Certification Letter

**JEFFREY  
SLOCUM**  
& ASSOCIATES  
INCORPORATED

*Investment Performance  
Analysis and Consulting  
for Institutional Funds*

August 11, 1999

Board of Trustees  
Duluth Teachers' Retirement Fund Association  
625 East Central Entrance  
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, 1999, the fund achieved a 12.0% rate of return from all assets. This return ranked in the 34<sup>th</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 five-year period ended June 30, 1999, the fund achieved a 16.0% annualized rate of return which ranked in the 43<sup>rd</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 portfolio exceeded the actuarial investment return assumption of 8.5% by 6.8% over the last three years and by 7.5% 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, 1999 the fund returns have been produced with median levels of return volatility or risk.

Sincerely,



KC Connors, 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, 1999

---

## 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 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 Funds' 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. Investment Authority            | H. Asset Guidelines - Real Estate                |
| B. Investment Objectives           | I. Securities Lending                            |
| C. Time Horizon                    | J. Market Valuation                              |
| D. Volatility                      | K. Performance Measurement                       |
| E. Asset Allocation                | L. Investment Manager Selection<br>and Retention |
| F. Asset Guidelines - Equities     |  |
| G. Asset Guidelines - Fixed Income |  |

## 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.

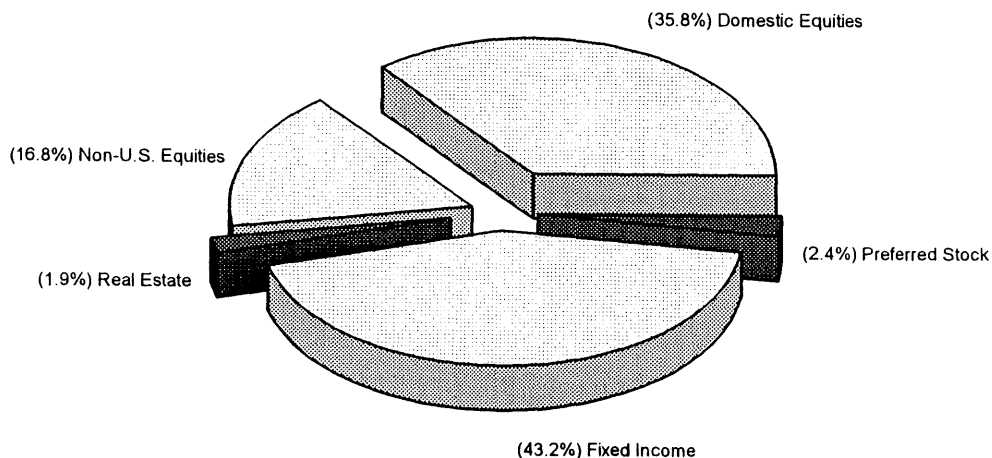
# Investment Summary

## Schedule of Investments - June 30, 1999

	Percent of Market Value	Market Value	Cost	Market Value Over(Under) Cost
<b>Basic Fund</b>				
U.S. Government obligations	21.9%	\$49,640,232	\$49,863,064	(222,832)
Corporate and other bonds	21.3%	48,291,076	48,699,179	(408,103)
Domestic equities	35.8%	81,120,376	61,944,083	19,176,293
International equities	16.8%	38,044,022	19,588,078	18,455,944
Preferred stock	2.4%	5,378,281	5,611,123	(232,842)
Other mortgages	1.3%	2,841,652	2,841,652	
Real estate	0.6%	1,374,294	1,374,294	
<b>Total Basic Fund</b>	<b>100.0%</b>	<b>226,689,933</b>	<b>189,921,473</b>	<b>36,768,460</b>
<b>Bond Fund</b>				
U.S. Government obligations	58.2%	5,377,167	5,431,597	(54,430)
Corporate and other bonds	36.0%	3,327,390	3,408,689	(81,299)
Preferred stock	5.8%	535,952	562,582	(26,630)
<b>Total Bond Fund</b>	<b>100.0%</b>	<b>9,240,509</b>	<b>9,402,868</b>	<b>(162,359)</b>
<b>Equity Fund</b>				
U.S. Government obligations	9.8%	2,073,363	2,099,142	(25,779)
Corporate and other bonds	31.2%	6,582,867	6,572,219	10,648
Domestic equities	56.3%	11,891,804	9,323,851	2,567,953
Preferred Stock	2.7%	563,755	520,385	43,370
<b>Total Equity Fund</b>	<b>100.0%</b>	<b>21,111,789</b>	<b>18,515,597</b>	<b>2,596,192</b>
<b>Total all funds</b>		<b>\$257,042,231</b>	<b>\$217,839,938</b>	<b>\$39,202,293</b>

