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ANNUAL REPORT

of the

BOARD OF TRUSTEES

Teachers' Retirement Fund Association

St. Paul, Minnesota

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STATE OF MINNESOTA
Year Ended December 31, 1977

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TEACHERS' RETIREMENT FUND ASSOCIATION

Room 303 555 Wabasha Street

St. Paul, Minnesota 55102

Saint Paul Teachers' Retirement Fund Association

555 WABASHA STREET, ROOM 303, SAINT PAUL, MINNESOTA 55102

PHONE: 222-8689

The Board of Trustees of Teachers' Retirement Fund Association, St. Paul, Minnesota submits herewith the Annual Financial Report for the year ending December 31, 1977 in accordance with the provisions of Minnesota Statute 356.20.

The total membership increased from 3760 to 3836. The regularly appointed members increased by 73, the substitutes currently working decreased by 31 and the retired and inactive membership increased by 34. The complete membership statistics are included in this report.

Our investment portfolio increased \$6,482,111.00 to \$60,383,882.00. This figure is based on bonds at par, stock at cost, and short term at face value. You are encouraged to read the letter from our Investment Counsel included in this report.

Some data from the Actuarial Valuation and the comments from our Actuary are included in this report. He again stresses the need for additional contributions. The complete report is on file in the office.

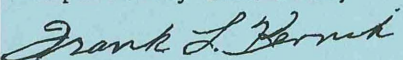
Legislation enacted during 1977 provided a 2% formula for our members. This provided an increase in the benefits of 11% but it also caused an increase in our Unfunded Accumulated Contribution.

The Legislature also passed a law providing for a coordinated Social Security-Teacher Retirement Fund Association plan for St. Paul teachers. A referendum is to be held in the spring of 1978 for all current members who wish to come under this plan effective July 1, 1978. All new teachers and re-appointments after July 1, 1978 will be members of the new coordinated plan.

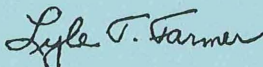
The financial statements of the Association were audited by Broeker Hendrickson & Co., Certified Public Accountants. A copy of their report is also included as a part of this report.

On behalf of the members of the Board of Trustees we pledge to continue to administer the affairs of the Association in the most competent and efficient manner possible.

Respectfully submitted,



Frank L. Kernik
President



Lyle T. Farmer
Secretary-Treasurer

BROEKER HENDRICKSON & CO.
Certified Public Accountants

To the Board of Trustees

Teachers' Retirement Fund Association

St. Paul, Minnesota

We have examined the statement of assets, liabilities and net assets available for plan benefits of TEACHERS' RETIREMENT FUND ASSOCIATION as of December 31, 1977 and 1976 and the related statements of revenues and expenditures and net assets available for plan benefits for the years then ended, all prepared on a statutory basis. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the Association's policy is to prepare its financial statements on the basis of accounting practices prescribed by the State of Minnesota statutes. These practices differ from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to and do not present financial position and results of operations in conformity with generally accepted accounting principles.

As discussed in Note 2, the Association is funded by the State of Minnesota at the statutory rate of 11.5513% of covered payroll. This rate is less than the actuarial computed funding rate required of 21.0858%. The excess of the required funding rate over the statutory rate does not effect the accompanying financial statements but may result in the impairment of future benefits to be paid by the fund.

In our opinion, the financial statements referred to above present fairly the assets, liabilities and net assets available for plan benefits of Teachers' Retirement Fund Association as of December 31, 1977 and 1976 and the results of its operations and changes in its net assets available for plan benefits for the years then ended, on the basis of accounting described in Note 1, which basis has been applied in a consistent manner.

St. Paul, Minnesota
March 30, 1978

Bruckner Hendershew & Co.

TEACHERS' RETIREMENT FUND ASSOCIATION

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS AVAILABLE

FOR PLAN BENEFITS - DECEMBER 31, 1977 AND 1976

PREPARED ON A STATUTORY BASIS (Note 1)

<u>A S S E T S</u>	<u>1977</u>	<u>1976</u>
CASH, including savings deposits of \$124,051 in 1977 and \$2,261,390 in 1976	\$ 138,778	\$ 2,274,257
RECEIVABLES:		
Governmental units (Note 1)	752,579	784,996
Common stock sold	396,653	-
Interest	726,618	592,782
Dividends	85,380	50,045
INVESTMENTS (Note 1):		
Commercial paper and certificates of deposit	3,932,526	-
United States Treasury Notes	1,991,088	1,000,000
Corporate bonds	30,912,985	28,746,276
Common stocks	21,008,109	19,180,814
DEFERRED YIELD ADJUSTMENT ACCOUNT (Note 1)	1,551,716	1,854,244
FURNITURE AND FIXTURES, at cost, less accumulated depreciation of \$10,715 in 1977 and \$10,309 in 1976	3,944	3,671
	<u>\$61,500.376</u>	<u>\$54,487,085</u>

LIABILITIES AND NET ASSETS AVAILABLE

FOR PLAN BENEFITS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 8,094	\$ 6,668
NET ASSETS AVAILABLE FOR PLAN BENEFITS, per accompanying statement (Note 1)	61,492,282	54,480,417
CONTINGENCY (Note 2)		
	<u>\$61,500.376</u>	<u>\$54,487,085</u>

See notes to financial statements.

