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**MINNEAPOLIS TEACHERS'  
RETIREMENT FUND  
ASSOCIATION**

**SEVENTY-SECOND ANNUAL REPORT  
OF THE BOARD OF TRUSTEES**

951 NORTHWESTERN BANK BUILDING  
MINNEAPOLIS, MINNESOTA 55402

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*Pursuant to MS 356.215-annual report  
also includes actuarial valuation  
pursuant to 356.20 1981*



1981

**MINNEAPOLIS TEACHERS'  
RETIREMENT FUND  
ASSOCIATION**

**SEVENTY-SECOND ANNUAL REPORT  
OF THE BOARD OF TRUSTEES**

951 NORTHWESTERN BANK BUILDING  
MINNEAPOLIS, MINNESOTA 55402  
(612) 338-7865

**MINNEAPOLIS TEACHERS' RETIREMENT FUND  
ASSOCIATION**

Incorporated under the Laws of the State of Minnesota,  
September 17, 1909, and reorganized January 1, 1924

**Officers**

Geneveve K. Johnston..... *President*  
A. James Heller ..... *Vice President*  
Robert W. Rose ..... *Secretary*  
Eleanor L. Matsis ..... *Treasurer*

**Board of Trustees**

A. James Heller ..... *Instructor, Henry High School*  
Geneveve K. Johnston ..... *Annuitant*  
Eleanor L. Matsis ..... *Instructor, West High School*  
Marilyn Olson-Bieger ..... *Instructor, Shingle Creek School*  
E. Dudley Parsons ..... *Annuitant*  
James W. Pommerenke ..... *School Board Representative*  
Robert W. Rose ..... *Instructor, Olson Junior High School*

**Standing Committees**

**Finance**

Eleanor L. Matsis, *Chairman*  
E. Dudley Parsons  
Geneveve K. Johnston (*Ex officio*)

*Membership*

Marilyn Olson-Bieger, *Chairman*  
A. James Heller  
Geneveve K. Johnston (*Ex officio*)

*Annuity*

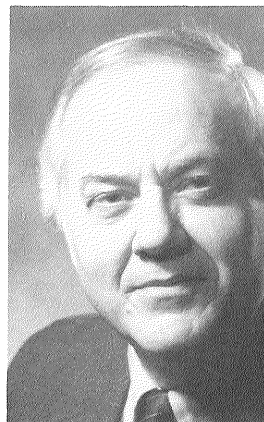
E. Dudley Parsons, *Chairman*  
Robert W. Rose  
Geneveve K. Johnston (*Ex officio*)

**Administrative Personnel**

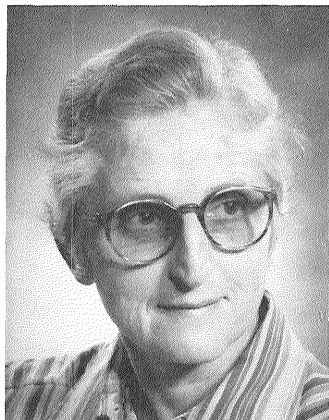
*Executive Secretary and  
Investment Manager* ..... Newell Gaasedelen  
*Counsel* ..... Richard H. Bachelder  
*Actuary* ..... Peat, Marwick, Mitchell & Co.  
*Auditors* ..... Peat, Marwick, Mitchell & Co.



*A. James Heller*



*Robert W. Rose*



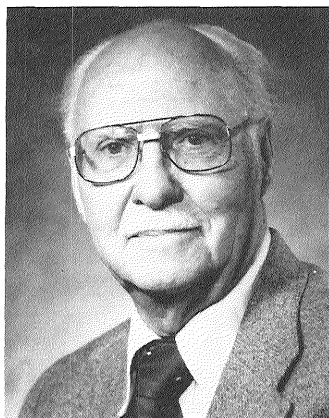
*Eleanor L. Matsis*



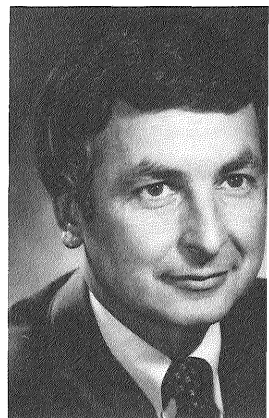
*Geneveve K. Johnston*



*Marilyn Olson-Biege*



*E. Dudley Parsons*



*James Pommerenk*

## REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees of the Minneapolis Teachers' Retirement Fund Association, in compliance with the Articles of Incorporation, submits its report of the transactions of the Association for the year ended December 31, 1981, together with the audit and actuary reports of Peat, Marwick, Mitchell & Co., Certified Public Accountants; and a statement showing mean ledger assets, as adjusted, and the amount and rate of interest earned for the years 1924 to 1981, inclusive.

The Minneapolis Teachers' Retirement Fund Association was incorporated on September 17, 1909, under the laws of the State of Minnesota. Revised Articles of Incorporation, effective January 1, 1924, were adopted during the year 1923 and have been amended from time to time. The charter was extended for a period of thirty years on April 29, 1969. Pursuant to the Agreement with the City Council, relative to the removal of the limitation of one mill in the amount levied by taxation for the purposes of the Association, amendments to the Articles of Incorporation were adopted during the year 1929.