### Asset Allocation - Basic Fund

June 30, 1999



# Investment Returns

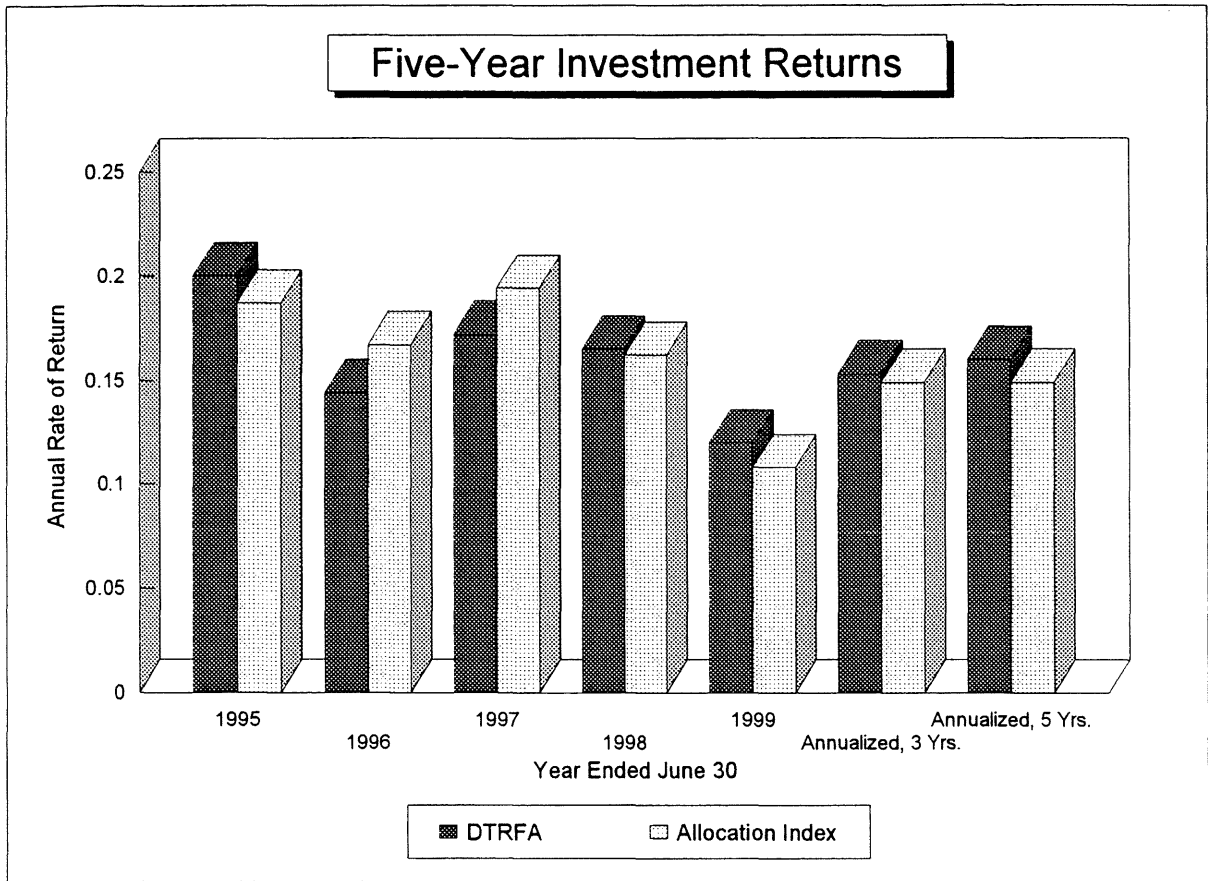
(Last Five Years)

