

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

22 EAST FIRST STREET / DULUTH, MINNESOTA 55802 / Phone (218) 722-2894

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E. K. BLANCK, JR.
Executive Secretary

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NOTICE OF THE REGULAR ANNUAL MEETING
OF THE MEMBERSHIP OF
DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION

OCTOBER 27, 1975

AT
WOODLAND JUNIOR HIGH SCHOOL AUDITORIUM

Dear Member:

You are cordially invited to attend the Sixty Sixth (66th) Annual Meeting of the Membership of the Duluth Teachers' Retirement Fund Association. Our meeting will be in the Woodland Junior High School Auditorium at 4:00 p.m. on October 27, 1975, for the following purposes:

- 1) To approve the Acts and Proceedings of the Board of Trustees for the period of October 28, 1974, through October 27, 1975.
- 2) To elect three (3) active member Trustees:
 - A. One Trustee for the two year unexpired term of Agnes M. Hansen, who retired June 30, 1975
 - B. Two Trustees for the expiring terms of Robert J. Childs and Roy A. Meyer, who will be elected for three years.
- 3) We will discuss proposed plan amendments, which as a result of recent legislation, can now be made only through the legislature in the form of special or general laws. Although we can no longer amend our plan as we have in the past, a consensus vote of our membership will certainly weigh heavily with the legislators involved and help our plan conform to the needs of our membership.
- 4) Transact any other business that may legally come before the meeting.

We will have the following guests present to answer questions:

Gordon M. Fines - Lionel D. Edie & Company - Investments
Thomas Casey - Lionel D. Edie & Company - Investments
Kenneth W. Lindberg - Hewitt Associates - Actuaries
William Watters - Attorney

Edward K. Blanck, Jr.
Executive Secretary

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DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION
ANNUAL REPORT OF THE EXECUTIVE SECRETARY
Year ending June 30, 1975

Dear Member:

We have been through an interesting year since our last annual report. The Stock and Bond markets went through the deepest decline since the 1930's and then recovered; and the State Legislature has both given in some areas and taken away in others.

To better communicate our current investment strategy and market performance, I am including a letter from our Investment Counselor, Gordon M. Fines, Vice President of Lionel D. Edie & Company. I hope it will add a new dimension to the Pure Accounting Figures as presented in the enclosed Balance Sheet and Income Statement.

The 1975 Legislature was very generous to any current public employee who had ever taken a refund from any Minnesota Public Retirement Fund. Public employees may now repay their refund (plus interest) and reinstate this service. The participants will have their eventual retirement benefit computed using their highest 5 year average salary and will also qualify for the formula in effect at the time of retirement in each respective fund. If you have ever taken a refund, I urge you to consider repaying it. For information on the amount you would owe, simply write to the fund from which you took a refund. Call our office if you need addresses.

The legislature also obligated the State to pay the full employer cost of the three local Teacher Retirement Funds, consequently causing some local property tax relief in St. Paul and Minneapolis. Unfortunately, no property tax relief was felt in Duluth because the small amount of our costs not already paid by the State and still coming from the School District were from within the General Fund. Rather than reducing its levy, the School District will have the use of these additional funds. Along with the State assuming responsibility for employer costs, the Legislature "froze" our By Laws and Articles to prevent us from having a "blank check" on the assets of the State. The net result of the Legislation is the State will contribute to the cost of our plan; however, we will be required to demonstrate to the State, rather than our City Counsel, reasonable criteria for benefit improvements.

The Legislature in other action placed a two percent surcharge on tax shelter contributions; there are strong indications, however, that this will be repealed.

In response to members' requests, your Board of Trustees has prepared a group of legislative proposals for benefit improvements and changes. Our proposals include restoration of our Association's right to make administrative changes in its By Laws; allow our tax shelter participants to make changes in their plan By Laws; increase our formula for all active members from 1.15% to 1.25% per year of service; change our By Laws to conform to the New State Combined Service Law; allow reinstatement of prior Duluth service; and allow survivors of deceased active members to choose either the formula benefit earned by their spouse or our current money purchase plan, whichever is greater. To offset some of the costs of the improvements, we are considering making the cash refund feature of our formula optional (a reduction from the new formula amount would provide a cash refund, if desired.) We are also considering making our disability annuity contingent on receipt of Social Security Disability. Our lower disability provisions can be justified because of the excellent long term disability insurance coverage provided by the School District.