TEACHERS' RETIREMENT FUND ASSOCIATION

STATEMENTS OF REVENUES AND EXPENDITURES AND NET ASSETS AVAILABLE
FOR PLAN BENEFITS FOR THE YEARS ENDED DECEMBER 31, 1977 AND 1976

PREPARED ON A STATUTORY BASIS (Note 1)

<u>REVENUES AND EXPENDITURES</u>	<u>1977</u>	<u>1976</u>
REVENUES (Note 1):		
Contributions by Governmental Units-		
State of Minnesota	\$ 4,730,339	\$ 5,706,831
City of St. Paul	-	32,668
Federal projects and other	<u>278,889</u>	<u>323,306</u>
Total	<u>\$ 5,009,228</u>	<u>\$ 6,062,805</u>
Contributions by members-		
Required withholdings	\$ 3,633,947	\$ 3,541,668
Voluntary	<u>225,823</u>	<u>181,919</u>
Total	<u>\$ 3,859,770</u>	<u>\$ 3,723,587</u>
Investment income (loss)-		
Interest, net of amortization	\$ 2,749,832	\$ 2,475,632
Dividends	865,520	592,624
Gain on sale of common stock	688,672	316,441
Loss on sale of common stock	<u>(382,819)</u>	<u>(522,765)</u>
Total	<u>\$ 3,921,205</u>	<u>\$ 2,861,932</u>
Total revenues	<u>\$12,790,203</u>	<u>\$12,648,324</u>
EXPENDITURES:		
Benefits-		
Retirement	\$ 4,652,261	\$ 4,135,574
Disability	197,303	99,580
Survivor	113,215	90,910
Dependent children	86,072	67,202
Contribution refunds	585,117	463,587
Administration expenses	<u>144,370</u>	<u>129,723</u>
Total expenditures	<u>\$ 5,778,338</u>	<u>\$ 4,986,576</u>
Excess of revenues over expenditures	<u>\$ 7,011,865</u>	<u>\$ 7,661,748</u>
<u>NET ASSETS AVAILABLE FOR PLAN BENEFITS</u>		
BALANCE, BEGINNING OF YEAR	\$54,480,417	\$46,818,669
ADD- Excess of revenues over expenditures	<u>7,011,865</u>	<u>7,661,748</u>
BALANCE, END OF YEAR	<u>\$61,492,282</u>	<u>\$54,480,417</u>

See notes to financial statements.

TEACHERS' RETIREMENT FUND ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1977 AND 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General-

The Teachers' Retirement Fund Association was created to provide retirement allowances and other specified benefits for its members (teachers in the St. Paul School System). Member employees contribute 8% of their salaries and employer contributions are paid by the State of Minnesota in such amounts as are provided by statute. State of Minnesota statutes establish the basis for substantially all of the Association's significant accounting policies. The accompanying financial statements were prepared on the basis prescribed by statute and are not intended to present financial position or results of operations of the Association in accordance with generally accepted accounting principles. Statutory provisions differ from generally accepted accounting principles with respect to the deferral of losses, net of gains, on the sale or disposition of debt securities (See Deferred Yield Adjustment Account below).

Deferred Yield Adjustment Account-

Minnesota statutes require the establishment of a deferred yield adjustment account (reported as an asset in the accompanying financial statements), which is increased for losses and reduced for gains on the sale or disposition of debt securities realized subsequent to 1969. These losses are being amortized to operations using the straight-line method over the period to maturity of the retired debt securities, which approximates 20 years. An analysis of the deferred yield adjustment account for the years ended December 31, 1977 and 1976 is as follows:

	<u>1977</u>	<u>1976</u>
Balance, beginning of year	\$ 1,854,244	\$ 1,847,156
Add (deduct)-		
Net losses (gains) realized on disposition of debt securities	(192,339)	126,019
Amortization recorded as a reduction of interest income	<u>(110,189)</u>	<u>(118,931)</u>
Balance, end of year	<u>\$ 1,551,716</u>	<u>\$ 1,854,244</u>

Revenue Recognition-

Member employee contributions are recorded as revenues when collected through payroll withholdings or when paid directly by the member employee.

Employer contributions from the State of Minnesota are computed as a percentage of covered payroll. Such revenues are recorded as revenues monthly, based upon covered payroll for the month.

Investments-

Investments are carried at cost, increased by unamortized bond premiums and decreased by unamortized bond discounts. The market values of the investments, as summarized below, are based principally on published market prices.

	<u>Approximate Market Values at</u>	
	<u>December 31, 1977</u>	<u>December 31, 1976</u>
Commercial paper	\$ 3,933,000	\$ -
United States Treasury Notes	1,980,000	1,080,000
Corporate bonds (face amount \$33,796,000 in 1977 and \$31,460,000 in 1976)	30,129,000	29,201,000
Common stock	<u>20,713,000</u>	<u>20,485,000</u>
	<u>\$ 56,755,000</u>	<u>\$ 50,766,000</u>

2. ACTUARIAL VALUATIONS:

The Association has received an actuarial valuation of the plan as of December 31, 1977. The consulting actuary has calculated the employer's required contribution rate to be 21.0858% of covered payroll. The current statutory employer's contribution rate is 11.5513%. The deficit of the current contribution rate over the required contribution rate may impair future benefits to be paid by the Association.