The regular annual meeting of the Association was held May 21, 1981. Miss Eleanor L. Matsis and Mr. E. Dudley Parsons, nominated as trustees for a three-year term, were elected by the members pursuant to Article IX of the By-Laws.

During the year, our Articles were amended to provide for the following:

1. Payment of a lump sum post retirement adjustment to certain annuitants in the calendar year 1981 and possibly in future years;
2. Crediting of time for pension purposes to teachers on Maternity Leaves of Absence provided member pays employer and employee contributions; and
3. Increasing the limit of indebtedness to which the Association may be subject to 20% of total assets of the Fund.

Members deposited \$5,788,534 compared to \$5,818,365 during the previous year. The revenues from taxes were \$8,280,985 for 1981.

Annuity applications totaled 121 which was a decrease of 18 from the previous year. A total of \$14,910,355 was paid to annuitants during the year.

The book value of investments at the close of the year was \$164,413,194 compared to \$147,997,823 for the year before.

Interest and dividends earned amounted to \$10,223,045. Income from Rentals totaled \$6,449,971. Members' deposits were credited with 5% interest and interest credited to the Annuity Reserve Fund was computed at 5% on the mean monthly balances.

The reserve for investment and other losses amounted to \$34,047,320 as of December 31, 1981.

Peat, Marwick, Mitchell & Co., auditors for the Association since its organization in 1909, made the annual audit of the accounts.

Geneveve K. Johnston, President

# **Minneapolis Teachers' Retirement Fund Association**

**Coordinated Retirement Program**

**Actuarial Valuation  
December 31, 1981**

**Peat, Marwick, Mitchell & Co.**

Peat, Marwick, Mitchell & Co.  
Peat Marwick Plaza  
303 East Wacker Drive  
Chicago, Illinois 60601

March 26, 1982

Board of Trustees  
Minneapolis Teachers Retirement  
Fund Association  
951Northwestern Bank Building  
Minneapolis, Minnesota 55402

Gentlemen:

We are pleased to submit the final results of our actuarial valuation of the Minneapolis Teachers Retirement Fund as of December 31, 1981. The valuation of coordinated members was performed on the basis of employee data which was not audited by us and on data and financial information provided by the Executive Secretary of the Fund.

*Objectives*

The principal objectives of the valuation may be summarized as follows:

1. Prepare information in accordance with Minnesota Statutes, Sections 356.20 to 356.23 (refer to page No. 1 of the report for additional detail of methods used).
2. Summarize the actuarial status of the Fund.

*Summary of Findings*

The results of our valuation, which were determined under 5% interest and 3½% salary increase assumptions as required by statute, may be summarized as follows:

1. The employer's normal cost for coordinated members for the year is 4.13% of coordinated members payroll.
2. The necessary contribution to meet normal cost, and prevent the unfunded accrued liability (deficit) from increasing is 5.20% of payroll.

Based on the above mentioned data and information, our interpretation of plan provisions and the valuation method and assumptions set forth in this report, we hereby certify that the summaries on the following pages represent the results of the valuation.

PEAT, MARWICK, MITCHELL & CO.

Donald G. Brackey, F.S.A.  
Enrolled Actuary Number 2765

Dennis M. Polisner, F.S.A.  
Enrolled Actuary Number 986

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**PART I.**  
**VALUATION METHODS AND ASSUMPTIONS**

**MINNEAPOLIS TEACHERS' RETIREMENT  
FUND ASSOCIATION  
METHODS USED IN VALUATION**

**GENERAL**

Actuarial liabilities for retirement and other benefits are shown in E

There are no coordinated members who have terminated with a deferred . Employer contribution levels are presented in Exhibit II.

**ANNUITIES IN FORCE AND DEFERRED**

**ANNUITANTS** benefit or any coordinated members who have annuities in force.

**ACCRUED LIABILITY — ACTIVE TEACHERS  
(COORDINATED MEMBERS)**

In the valuation performed as of December 31, 1981, the Entry Age Normal Cost Method was used for valuation of normal retirement benefits as well as ancillary benefits.

For purposes of this valuation, it was assumed that all retirements take place at age 63. At retirement, the plan provides a life annuity of 1% of the highest consecutive 5-year average salary, times years of teaching service during the first 10 years and 1.5% per year for each year of teaching service thereafter.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
SUMMARY OF ACTUARIAL ASSUMPTIONS**

---

December 31, 1981

Interest	5%	
Turnover	2/3 of the 1970 experience, graduated for smoothness:	
	<u>Attained Age</u>	<u>Turnover Rate</u>
	20	.200
	30	.133
	40	.028
	50	.017
	60	.002
Retirement Age	The later of age 63 or attained age on the valuation date.	
Salary Scale —		
Annual Increase	3½%	
Mortality	The 1971 Group Annuity Mortality Table with projection to 1975 by Scale D. For males, the male rates were used with age setback two years. For females, the male rates were used with age setback eight years.	
Valuation Assets	For valuation purposes assets are valued at cost.	
Disablement	1955 UAW rates of disablement (with separate rates for males and females).	