On behalf of the Board of Trustees and myself, I wish to thank W. D. Watters, our Attorney, Gordon M. Fines, Investment Advisor, Robert E. Eikill, Certified Public Accountant, Edward L. Delahanty and Kenneth W. Lindberg, Actuaries for their excellent contributions to our Fund.

Respectfully submitted,

Edward K. Blanck, Jr.
Executive Secretary

Lionel D. Edie & Company

Incorporated

907 F & M Bank Building

Minneapolis, Minnesota 55402 (612) 333-1313

Corporate Offices
530 Fifth Avenue
N.Y., N.Y. 10036
(212) 575-4000

Mr. Edward K. Blanck, Jr.
Duluth Teachers' Retirement Fund
22 East First Street
Duluth, Minnesota 55802

September 25, 1975

Dear Mr. Blanck:

At the end of June, 1975, the stock market, as measured by the Dow Jones Industrial Average, was essentially unchanged from the year earlier level. However, during the second half of 1974, stock prices declined dramatically and then rose substantially in the first half of this year. The reasons for this large amount of price volatility lie in the political and economic scenario envisioned twelve months ago and subsequent changes in those views. A year ago we were faced with the prospect of a severe recession, double-digit inflation, high interest rates, the repercussions of "Watergate" on the effectiveness of our political leadership and the overall economic stability of various free-world countries (e.g. Italy and England) in the face of drastically higher oil prices. As this year has progressed, the scenario has changed significantly. We now look forward to an economic recovery as we approach 1976, interest rates and inflation are at much lower levels, our political system remains intact, and the free-world economies are, if not booming, at least stabilized. What we have then appears to be the mirror image of the first scenario on a year-to-year basis.

During this period, natural resource and basic industry-related companies performed well in the market place as investors perceived that these companies possessed assets which would become more valuable as shortages persisted and inflation continued. Nondurable consumer goods companies also fared well during the year as these corporations produce inexpensive necessity-type products which the public will purchase in good or bad times.

Because of the decline in interest rates, the bonds in the portfolio have generally risen in value from the year earlier level. However, bond yields remain at a high level, and we have purchased additional high quality bonds this year.

During the year, we incurred realized losses in certain transactions where we believe the fundamentals had deteriorated substantially so that we were very concerned about their future viability. A case in point is Rank Organization. It was believed that through an ownership in Rank, one was obtaining a position in Xerox's overseas growth. However, Rank's other businesses have not prospered and the management has been reluctant to inform investors of the company's overall financial condition. We made the decision to sell the holding at a sizable loss because of our much reduced confidence in the situation. In addition, because of an improved domestic equity environment, we thought there were other more attractive alternative values for potential gain.

LIONEL D. EDIE & COMPANY
INCORPORATED

Mr. Edward K. Blanck, Jr.

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September 25, 1975

We believe it is better to sell holdings (even at a loss) which have severely diminished recovery potential and place those remaining assets in other issues which have brighter prospects and will hopefully enable us to recover our original investment.

As we look forward, we believe the primary determinant of future stock and bond prices will be the shape of the forthcoming economic recovery and what effect it has on inflation and interest rates. A rapid recovery aided by government stimulus would have serious negative implications for the market. On the other hand, a moderate recovery would likely persist for a lengthy time and would not bring about undue pressure on the rate of inflation. The discussion about the shape of the economic recovery has, of course, produced a lively debate among economists. Edie's economic staff believes the latter, more optimistic, alternative is the most likely forecast at this time. Chase Econometrics, a subsidiary of Chase Manhattan Bank, represents the opposite point of view calling for substantially higher inflation and interest rates in 1976. Several other economists we follow in our office look for a second economic recession early next year because of weakening consumer demand caused by a high rate of inflation.

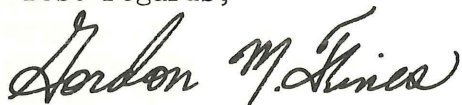
We are of the opinion that because of significant Treasury borrowings this fall, coupled with a moderate rate of gain in the growth of the money supply, short-term interest rates will rise through the remainder of this year. Of course, a moderate money supply expansion now is an encouraging long-term development as it relieves future inflationary pressures on the economy.