The present value of vested benefits (benefits to which participants are entitled, regardless of future service) as of December 31, 1977 and 1976 approximated \$98,729,000 and \$85,120,000, respectively, as calculated by consulting actuaries, which amounts are in excess of the net assets available for plan benefits by approximately \$37,237,000 at December 31, 1977 and \$30,640,000 at December 31, 1976.

3. COORDINATED RETIREMENT PROGRAM:

Effective July 1, 1978, the Association will establish, pursuant to Minnesota statutes, a coordinated retirement program for all new teachers qualifying for membership and any present members who wish to coordinate with social security. Participants under this program will contribute 4% of their salaries. Employer contributions, paid by the State of Minnesota, will be the difference between the present employer contribution and the employer share of social security.

Teachers' Retirement Fund Association
St. Paul, Minnesota

FINANCIAL REPORT
(December 31, 1977)

A. Assets

Deposits in banks	\$ 14,726.94
Employer Contributions receivable	752,579.05
Accrued interest on investments	726,617.71
Dividends on stocks declared, but yet received	85,380.00
Proceeds from Sale of Stock	396,653.56
Investment in bonds at amortized cost	32,904,072.92
Investment in preferred and common stocks at cost	21,008,108.94
Short term investments	4,056,567.89
Equipment at cost, less depreciation	3,944.23
Deferred Yield Adjustment Account	<u>1,551,715.72</u>
Total Assets	<u>\$ 61,500,375.95</u>

B. Unfunded Accrued Liability \$ 91,508,221.05

C. Accumulated Members' Contributions
(without interest) \$ 25,284,062.40

D. Current Liabilities

Accounts Payable \$ 8,094.00

E. Total Reserves Required as per
attached schedule \$215,174,490.00

Certification

The above exhibit has been prepared in accordance with the Entry Age Normal Cost (Level Normal Cost) basis, interest at the rate of 5% per annum and other provisions of Minnesota Statutes. The data with respect to assets and employee contributions are those submitted to us by the Association.

COMPENSATION & CAPITAL INCORPORATED

Davis H. Roenisch
Davis H. Roenisch
Fellow, Society of Actuaries

Teachers' Retirement Fund Association
St. Paul, Minnesota

FINANCIAL REPORT
(December 31, 1977)

Schedule of Total Reserves Required

1. For Active Members

a)	Retirement	\$141,131,051	
b)	Disability	13,007,183	
c)	Refund	2,434,253	
d)	Survivorship	<u>9,856,660</u>	
	Total		\$166,429,147

2. For Deferred Annuitants 69,255

3. For Members on Leave 761,149

4. For Former Members Without Vested Rights 133,504

5. For Annuitants

a)	Retirement	\$ 44,213,450	
b)	Disability	1,953,674	
c)	Survivorship	<u>1,614,311</u>	
	Total		<u>47,781,435</u>

Total Required Reserves \$215,174,490

Teachers' Retirement Fund Association
St. Paul, Minnesota

RECONCILIATION OF MEMBERS

ACTIVE

Active (Including 87 on Leave) December 31, 1976	2,612
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Additions:		
New Appointments 1977	243	
Reappointments	<u>33</u>	<u>276</u>
Total		2,888

Separations:		
Retirements	63	
Deaths	4	
Terminations	<u>136</u>	<u>203</u>

Active (Including 78 on Leave) December 31, 1977	<u><u>2,685</u></u>
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Substitutes	<u><u>282</u></u>
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Inactive Members	<u><u>10</u></u>
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RETIRED

Retired Members December 31, 1976	<u>824</u>
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Additions During 1977:		
Retirement	57	
Disability	<u>6</u>	<u>63</u>
Total		887

Separations - Deaths	<u>30</u>
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Retired Members December 31, 1977	<u><u>857</u></u>
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Beneficiaries:	
Reversionary	13
Survivor	27
Children	<u>22</u>
Total	<u><u>62</u></u>

COMPENSATION & CAPITAL
INCORPORATED

222 WISCONSIN AVENUE

LAKE FOREST, ILLINOIS 60045

TELEPHONE 312 234-9050

May 2, 1978

Board of Trustees
St. Paul Teachers Retirement
Fund Association
555 Wabasha Street, Room 303
St. Paul, Minnesota 55102

Gentlemen:

In accordance with your request, we have made an actuarial valuation of the St. Paul Teachers' Retirement Fund Association for the year ended December 31, 1977, in order to determine the adequacy of the contributions being made to that system and to prepare the financial and actuarial reports as required by the laws of the State of Minnesota.

The results of our analysis are set forth in the following report. The basic financial and employee data are those submitted to us by the Association office; the summaries and actuarial figures are those prepared by us from such data.

On the basis of the foregoing, and the assumptions indicated herein, we hereby certify that, to the best of our knowledge and belief, the attached statements are true and correct.

Respectfully submitted,

Davis H. Roemisch
Fellow, Society of Actuaries
Enrolled Actuary No. 174

DHR:tmk

Teachers' Retirement Fund Association
St. Paul, Minnesota

COMMENTS

This report sets forth the information on the Teachers' Retirement Fund Association of the City of St. Paul, Minnesota required by law for the legislature based on the annual actuarial valuation.

These figures have been prepared in accordance with the requirements of the law under the supervision of an approved actuary. Included in these requirements are the use of the Entry Age Normal Cost Method, anticipated salary increases of 3-1/2% per year, and an assumed interest of 5% per year.