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
ANALYSIS OF ACTUARIAL ASSUMPTIONS**

Shown below is the description of the basis for each principal assumption summarized on the previous page.

*INTEREST*

In 1981, the Fund's earning rates were as follows:

- |  |         |
|--|---------|
| 1. Excluding realized and unrealized capital gains and losses: | 10.396% |
| 2. Including realized capital gains and losses:                | 11.111% |

Over the last five years, the averages of the Fund's annual earning rates were as follows:

- |  |        |
|--|--------|
| 1. Excluding realized and unrealized capital gains and losses: | 8.017% |
| 2. Including realized capital gains and losses:                | 8.558% |

*RETIREMENT AGE*

Over the last several years, the average retirement age has approximated age 63. In 1981, the average age at retirement was 59.25. This year's costs are calculated using an assumed retirement age of 63.

*TURNOVER*

Turnover rates corresponding to 2/3 of the turnover rates experienced by the Fund in 1970 were used in this year's valuation. During 1981, actual turnover rates were approximately 186% higher than the assumed rates.

*ASSETS*

The cost basis of the assets was used for purposes of the actuarial valuation. Unrealized appreciation on the common stocks of the consolidated assets was \$18,355,714 on December 31, 1981. Unrealized depreciation on the bonds of the consolidated assets was \$7,871,244 on December 31, 1981.

*SALARY SCALE*

A 3½ % annual salary scale assumption was used. At the end of 1981, the overall average salary was \$11,262 compared to \$8,633 at the end of 1980 representing a 30.4% increase.

*MORTALITY*

For active and retired lives, the 1971 Group Annuity Mortality Table with projection to 1975 was used. (Male table for males; the mortality rates for females are equal to those for males six years younger). To account for teacher mortality which is expected to be less than the average group mortality, an additional two year setback was used.



**PART II.**  
**VALUATION RESULTS AND ANALYSIS**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
DEFINITIONS OF TERMS**

*NORMAL COST*

Level cost, to provide for all benefits, expressed as a percentage of payroll, payable from each member's entry age to date of retirement or termination.

*ACCRUED LIABILITY*

The accumulation of prior Normal Costs which became due each year (theoretically) for each member since his entry date.

*UNFUNDED ACCRUED LIABILITY*

The portion of the Accrued Liability not covered by assets of the Fund.

*ENTRY AGE NORMAL*

A method for funding future benefits, using the Normal Cost and Accrued Liability defined above.

**EXHIBIT I**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF COSTS AS OF DECEMBER 31, 1981**

Assumed retirement age is 63,  
5% Interest and  
2/3 of 1970 Turnover

	<u>Normal Cost</u>	<u>Accrued Liability</u>
1. Active Members .....		
Retirement benefits .....	\$ 264,216	\$ 803,732
Disability benefits .....	7,476	22,190
Refunds due to death or withdrawal	39,063	(14,295)
2. Deferred Annuitants and Former		
Members Without Vested Rights ....	0	5,445
3. Annuitants .....	0	0
4. Total .....	\$ 310,755	\$ 817,072
5. Member deposits (4½% of compensation for all coordinated plan participants) .....	\$ 162,062	
6. Employer normal cost .....	\$ 148,693	
7. Valuation assets .....		\$ 678,098
8. Actual unfunded accrued liability .....		\$ 138,974
Total Payroll .....		\$3,601,378

**EXHIBIT II**  
**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF CONTRIBUTION LEVELS FOR TWO YEARS**

	<u>December 31, 1981</u>	<u>December 31, 1980</u>
Employer normal cost .....	\$148,693	\$ 91,341
Percentage of payroll .....	4.13%	4.16%
Unfunded accrued liability .....	138,974	98,099
Employer contribution required to meet normal cost and amortize unfunded accrued liability by December 31, 2009 assuming payment at the beginning of the plan year .....	157,577	97,511
Percentage of payroll .....	4.38%	4.44%
Employer contribution required to meet normal cost and prevent unfunded accrued liability from increasing, assuming payment at the end of the plan year .....	163,076	100,813
Percentage of payroll .....	4.53%	4.60%
Administrative expense .....	23,126	12,672
Percentage of payroll .....	.64%	.58%
Employer contribution required to meet normal cost and administrative expense and amortize unfunded accrued liability by December 31, 2009 assuming payment at the beginning of the plan year .....	180,703	110,183
Percentage of payroll .....	5.02%	5.02%
Employer contribution required to meet normal cost and administrative expense and prevent unfunded accrued liability from increasing, assuming payment at the end of the plan year .....	187,359*	114,119*
Percentage of payroll .....	5.20%	5.20%

\*Includes interest on administrative expense

**EXHIBIT III**  
**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**COMPARISON OF CONTRIBUTIONS WITH TOTAL INCOME FROM**  
**GOVERNMENTAL UNITS**