On the inflation front, we are very conscious of changes in food and fuel prices as these items are responsible for much of the current inflation as measured by the WPI and CPI. Based on the current crop forecasts, we do not see significantly higher food prices over the next several months. The outlook for fuel prices, however, is not as good. Oil price controls ended recently and, unless legislation is passed, prices are expected to begin rising soon. Also, OPEC is meeting later this month and may raise prices on the order of 10%. The indirect effects of higher food and fuel costs on industrial and consumer goods and services eventually are realized in the form of higher prices. Thus, while we do not think inflation will return to double-digit status quickly, we believe we will continue to endure a relatively high rate of inflation for some time to come.

On balance then, while we are cautious on the outlook for the market over the next several months, we remain positive about the market in 1976.

Both Tom Casey and I are happy to be a part of the Duluth Teachers' Retirement Plan and will continue our diligence in your behalf.

Best regards,



Gordon M. Fines
Vice President

GMF/dlk

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION
DULUTH, MINNESOTA

COMPARATIVE BALANCE SHEET
JUNE 30, 1975 AND 1974

<u>ASSETS</u>	<u>1975</u>	<u>1974</u>
Cash - checking and savings accounts	\$ 217,949	\$ 38,463
Accounts Receivable, brokers	60,596	313,646
Accrued Interest	143,384	119,115
Investments		
Short-term securities	1,075,000	760,000
Marketable corporate stocks (at cost) (market value \$13,107,802)	12,099,435	12,508,548
Corporate bonds (market value \$5,416,797)	8,079,967	7,826,710
Mortgage loans secured by real estate	1,829,780	2,067,316
Land and Building	25,792	27,394
Office Furniture and Equipment	4,556	4,910
Deferred Insurance Premiums	893	1,040
	<u>23,537,352</u>	<u>23,667,142</u>
Total Assets	\$ <u>23,537,352</u>	\$ <u>23,667,142</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Accounts payable	\$ 28,073	\$ 96,465
Deposits		
Active members	5,410,043	4,966,117
Additional deposits	169,447	192,678
Fund Balance	<u>17,929,789</u>	<u>18,411,882</u>
	<u>23,537,352</u>	<u>23,667,142</u>
Total Liabilities and Fund Balances	\$ <u>23,537,352</u>	\$ <u>23,667,142</u>

MEMBERSHIP STATISTICS

	<u>1975</u>	<u>1974</u>
Active members - beginning of period	1,201	1,175
New entrants	55	110
Resignations	(56)	(53)
Retirements	(25)	(28)
Deferred Annuities	(2)	(0)
Deaths	(0)	(3)
	<u>1,173</u>	<u>1,201</u>
Total Active Membership	1,173	1,201
Retired Membership	434	411
New Retirees	25	28
Deaths	(13)	(5)
	<u>446</u>	<u>434</u>
Total Retired Membership	446	434
Total Disability Retirements	2	2
Total Deferred Annuities	9	9
Total Beneficiaries	18	20

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION
DULUTH, MINNESOTA

STATEMENT OF REVENUE AND EXPENDITURES
FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	<u>1975</u>	<u>June 30</u> <u>1974</u>
Revenue		
State of Minnesota participation (5.5%)	\$ 918,754	\$ 810,397
Members' contributions (4%)	659,210	611,785
Interest on investments, plus discounts earned, less amortized premiums and deferred yield adjustment	603,446	622,633
Dividends received	324,509	285,606
Rents	1,440	1,400
Tax sheltered annuities overhead contribution	8,625	7,820
Return of prior years dues		394
Miscellaneous	<u>828</u>	<u> </u>
Total Revenue	\$ <u>2,516,812</u>	\$ <u>2,340,035</u>
Expenditures		
Benefit expenditures		
Annuities paid members	\$ 1,289,893	\$ 1,171,209
Contingent beneficiaries	36,073	33,804
Disability	3,093	2,910
Contribution refunds		
Resignation	73,523	64,986
Death	11,848	5,496
Members' additional deposits	4,146	86,956
Administrative Expenses	100,852	111,079
Loss on Mortgage loans		<u>2,032</u>
Total Expenditures	\$ <u>1,519,428</u>	\$ <u>1,478,472</u>
Excess of revenues over expenditures	997,384	861,563
Net gains or (losses) of common stocks sold	<u>(1,058,913)*</u>	<u>91,876</u>
Net increase or (decrease) in fund	\$ <u>(61,529)</u>	\$ <u>953,439</u>

* From an accounting point of view, we recognized \$1,058,913 in net losses, however, our stock portfolio's market value on June 30, 1975, was \$1,008,367 above our new cost basis. This market appreciation is not registered as investment gains until the equities are actually sold, therefore causing wide variations in net income as above. It is our fund's policy to time investment transactions based on investment rather than accounting considerations. If, hypothetically, we would have sold our entire stock portfolio and then re-purchased the identical issues on June 30, 1975, the above figure would be reduced to (\$50,546) and the "net increase or decrease in fund" would be \$946,838.