The actuarial valuation measures all aspects of the St. Paul Teachers' Fund in accordance with the plan described in the section of the report titled "Summary of the Plan". This valuation takes into account the amendment increasing the rate of benefit credit from 1.8% to 2% for each year of service up to 40.

Exhibit 4 shows the present value of benefits for past and future service of active members, and current benefits being received by retirees (and beneficiaries).

Exhibit 5 also indicates an amount of Unfunded Accumulated Contribution Requirement of \$91,508,221. This amount represents an increase of \$10,022,425. The primary reasons for the increase are estimated in Exhibit 7.

Exhibit 5 restates the dollar amount of obligation in Exhibit 4 as percentages based on current payroll of active members. The resulting percentage total rate requirement may then be compared with the statutory contribution rate to ascertain the actuarial balance of the Fund.

The state teachers' levy of 11.5513% is well short of the actuarial requirement of 21.0858% (Exhibit 5). This short fall of roughly \$4.2 million in the current year is eroding the financial strength of the plan. It is actuarially unsound to finance one plan with actuarial computations made for another since both the demographic characteristics and plan provisions are substantially different for the two groups.

Teachers' Retirement Fund Association
St. Paul, Minnesota

SOURCES AND USES OF FUNDS

Cash Balance January 1, 1977		\$ 12,866.55
Income from Employer Contribution:		
State of Minnesota	\$4,623,506.29	
Federal Programs	<u>418,138.81</u>	\$ 5,041,645.10
Income from Members:		
Payroll Deductions	\$3,637,301.70	
Prior Service	195,265.69	
Return of Refunds	<u>36,372.70</u>	\$ 3,868,940.18
Income from Investments:		
Interest	\$2,693,734.83	
Dividends	833,184.71	
Miscellaneous	<u>2,825.01</u>	\$ 3,529,744.55
Investments Sold		<u>29,045,498.49</u>
<u>Total</u>		<u>\$41,498,694.87</u>

USES

Pension Paid:		
Retirements	\$4,653,046.28	
Survivor	114,086.68	
Family	86,071.53	
Disability	<u>197,302.95</u>	\$ 5,050,507.44
Refunds of Dues		594,382.24
Administrative Expenses:		
Salaries	\$ 66,042.56	
Office Expense	12,479.57	
Auditing, Legal, and		
Actuarial Services	13,385.00	
Taxes, Insurance and Members Dues	7,589.55	
Delegate Expense	2,820.00	
Data Processing	3,900.00	
Investment Counsel Service	36,493.00	
Office Equipment	<u>1,052.39</u>	143,762.07
Refund - Dividend Received Not Earned		23,515.63
Investments Purchased		<u>35,671,800.55</u>
Sub-Total		\$41,483,967.93
Cash Balance December 31, 1977		<u>14,726.94</u>
<u>Total</u>		<u>\$41,498,694.87</u>

TEACHERS' RETIREMENT FUND ASSOCIATION
ST. PAUL, MINNESOTA

STATEMENT OF INCOME AND DEDUCTIONS
For the Year Ended December 31, 1977

INCOME

Income from Employer Contributions:

State of Minnesota	\$ 4,730,339.01	
Federal Programs	<u>278,889.17</u>	\$ 5,009,228.18

Income from Members:

Payroll deductions	3,637,301.79	
Payment for outside service	186,095.41	
Return of refunded dues	<u>36,372.70</u>	3,859,769.90

Interest on investments, plus
accumulated discount, less
amortized premiums, less
deferred yield adjustment

2,746,303.58

Dividends on stock

868,519.71

Gains on sale of stock

688,671.70

Miscellaneous Income

528.30

Total Income

\$13,173,021.37

DEDUCTIONS FROM INCOME

Benefit expenditures:

Old Plan Annuities	\$ 291,007.66	
New Plan Annuities	4,336,702.52	
Reversionary Annuities	24,551.74	
Survivors Benefit	113,214.68	
Family Benefit	86,071.53	
Disability Benefit	<u>197,302.95</u>	\$ 5,048,851.08

Contribution refunds:

Resignation	579,960.70	
Death	<u>5,156.07</u>	585,116.77

Administration expenses

144,321.74

Loss on sale of stock

382,867.11

Deductions from income

6,161,156.70

Applied to total reserves required

7,011,864.67

Total deductions from income

\$13,173,021.37

Teachers' Retirement Fund Association
St. Paul, Minnesota

RECONCILIATION OF ASSET BALANCES
(December 31, 1977)

Asset Balance - December 31, 1976	\$54,480,417.28
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Additions:

Employer Contributions	\$5,009,228.18	
Member Contributions	3,859,769.90	
Investment Income	3,615,303.79	
Net Gain on Sale of Stock	<u>305,852.39</u>	<u>12,790,154.26</u>

<u>Sub-Total</u>	<u>\$67,270,571.54</u>
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Deductions:

Benefit Payments	\$5,048,851.08	
Refunds	585,116.77	
Administrative Expenses	<u>144,321.74</u>	<u>\$ 5,778,289.59</u>

Asset Balance, December 31, 1977	<u>\$61,492,281.95</u>
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Teachers' Retirement Fund Association
St. Paul, Minnesota