Employer contribution as of December 31, 1981 to meet normal cost and administrative expense and prevent unfunded accrued liability from increasing .....	\$187,359
Percentage of payroll on December 31, 1981 .....	5.20%
Total 1981 state tax revenue .....	180,656
Percentage of payroll on December 31, 1981 .....	5.02%

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**ASSETS AND CURRENT LIABILITIES AS OF**  
**DECEMBER 31, 1981 AND 1980**

<b>Consolidated Assets (Cost Basis)</b>	<b>December 31, 1981</b>	<b>December 31, 1980</b>
Cash and savings accounts .....	\$ 299,969	\$ 888,491
Accounts receivable from governmental units .....	845,751	772,502
Accounts receivable from lessees .....	224,797	38,361
Accrued interest receivable .....	821,890	1,041,620
Accrued dividends receivable .....	442,586	371,030
Receivable for investments sold .....	38,450	149,624
Notes receivable .....	—	1,734,784
Investments:		
Commercial Paper and certificates of deposit .....	29,551,274	7,731,792
Bonds .....	26,521,734	42,404,636
Common stocks .....	52,482,990	53,898,444
Real estate mortgages .....	401,449	438,432
Total investments .....	<u>108,957,447</u>	<u>104,473,304</u>
Rental properties, net of accumulated depreciation .....	53,216,620	42,631,930
Property held for sale or lease, net ....	2,239,127	892,589
Other .....	1,135	1,135
Total .....	<u>\$167,087,772</u>	<u>\$152,995,370</u>
<b>Current Liabilities</b>		
Member deposits payable .....	\$ 118,218	\$ 138,843
Payable for lump sum post-retirement benefit .....	835,000	—
Payable for investment securities purchased .....	149,949	161,324
Accounts payable .....	1,446	11,003
Rents received in advance .....	59,519	24,238
Deferred premiums received from outstanding call options on common stock .....	99,529	111,359
Total liabilities .....	<u>1,263,661</u>	<u>446,767</u>
Net assets available for plan benefits .....	<u>165,824,111</u>	<u>152,548,603</u>
Total .....	<u>\$167,087,772</u>	<u>\$152,995,370</u>

Note: Assets available for plan benefits were split between the basic and coordinated members. As of December 31, 1980, the balance for the coordinated members was \$281,062. As of December 31, 1981, the balance for the coordinated members is \$678,098.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION

SUMMARY OF ACTUARIAL GAINS AND LOSSES AS OF  
DECEMBER 31, 1981

(a)	Actual unfunded accrued liability as of December 31, 1980 for coordinated members .....	\$ 98,009
(b)	Normal cost as of December 31, 1980 .....	190,067
(c)	Interest at 5% on (a) and (b) .....	14,408
(d)	Employee contribution during 1981 .....	180,974
(e)	Employer contribution during 1981 .....	180,656
(f)	Estimated interest on (d) and (e) .....	9,041
(g)	Expected unfunded accrued liability as of December 31, 1981 = (a) + (b) + (c) - (d) - (e) - (f) .....	\$ (68,097)
(h)	Actual unfunded accrued liability as of December 31, 1981 .....	\$ 138,974
(i)	Actuarial gain (loss) = (g) - (h)	\$(207,071)

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**COVERED EARNINGS OF ACTIVE COORDINATED MEMBERS INCLUDED**  
**IN DECEMBER 31, 1981 VALUATION. DISTRIBUTION BY**  
**SEX AND SERVICE GROUPS**

ANNUAL EARNINGS BY SERVICE GROUPS

Service Group	MALE			FEMALE			TOTAL		
	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings
0	0	\$ 0	\$ 0	0	\$ 0	\$ 0	0	\$ 0	\$ 0
1	69	786,160	11,394	95	815,672	8,586	164	1,601,832	9,767
2	17	270,812	15,930	58	745,061	12,846	75	1,015,873	13,545
3	9	130,262	14,474	28	331,604	11,843	37	461,866	12,483
4	3	50,503	16,834	9	97,969	10,885	12	148,472	12,373
0-4	98	1,237,737	12,630	190	1,990,306	10,475	288	3,228,043	11,208
5-9	3	28,691	9,564	15	186,419	12,428	18	215,110	11,951
10-14	3	37,518	12,506	6	66,707	11,118	9	104,225	11,581
15-19	0	0	0	0	0	0	0	0	0
20-24	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0
35-39	0	0	0	0	0	0	0	0	0
40+	0	0	0	0	0	0	0	0	0
Total	104	\$1,303,946	\$ 12,538	211	\$2,243,432	\$ 10,632	315	\$3,547,378	\$ 11,262

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
 COVERED EARNINGS OF ACTIVE COORDINATED MEMBERS INCLUDED  
 IN DECEMBER 31, 1981 VALUATION. DISTRIBUTION BY  
 SEX AND AGE GROUPS