DULUTH TEACHERS' RETIREMENT FUND ASSOCIATION
PLAN SUMMARY
OCTOBER 27, 1975

- 1) The Duluth Fund was established in 1910, the Tax Shelter Fixed Fund in 1964, and the Tax Shelter Variable Fund in 1973.
- 2) MEMBERSHIP DATA
Membership in the Basic Plan is compulsory for all instructional staff of the Duluth Public School System. As of June 30, 1975, there were 1,173 active members and 446 retired members. Membership in either tax shelter plan is voluntary.
- 3) CREDITABLE SERVICE
All Duluth teaching service under written contract is creditable. Time for which a member is granted a leave of absence may be credited if normal contributions are made within two years of the leave. There are also provisions for reciprocity of service with other Minnesota public funds, effective July 1, 1975.
- 4) WITHDRAWALS AND REFUNDS
Members who have terminated their employment may withdraw their contributions with interest if they do not wish to participate under the Minnesota Combined Service Annuity Law. A refund must be taken if leaving the State with less than ten years of service.
- 5) VESTING AND DEFERRED ALLOWANCES
Benefits vest after ten years' service or age 60 or participation in the Minnesota Combined Service Annuity, a deferred allowance is payable at age 60, or between age 55 and 60 at a reduced rate.
- 6) RETIREMENT REQUIREMENTS AND BENEFIT FORMULAS
Normal retirement is age 60 with one or more years credited service.
The benefit formula is: highest five years' average salary times years of service times 1.15% = annual benefit.
Early Retirement is at age 55 with ten or more years service. Benefits are reduced if paid before age 60.
Disability benefit is payable at any age with five or more years of service. There is no reduction for age. Member must be totally and permanently disabled from teaching.
Post Retirement Adjustments are made as additional funds become available.
Members retiring before 1966 have received increases of 44%, 1967 - 29.2% 1969 - 20.5%, 1970 - 14.9%, 1971 - 9.5% and 1974 - 2%.
Tax Shelter Funds - Annuities are payable upon retirement and are based on member's total tax shelter contributions, age and sex of member and spouse if Optional Survivor Benefit elected, and mortality and interest assumptions in effect at time of retirement. Lump sum refunds are also available.
- 7) LUMP SUM DEATH BENEFIT
Active Member - Two times member's accumulated contributions with interest paid to named beneficiary, members are covered from first day of service.
Retired Member - Refund of remainder of member's deposits after subtraction of total checks received to date of death.

Plan Summary -

8) SURVIVOR BENEFITS

Active Member - If more than ten years service and beneficiary is spouse of three years, survivor benefit is two times contributions as a refund, or 2.4 times contributions as either a deferred or immediate life annuity.

Retired Member - At retirement a member may choose a survivor option. An actuarial reduction is made from the normal amount to provide one of the following: equal amount to survivor, one-half amount to survivor, or 5, 10, 15 or 20 year term certain to survivor, or any plan of actuarial equivalence to the above.

9) FINANCING

Basic Fund - Benefits are financed jointly. Members contribute 4% of their earnings including extra curricular. Employer contributes 5½% of earnings.

Tax Shelter Funds - Benefits are financed entirely from member's deposits and investment income.

10) INVESTMENTS

Basic Fund - Equity investments are limited to 65% of Assets; Bonds are also limited to 65% of Assets, and no single holding of either stocks or bonds shall exceed 6% of total Assets. Investments also limited to permissible holdings under the State law. Benefits currently funded with Assets of \$23.5 million, book value.

Tax Shelter Funds - Limited to permissible holdings under the State law. Benefits are currently funded with Assets of \$2.5 million, book value.

11) ADMINISTRATION The fund is administered by a Board of Trustees of eleven members, three members of the Board of Education of Duluth, the Superintendent of Schools ex-officio, five active members and two retired members. Active and retired members are elected by entire active and retired membership.

12) SOCIAL SECURITY COVERAGE

Since 1957 all members are covered under Social Security. All benefits are in addition to Social Security.

EDWARD K. BLANCK, JR., Executive Secretary
Duluth Teachers' Retirement Fund Association
22 East First Street
Duluth, Minnesota 55802

Telephone: 722-2894