58

FINANCIAL BALANCE SHEET
(December 31, 1977)

Present Value of Benefits Expected to be Paid by Retirement Fund

To Active Teachers for

Retirement	\$141,131,051
Disability	13,007,183
Survivorship	9,856,660
Refund	<u>2,434,253</u>

Total \$166,429,147

To Vested Teachers 69,255

To Teachers on Leave 761,149

To Former Teachers without
Vested Rights 133,504

To Teachers and Beneficiaries
Now Receiving Benefits for

Retirement	\$ 44,213,450
Disability	1,953,674
Survivorship	<u>1,614,311</u>

Total \$ 47,781,435

Total Value of Benefits \$215,174,490

Less Value of Expected Future Contributions* 62,173,987

Accumulated Contribution Requirement
Assuming Full Funding During
Prior Service Period

\$153,000,503

Assets on Hand

61,492,282

Accumulated Contribution Requirement
to be Amortized by 1997

\$ 91,508,221

* As Determined by the Entry Age Normal Cost Method.

Teachers' Retirement Fund Association
St. Paul, Minnesota

5%

ACTUARIAL REQUIREMENTS
(December 31, 1977)

TOTAL REQUIREMENTS

Expected Future Contributions on Behalf of Active Teachers	\$ 62,173,987
Accumulated Contribution Assuming Full Funding During Prior Service Period	<u>153,000,503</u>
Total - Value of All Benefits Payable to Present Members	\$215,174,490

AMORTIZATION RATE REQUIREMENT

Accumulated Contribution Requirement	\$153,000,503	
Assets on Hand	<u>61,492,282</u>	
Amount to be Amortized	\$ 91,508,221	
Contribution Requirement for Amortization Period of 20 Years	\$ 7,342,856	
Current Payroll	\$ 44,909,545	
Amortization Rate Requirement		16.3503%

LEVEL CONTRIBUTION (ENTRY AGE NORMAL) RATE REQUIREMENT

Expected Future Contributions on Behalf of Active Teachers	\$ 62,173,987	
Expected Future Payroll	500,834,600	
Total Entry Age Normal Rate Requirement	12.4141%	
Teacher Contribution Rate	<u>8.0000</u>	
Employer Entry Age Normal Rate Requirement		4.4141%

ACTUARIAL BALANCE

Employer Statutory Contribution Rate*		11.5513%
Rate Requirements		
Amortization Rate Requirement	16.3503%	
Entry Age Normal Rate Requirement	4.4141	
Expenses Rate Requirement	<u>0.3214</u>	
Total Rate Requirement		21.0858%
Deficit of Statutory Rate over Rate Requirement		(9.5345%)

* Rate established by Minnesota Teachers Retirement Association.



Capital Supervisors, Inc. / 135 South La Salle Street, Chicago, Illinois 60603 / Phone (312) 236-8271

A. Lee Thurow
President

January 9, 1978

Mr. Lyle T. Farmer
Chairman, Investment Committee
Saint Paul Teachers' Retirement
Fund Association
555 Wabasha Street - Room 303
Saint Paul, Minnesota 55102

Dear Lyle:

The good news is that we had positive appreciation in the St. Paul Teachers' Retirement Fund in 1977, while outperforming the market generally. The bad news is that the rate of net return was so small that it was hard to find with an increase of 1.4%.

This was quite satisfactory on a relative basis but considerably below our longer term expectations. In comparison the Dow Jones Industrial and Standard & Poor's indexes adjusted for income declined 12.8% and 7.4% respectively in 1977. Fixed income yields were at their highest at year end, placing bond prices at their lows resulting in net total returns on bond indexes of 1.6%. We would expect most pension portfolios to experience modest losses for 1977 on a net return basis.

The most striking feature in the investment world from a year ago is the change in mood. Today investors are extremely cautious, in spite of good progress in earnings and dividends during 1977. A year ago they were generally confident. The concern results from several factors including less confidence in government, the dollar, energy problems, balance of payments, etc. We along with most investment people expect slower growth in the economy this year accompanied by rising interest rates and inflation levels.

This is not a particularly encouraging forecast and in fact would be cause for real concern if the markets had not already appeared to discount these problems. In fact, from these levels any lessening of concern or partial solution of problems could lead to a considerable advance in both fixed income and equity markets. Therefore, we believe that the upside potential is considerably greater than the downside and that patience will be rewarded. However, there are enough uncertainties that we have done a little selling and are accumulating buying reserves to increase safety and flexibility in line with your guidelines. We expect to be more aggressive investors in the second half of 1978. In any event, we will continue to maintain total portfolio yield in excess of 6% in accordance with your specifications.

In short, 1976 was a great year followed by a year of transition. Before the end of 1978 we expect to be back on an upward course.