ANNUAL EARNINGS BY AGE GROUPS

Group	MALE			FEMALE			TOTAL		
	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings
0-19	1	\$ 11,936	\$ 11,936	1	\$ 3,967	\$ 3,967	2	\$ 15,903	\$ 7,952
20-24	11	81,113	7,374	19	154,741	8,144	30	235,854	7,862
25-29	19	183,820	9,675	68	636,756	9,364	87	820,576	9,432
30-34	33	460,836	13,965	43	528,919	12,300	76	989,755	13,023
35-39	13	202,599	15,585	30	342,772	11,426	43	545,371	12,683
40-44	15	212,075	14,138	25	299,212	11,968	40	511,287	12,782
45-49	4	83,869	20,967	11	109,946	9,995	15	193,815	12,921
50-54	3	13,008	4,336	8	90,418	11,302	11	103,426	9,402
55-59	4	50,705	12,676	6	76,701	12,784	10	127,406	12,741
60-64	1	3,985	3,985	0	0	0	1	3,985	3,985
65-69	0	0	0	0	0	0	0	0	0
70-74	0	0	0	0	0	0	0	0	0
75-79	0	0	0	0	0	0	0	0	0
80-84	0	0	0	0	0	0	0	0	0
85+	0	0	0	0	0	0	0	0	0
Total	104	\$1,303,946	\$12,538	211	\$2,243,432	\$10,632	315	\$3,547,378	\$11,262

**EXHIBIT VIII**  
**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION**  
**COMPARISON OF AVERAGE AGES AT ENTRY**

---

<u>Year</u>	<u>Average* Employment Age For New Entrants</u>
1981 .....	26.2
1980 .....	32.3
1979** .....	32.5

\*Arithmetic mean

\*\*Includes basic members

**EXHIBIT IX**  
**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF ACTIVE MEMBERSHIP**  
**ACTIVE MEMBERS**

	<u>Number</u>	<u>Annual Covered Payroll</u>
As of December 31, 1980 .....	251	\$ 2,166,919*
New entrants, status changes and other adjustments .....	148	1,444,721**
Salary changes .....		660,910**
Withdrawals from service .....	(84)	(725,172)**
Retirements .....	0	0
As of December 31, 1981 .....	315***	\$ 3,547,378***

\*Excludes 3 participants with estimated total annual earnings of \$27,000 included in the valuation, but for whom data was incomplete.

\*\*Approximate figures.

\*\*\*Excludes 6 participants with estimated total annual earnings of \$54,000 included in the valuation, but for whom data was incomplete.

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION  
APPROXIMATE BREAKDOWN OF THE CHANGE IN UNFUNDED  
ACCRUED LIABILITY AS OF DECEMBER 31, 1981**

---

1. Actual unfunded accrued liability as of December 31, 1981 .....		\$ 138,974
2. Actual unfunded accrued liability as of December 31, 1980 .....		\$ 98,099
3. Increase in actual unfunded accrued liability = (1) - (2) .....		<u>\$ 40,875</u>

Sources of Increase and (Decrease)

Amortization of unfunded accrued liability .....		\$ (166,196)*
Experience (gains) and losses		
Interest – excluding capital gains .....	\$ (31,988)	
Realized capital gains .....	(4,382)	
Salary change experience .....	167,176	
Turnover and status change experience .....	(104,595)	
Mortality experience .....	313	
Disability experience .....	0	
New entrants .....	<u>108,547</u>	<u>\$ 207,071</u>
Total .....		\$ 40,875

\*The portion of the 1980 contribution applied to amortize the unfunded accrued liability is \$166,196. This is derived from Exhibit V as the excess of item (a) over item (g) therein.

**PART III.**  
**SUMMARY OF THE PRINCIPAL PROVISIONS**  
**OF THE PLAN**

**MINNEAPOLIS TEACHERS RETIREMENT  
FUND ASSOCIATION**

**SUMMARY OF THE PRINCIPAL PROVISIONS OF THE PLAN**

- I. ESTABLISHMENT OF PROGRAM** — In accordance with the laws of the State of Minnesota, a coordinated program was established within the Association effective July 1, 1978. The coordinated program provides for retirement annuities and certain other benefits specified in the law identical in effect to the corresponding provisions applicable to coordinated members of the statewide Teachers' Retirement Association.
- II. ELIGIBILITY** — Teachers who became members in the Association by virtue of service commencing after July 1, 1978 shall automatically become members in the coordinated program within the Association. Teachers who became members in the Association by virtue of service commencing prior to July 1, 1978, referred to as basic members, were afforded an opportunity to elect coverage under the coordinated program. Members participating in the coordinated program are referred to as coordinated members.
- III. STATE CONTRIBUTIONS** — The State shall contribute to the Association an employer contribution equal to the amount, expressed as a percent of payroll, that the State is required to pay for all contributing members of the State Teachers Retirement Association.
- IV. MEMBER CONTRIBUTIONS ("REQUIRED DEPOSITS")** — Each coordinated member shall deposit in the Retirement Deposit Fund  $4\frac{1}{2}\%$  of all compensation.
- V. NORMAL RETIREMENT BENEFITS ("FORMULA ANNUITY") FOR COORDINATED MEMBERS** —
- 1. Eligibility** — A member is eligible for the Formula Annuity if he has attained age 55 with not less than 10 years of teaching service, or has completed 30 years of teaching service regardless of age when he retires. Each member so eligible may elect to relinquish all other benefits and receive in lieu thereof the Formula Annuity.
  - 2. Annual Amount** — The annual Formula Annuity is equal to the member's average salary for the highest 5 consecutive years of formula service multiplied by 1.0% per year for each year of service during the first 10 years and 1.5% per year for each year of service thereafter. The amount of the formula annuity will be reduced by one-half of one percent for each month prior to age 60 except that for any member who has 30 or more years of allowable service credit, such reduction shall be applied only for each month such member is under age 62.