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, 1999 - Basic Fund**

<u>Investment</u>	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>
<b>Total portfolio-DTRFA</b>	<b>12.0%</b>	<b>15.3%</b>	<b>16.0%</b>
Allocation index*	10.8%	14.9%	14.9%
<b>U.S. equities-DTRFA</b>	<b>21.6%</b>	<b>22.9%</b>	<b>24.3%</b>
S&P 500	22.8%	29.1%	27.9%
Russell 2000	1.5%	11.2%	15.4%
<b>International equities-DTRFA</b>	<b>8.3%</b>	<b>12.1%</b>	<b>12.5%</b>
EAFE Index	7.6%	8.8%	8.2%
<b>Fixed income-DTRFA</b>	<b>2.6%</b>	<b>7.8%</b>	<b>8.2%</b>
Lehman Aggregate Bond Index	3.1%	7.2%	7.8%
<b>Real estate-DTRFA</b>	<b>12.8%</b>	<b>9.3%</b>	<b>9.4%</b>
NCREIF Property Index	13.5%	14.4%	12.1%
<b>Cash equivalents-DTRFA</b>	<b>4.7%</b>	<b>4.9%</b>	<b>5.1%</b>
91-day Treasury Bills	4.9%	5.2%	5.3%

*\*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.*



## Schedule of Investment Fees

Year Ended June 30, 1999

<u>Investment Managers - Basic Fund</u>	<u>Assets Under Management</u>	<u>Fees Paid</u>	<u>Basis Points</u>
Western Asset Management	\$87,119,940	\$231,289	26.5
Scudder, Stevens & Clark	38,044,022	242,509	63.7
Disciplined Growth Investors	24,017,276	132,571	55.2
Oppenheimer Capital	35,493,729	154,349	43.5
Northstar Investment Management	24,555,028	150,399	61.2
State Street Global Advisors	0	1,450	0
<b>Totals</b>	<b>\$209,229,995</b>	<b>\$912,567</b>	<b>43.6</b>

<u>Other Investment Service Fees - Basic Fund</u>	<u>Nature of Services</u>	<u>Fees Paid</u>
Jeffrey Slocum & Associates	Consulting	\$29,000
U S Bank	Custodian	76,035
<b>Total Investment Service Fees</b>		<b>\$105,035</b>

# List of Largest Assets Held

June 30, 1999

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

Shares	Company	Market Value
39,500	Computer Associates International, Inc.	\$2,162,625
37,725	Citigroup, Inc.	1,791,938
38,660	Wells Fargo & Company	1,652,715
19,000	Minnesota Mining and Manufacturing	1,651,822
35,000	McDonalds Corporation	1,439,375
31,000	Monsanto Company	1,226,453
21,000	Federal Home Loan Mortgage Corporation	1,218,000
21,000	American Home Products Corporation	1,204,875
20,000	Caterpillar, Inc.	1,200,000
22,000	Waste Management, Inc.	1,182,500

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

Par	Description	Coupon	Maturity	Rating	Market Value
\$4,590,000	US Treasury Inflation Indexed Bond	3.625 %	04/15/2028	AAA	\$4,334,704
3,950,000	US Treasury Inflation Indexed Note	3.375	01/15/2007	AAA	3,788,287
8,500,000	US Treasury Bond Strip	8.000	11/15/2021	AAA	2,103,750
2,000	Home Ownership Funding	13.331	-	AAA	1,712,188
1,370,000	US Treasury Inflation Indexed Bond	3.875	04/15/2029	AAA	1,352,026
1,300,000	US Treasury Note	6.250	02/15/2003	AAA	1,319,500
1,300,000	Dryden Investor Trust Debentures	7.157	07/23/2008	A+	1,253,538
1,200,000	US Treasury Bond	5.250	02/15/2029	AAA	1,077,000
1,069,771	Union Acceptance Corp.	5.830	10/09/2001	AAA	1,071,440
1,077,724	Securitized Asset Sales, Inc.	7.028	08/25/2033	AAA	1,070,993