Sincerely,

A. Lee Thurow
A. Lee Thurow

ALT:res

PURCHASES AND SALES OF INVESTMENTS

During 1977

	<u>Value</u>
Investments on Hand, December 31, 1976	\$53,901,770.58

Purchases during the year:

<u>Bonds (At Par)</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	
American Cyanamid	4-15-01	7.375	\$ 200,000.00
American Tel & Tel	11-01-92	4.750	475,000.00
American Tel & Tel	8-01-00	6.000	750,000.00
Ashland Oil	8-01-92	6.150	250,000.00
Bear Creek Security Corp.	1-01-89	8.125	1,000,000.00
Commonwealth Edison	10-01-98	6.375	750,000.00
Consolidated Natural Gas	7-01-95	9.250	500,000.00
Exxon Corp.	11-01-97	6.000	100,000.00
Inland Steel Co.	1-15-07	7.900	750,000.00
Long Island Lighting	9-01-99	8.200	1,000,000.00
Research Properties	11-01-99	8.250	250,000.00
Sohio Pipeline Co.	5-01-01	8.750	250,000.00
Standard Oil - California	4-01-96	7.000	500,000.00
Tenneco Inc.	4-01-02	8.375	750,000.00
Trailer Train Co.	7-01-92	8.200	700,000.00
U.S. Treasury Bonds	2-15-07	7.625	500,000.00
U.S. Treasury Bonds	11-15-07	7.875	500,000.00
Virginia Electric Power	3-01-06	9.250	500,000.00
Virginia Electric Power	3-01-07	8.625	300,000.00
			<hr/>
Total Bonds (At Par)			\$10,025,000.00

<u>Stock (At Cost)</u>	<u>Shares</u>	
Alcoa	5,000	\$ 291,074.58
Bethlehem Steel	3,700	80,980.50
Big Three Industries	10,000	311,542.56
Bucyrus Erie	5,000	112,000.00
Citicorp	3,400	113,706.32
Diamond Shamrock	15,000	445,100.00
Exxon Corp.	3,000	156,411.37
Flour Corp.	12,000	489,447.50
Gen. Tel. & Electronics	15,000	452,650.00
Goodyear Tire & Rubber	10,000	208,087.50
IBM	1,000	250,705.00
I.C. Industries	20,000	486,058.27
Interco	15,000	620,750.00
Jostens Inc.	10,000	188,640.65
Lincoln National	10,000	362,632.45
Norton Simon	1	7.85
Northwest Airlines	5,000	119,477.69
Northwest Industries	10,000	511,800.00
Texas Gas Transmission	15,000	696,476.50
United Technologies	3,000	114,630.00
United Telecommunications	10,000	392,000.00
		<hr/>
Total Stock (At Cost)		\$ 6,404,178.74

<u>Short Term (At Face Value)</u>	<u>Rate</u>	<u>Due</u>	
International Harvester	6.300	1-03-78	\$ 507,962.50
GSA Nashville Note	6.000	1-04-78	301,650.00
Gambles Credit Corp.	6.625	1-11-78	553,036.46
Federal Home Loan Bank	6.000	1-13-78	201,000.00
Allis Chalmers	6.625	1-16-78	364,041.25
General Motors Acceptance	6.625	1-27-78	502,760.42
First National Bank CD	6.800	2-02-78	508,500.00
Postal Finance	6.750	3-02-78	507,781.25
American National CD	6.900	4-03-78	509,008.33
Short Term on Hand 12-31-77			\$ 3,955,740.21
Savings Accounts			\$ 124,050.60
Total Purchases			\$20,508,969.55
Purchases and Balance			\$74,410,740.13

Sales and Redemptions:

<u>Bonds (At Par)</u>	<u>Maturity</u>	<u>Interest</u>	
	<u>Date</u>	<u>Rate</u>	
American Tel. & Tel.	8-01-00	6.000	\$ 750,000.00
Carolina Power & Light	8-01-00	8.750	300,000.00
Carolina Power & Light	11-01-03	8.125	500,000.00
Consolidated Natural Gas	7-01-95	9.250	500,000.00
Exxon Corp.	11-01-97	6.000	1,000,000.00
Firestone Tire & Rubber	10-15-01	7.300	200,000.00
General Mills	2-15-99	8.000	750,000.00
Illinois Bell Telephone	7-01-03	4.375	475,000.00
International Harvester	6-15-04	9.000	500,000.00
Phillips Petroleum	11-15-00	8.875	750,000.00
Rexnord Inc.	10-15-95	8.950	250,000.00
Sears Roebuck Co.	4-01-93	6.375	100,000.00
Southern California Edison	3-15-01	8.875	500,000.00
Standard Oil - California	8-01-92	5.750	500,000.00
Total Bonds (At Par)			\$ 7,075,000.00
Repaid Principal & Redemptions			\$ 113,583.35

<u>Stock (At Cost)</u>	<u>Shares</u>	
Abbott Labs	4,000	\$ 142,370.75
Amax Inc.	6,000	322,919.54
Bristol Meyers	6,000	181,118.87
Burroughs Corp.	3,000	295,827.10
Caterpillar Tractor	6,450	254,611.90
Chemetron	10,000	450,845.50
Duke Power	8,600	119,327.74
Farmers Group	12,000	233,449.80
Ford Motor Co.	3,750	178,682.44
General Foods	10,000	276,050.00
Gov't. Employees Insurance	6,668	331,114.98

<u>Stock Continued</u>	<u>Shares</u>	
Hercules Inc.	500	\$ 16,590.00
Houston Natural Gas	15,000	474,000.00
Jostens Inc.	15,000	280,540.65
Marshall Field	10,000	240,403.00
Northern States Power	10,000	251,300.00
Super Valu Stores	200	2,750.00
Texas Eastern Corp.	6,000	235,707.26
TRW Inc.	13,300	<u>289,275.00</u>
Total Stock (At Cost)		\$ 4,576,884.53