3. **Normal Form of Payment** — Single life annuity. Specified optional forms are available.

**VI. WITHDRAWAL BENEFIT FOR COORDINATED MEMBERS —**

1. **Eligibility** — The member ceases to be employed in teaching in the public schools of Minneapolis prior to becoming age 65.
2. **Amount** — The member shall receive a refund in an amount equal to his accumulated deductions without interest or a deferred retirement annuity.

**VII. DISABILITY BENEFITS FOR COORDINATED MEMBERS —**

1. **Eligibility** — A member must be totally and permanently disabled and have completed 10 years of teaching service or after age 50 have completed 5 years of teaching service to be eligible for a disability benefit. Any member whose average salary is less than \$75 per month shall not be entitled to disability benefits.
2. **Annual Amount** — The disability benefit for members eligible for the formula annuity (under Teachers' Retirement Association Laws, Section 354.44, Subd.6) shall be the formula annuity without the reduction for each month the member is under age 65 at the time the benefit begins to accrue. The disability benefit for members eligible for the money purchase annuity shall be an amount equal to double the annuity which could be purchased by the member's accumulated deductions plus interest thereon computed as though the teacher were age 65 at the time the benefit begins to accrue and in accordance with the law in effect when the disability application is received.
3. **Normal Form of Payment** — A single life annuity, commencing after the Board has determined that the total disability exists, is paid during the continued existence of the disability.

**VIII. DEATH BENEFITS FOR COORDINATED MEMBERS —**

If a member dies before retirement and is eligible for the formula annuity, there shall be paid to his surviving dependent spouse or if there is no surviving dependent to his dependent beneficiary an amount equal to his accumulated deductions credited to his account as of June 30, 1957 and from July 1, 1957 to the date of death his accumulated deductions plus interest at the rate of three and one-half percent per annum compounded annually.

**IX. PRE-RETIREMENT DEATH BENEFIT PAYABLE TO A SURVIVING SPOUSE —**

- (a) **Eligibility** — A member must elect to provide the coverage

and have attained age 55 with 20 years of service or received credit for 30 years of service regardless of age. After meeting the above conditions, the member must have a spouse and the member must die prior to retirement.

- (b) **Annual Amount** — The survivor annuity shall be equal to the survivor's portion of an actuarially equivalent benefit. The joint and survivor benefit is actuarially equivalent to the benefit payable in the normal form.
- (c) **Normal Form of Payment** — A single life annuity payable to the surviving spouse.

**X. ANNUAL AUTOMATIC ANNUITY INCREASE —**

- (a) **Eligibility** — Every member entitled to receive an annuity is entitled to an Annual Automatic Annuity Increase in his annuity. All beneficiaries shall be entitled to the same Annual Automatic Annuity Increase as the member would have been entitled to receive if living and according to the age the member would have attained if living.
- (b) **Amount** — The amount of the Annual Automatic Annuity Increase in any year shall be equal to 1½% of the benefit the member was receiving as of the end of the preceding year, which increase shall first become payable on the July 1 of the calendar year in which the member becomes age 65. If a member is entitled to a Total Disability Annuity, the Annual Automatic Annuity Increase of 1½% shall commence upon the earlier of attainment of age 60 or 9 years after the member becomes entitled to such annuity.

# **Minneapolis Teachers' Retirement Fund Association**

## **Basic Retirement Program**

### **Actuarial Valuation**

Peat, Marwick, Mitchell & Co.

March 26, 1982

Board of Trustees  
Minneapolis Teachers Retirement  
Fund Association  
951 Northwestern Bank Building  
Minneapolis, Minnesota 55402

Gentlemen:

We are pleased to submit the final results of our actuarial valuation of the Minneapolis Teachers Retirement Fund as of December 31, 1981. The valuation of basic members was performed on the basis of employee data which was not audited by us and of data and financial information provided by the Executive Secretary of the Fund.

*Objectives*

The principal objectives of the valuation may be summarized as follows:

1. Prepare information in accordance with Minnesota Statutes, Sections 356.20 to 356.23 (refer to page No. 1 of this Report for additional detail of methods used).
2. Summarize the actuarial status of the Fund.
3. Analyze the experience of the Fund.

*Summary of Findings*

The results of our valuation, which were determined under 5% interest and 3½% salary increase assumptions as required by statute, may be summarized as follows:

1. The employer's normal cost for the year is 5.97% of payroll.
2. The necessary contribution to meet normal cost, and prevent the unfunded accrued liability (deficit) from increasing is 26.04% of payroll, compared to 24.94% shown in the December 31, 1980 valuation.
3. Assets of the Fund are in excess of the present value of benefits for current retirees.