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

# Brokerage Commissions Paid

Year Ended June 30, 1999



<u>Brokerage Firm</u>	<u>Dollar Volume</u>	<u>Number of Shares Traded</u>	<u>Total Commissions</u>	<u>Commissions Per Share</u>
Robinson Humphrey	\$7,839,605	201,400	\$12,210	\$0.06
Instinet	6,340,480	217,325	10,373	0.05
Lynch Jones & Ryan Inc.	3,459,954	142,800	8,233	0.06
Paine Webber	3,281,219	114,708	7,273	0.06
Goldman Sachs	2,731,186	80,500	4,526	0.06
Hoenig & Co.	2,419,727	97,600	5,812	0.06
Credit Suisse	2,219,847	47,545	2,793	0.06
Morgan Stanley	2,108,724	57,600	3,310	0.06
CIBC	1,873,554	53,974	3,057	0.06
Lehman Brothers	1,760,817	78,600	4,760	0.06
Prudential Securities	1,555,400	35,050	2,108	0.06
Hambrecht & Quist	1,512,986	119,200	7,436	0.06
NationsBanc Montgomery	1,417,497	103,900	6,189	0.06
Bear Stearns	1,227,586	50,300	3,033	0.06
Piper Jaffrey	1,203,959	144,100	8,979	0.06
Cantor Fitzgerald & Co.	1,173,327	23,000	1,295	0.06
BT Alex Brown	1,167,299	121,900	7,244	0.06
Salomon Smith Barney	1,167,182	24,700	1,482	0.06
Sanford Bernstein	1,140,127	19,200	1,152	0.06
Cowen & Company	1,032,266	18,000	1,080	0.06
CL King & Associates	927,898	24,000	1,440	0.06
Bridge Trading	924,871	35,600	2,136	0.06
Robertson Stephens	888,943	54,000	3,364	0.06
Donaldson & Co.	852,713	23,000	1,380	0.06
Neuberger & Berman	798,837	13,000	780	0.06
Everon Securities	746,880	42,900	2,655	0.06
Smith Barney	732,377	60,800	3,705	0.06
ITG Group	683,767	24,400	1,464	0.06
Deutsche Bank	639,828	18,700	1,122	0.06
Weeden & Co.	622,615	47,600	2,686	0.06
Volpe & Weity	585,983	29,100	1,781	0.06
Warburg	561,309	14,100	306	0.02
SG Cowen & Co	546,006	16,800	1,008	0.06
Dain Rauscher Wessels	519,074	24,000	1,381	0.06
Charles Schwab & Co .	506,977	9,000	540	0.06
Adams, Harkness & Hill	483,052	32,805	2,041	0.06
Jeffries & Co.	437,970	39,100	2,429	0.06
Robert Baird	434,428	14,200	870	0.06
Dain Bosworth	419,573	27,650	1,728	0.06
Donaldson Lufkin & Jenrette	385,091	19,200	1,170	0.06
Davis Mendel	384,567	7,000	420	0.06
JP Morgan	376,538	12,900	774	0.06
Legg Mason Wood Walker	371,237	6,000	300	0.05
Others (includes 36 brokerage firms)	6,268,568	374,600	22,975	0.06
<b>Totals</b>	<b>\$66,731,844</b>	<b>2,721,857</b>	<b>\$160,800</b>	<b>\$0.06</b>

***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

November 11, 1999

Board of Trustees  
Duluth Teachers Retirement Fund Association  
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, 1999.

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 deadlines for full funding.

The results of the valuation indicate that the DTRFA is slightly ahead of schedule to meet the required date of full funding. The sufficiency is 3.04% of payroll and is the result of the statutory contribution of 12.20% exceeding the actuarial computation requirement of 9.16%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 1999. 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

WOODROW MILLIMAN Member Firms in Principal Cities Worldwide

The trend data schedules presented in the financial section, and the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report were prepared by the staff of the DTRFA based on information contained in our actuarial valuation report.

As anticipated last year, there is a source of modest loss this year which deserves special mention. The valuation assumes that each year salaries of teachers will increase according to an age-rate table graded from 8.0% to 5.25%. The Duluth Teachers' Union has negotiated a new contract with the School Board. Since the old contract expired over one year prior to the valuation date last year, the reported salaries did not reflect any increases in pay. That situation produced significant gains in the valuation results for last year. The situation has reversed itself with the new contract providing for retroactive pay increases. This has resulted in a loss compared to last year.

The following table shows the date of full funding of the plan and the funding percentage for the 1999 valuation. The expected full funding date is the date that assets are expected to equal or exceed the actuarial accrued liability based upon the valuation assumptions. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

<b>Fund</b>	<b>Required Funding Date</b>	<b>Expected Full Funding Date</b>	<b>Current Funded Percentage</b>
DTRFA	2020	2001	99.16%

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

# 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, 1999 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

Sample Annual Rates per 100 Employees:					
<u>Age</u>	<u>Retirement Age</u>		<u>Withdrawal</u>		<u>Pay Increases All Employees</u>
	<u>Old Plan</u>	<u>New Plan</u>	<u>Male</u>	<u>Female</u>	
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%