Short Term (At Face Value)

American National Savings	\$ 775,864.44
First National Savings	765,283.73
Northwestern National Savings	<u>720,242.39</u>
Short Term on Hand 12-31-76	\$ 2,261,390.56

Total Sales and Redemptions \$14,026,858.44

Investments on Hand December 31, 1977 \$60,383,881.69

Bonds At Par	\$35,295,981.94	
Common Stock At Cost	21,008,108.94	
Short Term At Face Value	<u>4,079,790.81</u>	<u>\$60,383,881.69</u>

INVESTMENTS ON HAND

DECEMBER 31, 1977

BONDS

<u>Corporate Bonds</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
Louisiana Power & Light	9.500%	11-01-81	\$ 500,000
General Electric Credit	8.125%	1-15-85	750,000
Grand Trunk Western R.R.	9.250%	3-15-85	163,104
Northern Natural Gas	9.000%	5-01-85	500,000
Pacific Lighting Service	9.300%	11-01-85	500,000
Bear Creek Security Corp.	8.125%	1-15-89	1,000,000
Cincinnati Gas & Electric	5.000%	5-01-90	200,000
Wisconsin Natural Gas	4.875%	10-01-90	325,000
Transamerica Financial Corp.	7.875%	11-01-91	500,000
Consolidated Edison N.Y.	4.375%	5-01-92	197,000
Trailer Train Co.	8.200%	7-01-92	700,000
Ashland Oil Inc.	6.150%	8-01-92	250,000
American Tel. & Tel.	4.750%	11-01-92	755,000
Ryder Systems Inc.	7.800%	5-01-93	500,000
Union Electric Co.	4.500%	11-01-93	250,000
Southern Bell Telephone	4.625%	12-01-93	675,000
International Harvester	7.500%	1-15-94	700,000
Philadelphia Electric	4.500%	5-01-94	200,000
Continental Pipeline	7.500%	5-01-94	171,000
Delaware Power & Light	4.625%	10-01-94	250,000
Niagara Mohawk Power	4.625%	12-01-94	550,000
Natural Gas Pipeline Co.	9.250%	3-01-95	495,000
Goodyear Tire & Rubber Co.	8.600%	9-30-95	446,000
Armco Steel Corp.	8.700%	10-01-95	285,000
Northern Natural Gas	9.000%	11-01-95	600,000
Florida Power & Light	5.000%	12-01-95	700,000
Kansas Nebraska Natural Gas	9.000%	1-01-96	691,000
Standard Oil of California	7.000%	4-01-96	500,000
Tampa Electric Co.	5.500%	4-01-96	500,000
Public Service of Colorado	5.375%	5-01-96	650,000
Southern California Gas Co.	8.750%	5-01-96	500,000
Diamond Shamrock	8.250%	6-01-96	250,000
Flintkote Co.	8.250%	7-15-96	275,000
American Tel. & Tel.	4.375%	10-01-96	255,000
Exxon Corp.	6.000%	11-01-97	370,000
Standard Oil of Indiana	6.000%	1-15-98	350,000
John Deere Credit Corp.	7.500%	4-30-98	500,000
Carolina Power & Light	6.875%	10-01-98	550,000
Commonwealth Edison	6.375%	10-01-98	750,000
Vermont Yankee Power	9.625%	10-01-98	238,000
Chrysler Corp.	8.000%	11-01-98	750,000
Enserch Corp.	8.950%	3-15-99	500,000
Long Island Lighting Co.	8.200%	9-01-99	1,000,000
Research Properties Inc.	8.250%	11-01-99	500,000
Sohio BP Alaska Pipeline	9.750%	12-01-99	500,000
Penin Properties Inc.	8.750%	12-01-99	221,878
Pacific Gas & Electric	6.625%	6-01-00	725,000
Transamerica Financial Corp.	8.500%	7-01-00	750,000
Southern Bell Telephone	4.750%	9-01-00	475,000
Central Kansas Power	9.750%	10-01-00	233,000

Corporate Bonds Continued

	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>
Eltra Corp.	8.500%	1-15-01	\$ 750,000
American Cyanamid	7.375%	4-15-01	200,000
Sohio Pipeline Co.	8.750%	5-01-01	750,000
San Diego Gas & Electric	8.000%	9-01-01	500,000
Tenneco Inc.	8.375%	4-01-02	750,000
Consolidated Edison N.Y.	7.750%	2-15-03	500,000
Southwestern Bell Telephone	5.875%	6-01-03	500,000
Dow Chemical Co.	8.500%	2-01-05	500,000
General Telephone - Florida	9.375%	3-01-05	240,000
Texaco Inc.	8.875%	5-01-05	500,000
Virginia Electric & Power	9.250%	3-01-06	500,000
New England Tel. & Tel.	6.125%	10-01-06	325,000
Inland Steel Co.	7.900%	1-15-07	750,000
Virginia Electric & Power	8.625%	3-01-07	300,000
Pacific Tel. & Tel.	7.625%	6-01-09	510,000
New York Telephone Co.	8.300%	8-15-12	225,000

Total Corporate Bonds

\$31,995,982

U.S. Government Bonds

U.S. Treasury Notes	8.000%	2-15-83	200,000
U.S. Treasury Notes	7.875%	5-15-86	500,000
U.S. Treasury Notes	8.000%	8-15-86	300,000
U.S. Treasury Bond	7.625%	2-15-07	500,000
U.S. Treasury Bond	7.875%	11-15-07	500,000