Based on the above mentioned data and information, our interpretation of plan provisions and the valuation method and assumptions set

forth in this report, we hereby certify that the summaries on the following pages represent the results of the valuation.

PEAT, MARWICK, MITCHELL & CO.

Donald G. Brackey, F. S.A.  
Enrolled Actuary Number 2765

Dennis M. Polisner, F. S.A.  
Enrolled Actuary Number 986

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**PART I.**  
**VALUATION METHODS AND ASSUMPTIONS**

**MINNEAPOLIS TEACHERS RETIREMENT  
FUND ASSOCIATION  
METHODS USED IN VALUATION**

**GENERAL**

Actuarial liabilities for retirement and other benefits are shown in Exhibit I. Employer contribution levels are presented in Exhibit II.

**ANNUITIES IN FORCE**

Annuities in force as of December 31, 1981 were summarized by the Association, showing for each type of annuity, the option chosen, attained age of annuitant or beneficiary, and the annual amount of annuity payable. The present value of these annuities was determined using a 5% interest rate and the 1971 Group Annuity Mortality Table with projection to 1975. For males, the male mortality rates with an age setback of two years were used. For females, the male rates with an age setback of eight years were used.

**DEFERRED ANNUITANTS**

Summaries of all deferred annuitants were prepared by the Association showing, by attained age, the years of service and accumulated deposits for each such annuitant. It was assumed that future benefits would be the amount purchased by 200% of member's deposits plus a life annuity starting at age 63 equal to the greater of:

1. \$4 per month per year of service; or
2. The amount purchased by 200% of the accumulated City/ State deposits.

**ACCRUED LIABILITY — ACTIVE TEACHERS  
(BASIC MEMBERS)**

In the valuation performed as of December 31, 1981, the Entry Age Normal Cost Method was used for valuation of normal retirement benefits as well as ancillary benefits.

For purposes of this valuation, it was assumed that all retirements take place at age 63. At retirement, the plan provides for basic members a life annuity of 2.25% of the highest consecutive 5-year average salary, times years of teaching service to a maximum of 30 years.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF ACTUARIAL ASSUMPTIONS**

---

**December 31, 1981**

---

Interest 5%

Turnover 2/3 of the 1970 experience, graduated for smoothness:

<u>Attained Age</u>	<u>Turnover Rate</u>
20	.200
30	.133
40	.028
50	.017
60	.002

Retirement Age The later of age 63 or attained age on the valuation date.

Salary Scale —

Annual Increase 3½%

Mortality The 1971 Group Annuity Mortality Table with projection to 1975 by Scale D. For males, the male rates were used with age setback two years. For females, the male rates were used with age setback eight years.

Valuation Assets For valuation purposes assets are valued at cost.

Disablement 1955 UAW rates of disablement (with separate rates for males and females).

## MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION ANALYSIS OF ACTUARIAL ASSUMPTIONS

Shown below is the description of the basis for each principal assumption summarized on the previous page.

### *INTEREST*

In 1981, the Fund's earning rates were as follows:

1. Excluding realized and unrealized capital gains and losses: 10.396%
2. Including realized capital gains and losses: 11.111%

Over the last five years, the averages of the Fund's annual earning rates were as follows:

1. Excluding realized and unrealized capital gains and losses: 8.017%
2. Including realized capital gains and losses: 8.558%

### *RETIREMENT AGE*

Over the last several years, the average retirement age has approximated age 63. In 1981, the average age at retirement was 59.25. This year's costs are calculated using an assumed retirement age of 63.

### *TURNOVER*

Turnover rates corresponding to 2/3 of the turnover rates experienced by the Fund in 1970 were used in this year's valuation. During 1981, actual turnover rates were approximately 186% higher than the assumed rates.

### *ASSETS*

The cost basis of the assets was used for purposes of the actuarial valuation. Unrealized appreciation on the common stocks of the consolidated assets was \$18,355,714 on December 31, 1981. Unrealized depreciation on the bonds of the consolidated assets was \$7,871,244 on December 31, 1981.

### *SALARY SCALE*

A 3½ % annual salary scale assumption was used. At the end of 1981, the overall average salary was \$11,262 compared to \$8,633 at the end of 1980 representing a 30.4% increase.

### *MORTALITY*

For active and retired lives, the 1971 Group Annuity Mortality Table with projection to 1975 was used. (Male table for males; the mortality rates for females are equal to those for males six years younger). To account for teacher mortality which is expected to be less than the average group mortality, an additional two year setback was used.

## MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION DEFINITIONS OF TERMS

### *NORMAL COST*

Level cost, to provide for all benefits, expressed as a percentage of payroll, payable from each member's entry age to date of retirement or termination.

### *ACCRUED LIABILITY*

The accumulation of prior Normal Costs which became due each year (theoretically) for each member since his entry date.

### *UNFUNDED ACCRUED LIABILITY*

The portion of the Accrued Liability not covered by assets of the Fund.