# 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>
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	31,025	3.1%
1997	1,416	45,348,000	32,025	3.2%
1998	1,437	45,848,000	31,905	-0.4%
1999	1,509	50,675,000	33,582	5.3%

# 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>		
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
1998	58	898,675	27	242,860	910	9,744,631	12.3%	10,708
1999	55	1,263,965	29	251,972	939	10,926,102	12.1%	11,636

# 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)	(2)	(3)		(1)	(2)	(3)
	Member Contributions	Retirees & Beneficiaries	Active Members (Employer Financed)				
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%
1998	23,608,000	107,399,000	66,071,000	187,482,000	100%	100%	85.5%
1999	24,596,000	124,939,000	71,005,000	218,698,000	100%	100%	97.4%

# 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, 1996, 1997, 1998, 1999 resulting from differences between assumed experience and actual experience:

Types of Activity	Amount of Gain (or Loss) for the Year			
	1996	1997	1998	1999
<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.	\$3,402,000	\$2,683,000	\$6,718,000	(\$3,104,000)
<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.	3,113,000	(64,000)	2,956,000	12,986,000
<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.	(267,000)	1,084,000	1,501,000	(3,125,000)
<b>Other Items</b>	(5,380,000)	(5,548,000)	6,109,000	(104,000)
<b>Gain (or Loss) During Year</b>				
<b>From Financial Experience</b>	\$868,000	(\$1,845,000)	\$17,284,000	\$6,653,000
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Plan Amendments</b>	0	(3,336,000)	2,208,000	0
<b>(Increase)/Decrease in Actuarial Accrued Liability Due to Changes In Actuarial Assumptions</b>	0	11,932,000	0	0
<b>Composite Gain (or Loss) During Year</b>	<u>\$868,000</u>	<u>\$6,751,000</u>	<u>\$19,492,000</u>	<u>\$6,653,000</u>

# 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

---

**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>
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
1998	2,663,937	3,210,719 **	30,623,845	25,412	36,523,913
1999	3,118,271	3,506,978 **	22,222,327	77,099	28,924,675

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

\*\*Includes \$486,000 in direct state funding.

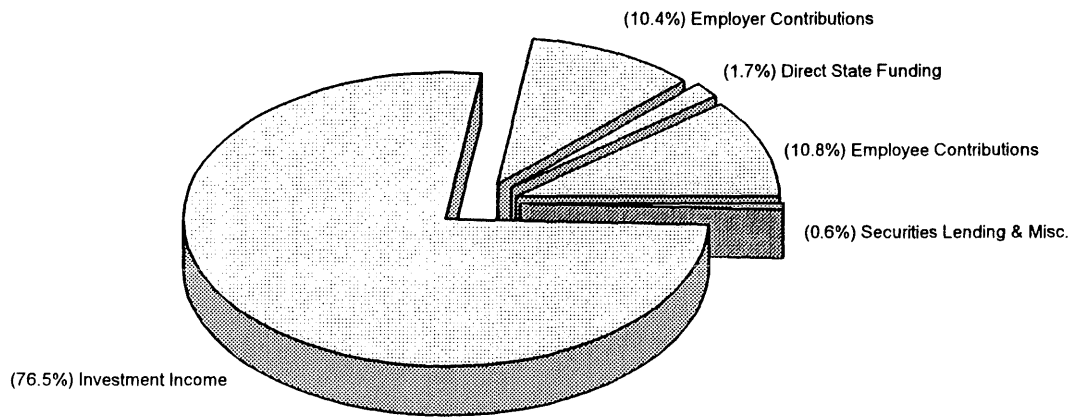
# Expenses by Type

(Last Six Years)