Total Government Bonds

\$ 2,000,000

Foreign Bonds

Quebec Hydro Electric	6.250%	6-01-93	\$ 300,000
Province of Nova Scotia	9.750%	3-15-95	250,000
Province of Nova Scotia	9.250%	3-01-01	250,000
Manitoba Hydro Electric	9.250%	1-15-06	500,000

Total Foreign Bonds

\$ 1,300,000

Total Bonds

\$35,295,982

COMMON STOCK

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u> <u>12-31-77</u>
Alcoa	5,000	\$ 291,075	\$ 233,125
American Tel. & Tel.	7,000	344,628	423,500
Atlantic Richfield	4,800	213,430	245,400
Bethlehem Steel	12,000	348,647	253,500
B.F. Goodrich Co.	15,000	406,266	315,000
Big Three Industries	10,200	311,542	351,900
Boise Cascade	15,000	375,650	380,625
Bucyrus Erie	20,000	445,800	430,000
Citicorp	12,000	434,078	274,500
Cooper Industries	11,300	368,680	514,150
Dayton Hudson	7,500	201,088	308,438

	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u> <u>12-31-77</u>
Diamond Shamrock	15,000	\$ 445,100	\$ 444,375
Dresser Industries	12,000	467,835	529,500
Eastman Kodak	3,000	364,990	153,375
Exxon Corp.	10,000	472,210	480,000
Fluor Corp.	12,000	489,448	447,000
General Electric Co.	9,600	524,560	478,800
General Motors Corp.	5,000	327,386	314,375
General Tel. & Elect.	15,000	452,650	466,875
Goodyear Tire & Rubber	30,000	674,703	517,500
Gulf Oil Corp.	20,000	496,449	535,000
Hercules Inc.	9,500	315,196	149,625
Howard Johnson Co.	30,000	453,048	352,500
I.C. Industries	20,000	486,058	502,500
Interco Inc.	15,000	620,750	660,000
Int'l. Business Machines	4,025	1,156,501	1,098,825
International Tel. & Tel.	20,000	550,350	635,000
Lincoln National Corp.	20,000	641,737	695,000
McDonalds Corp.	5,000	321,358	257,500
Minnesota Mining & Mfg.	3,000	254,368	145,500
Missouri Pacific Corp.	15,000	514,425	693,750
Monsanto Co.	5,000	404,182	288,125
Nabisco Inc.	6,000	231,398	283,500
NCR Corp.	15,000	449,896	605,625
NLT Corp.	30,000	564,501	712,500
Northwest Airlines	15,000	456,078	354,375
Northwest Industries	10,000	511,800	570,000
Norton Simon Inc.	10,111	280,943	202,220
Pfizer Inc.	20,000	578,850	547,500
Phillips Petroleum	8,000	204,512	245,000
R.R. Donnelley	30,000	634,729	705,000
Southern Calif. Edison	15,000	331,875	395,625
Super Valu Stores	19,800	272,352	633,600
Texas Gas Transmission	15,000	696,480	637,500
United Technologies	15,000	481,691	538,125
United Telecommunications	20,000	392,000	380,000
Xerox Corp.	7,000	746,816	327,250
Total Common Stock		<u>\$21,008,109</u>	<u>\$20,713,083</u>

RETIREMENT RECORD

Year	Pensions Granted	Persons on Payroll at end of year	Benefits Paid During Year
1910	15	13	\$ 4,860.00
1930-31	8	125	69,023.70
1931-32	8	130	72,961.43
1931-33	2	126	74,190.43
1933-34	6	127	74,119.87
1934-35	9	131	74,000.70
1935-36	14	135	75,864.08
1936-37	19	151	80,747.43
1937-38	17	160	89,709.13
1938-39	11	161	93,184.46
1939-Dec. '39	0	158	23,869.78
1940	71	222	170,685.43
1941	35	246	210,256.94
1942	27	266	234,217.27
1943	38	286	253,030.76
1944	34	311	282,299.18
1945	56	350	308,112.55
1946	51	378	337,511.79
1947	28	387	360,570.89
1948	42	413	375,912.29
1949	42	441	419,617.54
1950	30	461	450,641.30
1951	27	476	472,669.54
1952	28	486	508,922.59
1953	32	487	525,959.02
1954	10	482	529,428.97
1955	38	509	666,993.54
1956	46	529	750,146.33
1957	59	560	840,882.59
1958	41	579	1,019,501.72
1959	30	585	1,084,505.78
1960	38	600	1,144,380.21
1961	39	611	1,230,715.41
1962	49	624	1,352,779.11
1963	42	647	1,467,460.56
1964	33	653	1,545,252.32
1965	40	668	1,631,554.34
1966	43	676	1,770,082.68
1967	36	682	1,862,248.99
1968	45	695	1,969,759.81
1969	53	726	2,319,185.68
1970	31	719	2,385,867.50
1971	47	731	2,522,349.85
1972	51	745	2,742,660.45
1973	36	744	3,039,252.98
1974	46	754	3,372,452.55
1975	52	778	3,765,322.19
1976	77	883	4,393,513.35
1977	63	919	5,050,507.44