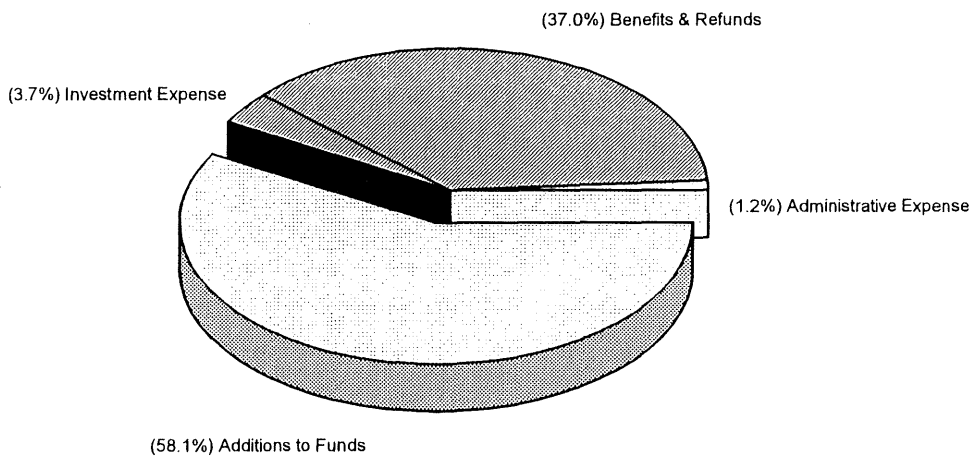


<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative</u>	<u>Refunds</u>	<u>Total</u>
1994	\$7,757,900	\$319,941	\$375,991	\$8,453,832
1995	7,700,323	336,902	168,382	8,205,607
1996	8,796,491	338,896	28,651	9,164,038
1997	8,678,145	311,379	122,529	9,112,053
1998	9,744,631	340,503	124,538	10,209,672
1999	10,926,102	358,032	186,044	11,470,178

## Revenues By Source-Fiscal Year 1999



## Allocation of Revenues-Fiscal Year 1999



# 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>
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
1998	9,175,338	473,335	95,958	124,538	9,869,169
1999	10,226,258	561,699	138,145	186,044	11,112,146

# 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	109	3	3	115
201 - 400	93	1	6	100
401 - 600	66	1	8	75
601 - 800	94	0	10	104
801 - 1,000	97	3	9	109
1,001 - 1,200	86	1	5	92
1,201 - 1,400	76	0	4	80
1,401 - 1,600	61	2	5	68
1,601 - 1,800	49	1	3	53
1,801 - 2,000	30	2	1	33
Over 2,000	<u>107</u>	<u>0</u>	<u>0</u>	<u>107</u>
<b>Totals</b>	<b>868</b>	<b>14</b>	<b>54</b>	<b>936</b>

# Schedule of Average Benefit Payments

(Last Five Years)



Retirement Effective Dates <u>July 1, 1994 to June 30, 1999</u>	Years of Service						
	<u>0 - 5</u>	<u>5 - 10</u>	<u>10 - 15</u>	<u>15 - 20</u>	<u>20 - 25</u>	<u>25 - 30</u>	<u>30+</u>
<b>Period 7/1/94 to 6/30/95:</b>							
Average Monthly Benefit	\$106	\$286	\$0	\$707	\$1,391	\$1,726	\$2,264
Number of Active Retirants	6	3	0	4	3	8	3
<b>Period 7/1/95 to 6/30/96:</b>							
Average Monthly Benefit	\$111	\$216	\$819	\$1,021	\$1,156	\$1,875	\$2,468
Number of Active Retirants	16	2	1	2	4	10	9
<b>Period 7/1/96 to 6/30/97:</b>							
Average Monthly Benefit	\$130	\$354	\$0	\$976	\$1,535	\$1,669	\$2,289
Number of Active Retirants	9	2	0	1	10	3	3
<b>Period 7/1/97 to 6/30/98:</b>							
Average Monthly Benefit	\$185	\$441	\$828	\$1,125	\$1,219	\$1,933	\$2,605
Number of Active Retirants	15	4	4	6	10	16	27
<b>Period 7/1/98 to 6/30/99:</b>							
Average Monthly Benefit	\$0	\$67	\$0	\$1,326	\$1,509	\$1,843	\$2,653
Number of Active Retirants	0	3	0	6	12	14	23
<b>Aggregate During Five Year Period 7/1/94 to 6/30/99:</b>							
Average Monthly Benefit	\$138	\$283	\$826	\$1,082	\$1,396	\$1,849	\$2,573
Number of Active Retirants	46	14	5	19	39	51	65

# 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. Employee contribution rate 4.5%.
  - 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

Fiscal Year	Actuarial	Actuarial	Percent	Rate of	Membership		Annual
	Value of	Accrued			Funded	Return	
	Assets	Liabilities					
1999	\$218,698,000	\$220,540,000	99.2 %	12.0 %	1,509	939	\$11,112,146
1998	187,482,000	197,078,000	95.0	16.5	1,437	910	9,869,169
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						