### *ENTRY AGE NORMAL*

A method for funding future benefits, using the Normal Cost and Accrued Liability defined above.

**EXHIBIT I**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF COSTS AS OF DECEMBER 31, 1981**

Assumed retirement age is 63,  
5% Interest and  
2/3 of 1970 Turnover

	<u>Normal Cost</u>	<u>Accrued Liability</u>
1. Active Members .....		
Retirement benefits .....	\$6,465,419	\$201,638,682
Disability benefits .....	748,162	15,083,932
Refunds due to death or withdrawal	2,162,204	15,688,959
2. Deferred Annuitants and Former		
Members Without Vested Rights .....	0	9,781,935
3. Annuitants .....	0	164,647,423
4. Total .....	\$9,375,785	\$406,840,931
5. Member deposits (8½% of		
compensation for all basic		
plan participants) .....	\$5,505,908	
6. Employer normal cost .....	\$3,869,877	
7. Valuation assets .....		\$165,146,013
8. Actual unfunded accrued liability .....		\$241,694,918
Total Payroll .....		\$64,775,390

**EXHIBIT II**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF CONTRIBUTION LEVELS FOR TWO YEARS**

	<u>December 31, 1981</u>	<u>December 31, 1980</u>
Employer normal cost .....	3,869,877	3,970,813
Percentage of payroll .....	5.97%	6.07%
Unfunded accrued liability .....	241,694,918	231,541,987
Employer contribution required to meet normal cost and amortize unfunded accrued liability by December 31, 2009 assuming payment at the beginning of the plan year .....	19,320,515	18,534,920
Percentage of payroll .....	29.83%	28.36%
Employer contribution required to meet normal cost and prevent unfunded accrued liability from increasing, assuming payment at the end of the plan year .....	16,148,117	15,746,453
Percentage of payroll .....	24.93%	24.09%
Administrative expense .....	687,062	530,681
Percentage of payroll .....	1.06%	.81%
Employer contribution required to meet normal cost and administrative expense and amortize unfunded accrued liability by December 31, 2009 assuming payment at the beginning of the plan year .....	20,007,577	19,065,601
Percentage of payroll .....	30.89%	29.17%
Employer contribution required to meet normal cost and administrative expense and prevent unfunded accrued liability from increasing, assuming payment at the end of the plan year .....	16,869,532*	16,303,668*
Percentage of payroll .....	26.04%	24.94%

\*Includes interest on administrative expense

**EXHIBIT III**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
COMPARISON OF CONTRIBUTIONS WITH TOTAL INCOME FROM  
GOVERNMENTAL UNITS**

---

Employer contribution as of December 31, 1981 to meet normal cost and administrative expense and prevent unfunded accrued liability from increasing .....	\$16,869,532
Percentage of payroll on December 31, 1981 .....	26.04%
Total 1981 state tax revenue .....	8,100,329
Percentage of payroll on December 31, 1981 .....	12.51%

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION  
SUMMARY OF ANNUITIES IN FORCE ON DECEMBER 31, 1981**

<u>Option</u>	<u>Annuity Plan</u>	<u>Number of Annuitants</u>	<u>Annuity Reserve Fund</u>		<u>Contingent Reserve Fund</u>		<u>Total</u>	
			<u>Annual Amount</u>	<u>Reserve</u>	<u>Annual Amount</u>	<u>Reserve</u>	<u>Annual Amount</u>	<u>Reserve</u>
1	Life . . . . .	1,273	\$1,842,497	\$17,072,698	\$4,595,773	\$ 46,908,592	\$ 6,438,270	\$ 63,981,290
2	Life, 15 year guarantee . . . . .	554	1,084,363	12,771,323	2,270,234	30,644,751	3,354,597	43,416,074
3	Survivorship (50%) . . . . .	105	281,302	3,324,921	688,594	9,087,894	969,896	12,412,815
4	Annuities Certain . . . . .	54	92,881	782,169	221,831	2,132,579	314,712	2,914,748
5	Life, 3 year guarantee . . . . .	59	201,385	2,609,777	395,577	6,041,139	596,962	8,650,916
6	Survivorship (75%) . . . . .	74	278,470	3,837,046	662,122	10,279,385	940,592	14,116,431
7	Survivorship (100%) . . . . .	89	259,823	3,779,122	563,145	9,331,467	822,968	13,110,589
8	Death Benefit . . . . .	10	9,162	123,084	34,537	523,159	43,699	646,243
9	Disability . . . . .	60	79,522	1,005,975	308,884	4,392,342	388,406	5,398,317
	Totals . . . . .	2,278	\$4,129,405	\$45,306,115	\$9,740,697	\$119,341,308	\$13,870,102	\$164,647,423

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**ASSETS AND CURRENT LIABILITIES AS OF**  
**DECEMBER 31, 1981 AND 1980**

<b>Consolidated Assets (Cost Basis)</b>	<b>December 31, 1981</b>	<b>December 31, 1980</b>
Cash and savings accounts .....	\$ 299,969	\$ 888,491
Accounts receivable from governmental units .....	845,751	772,502
Accounts receivable from lessees .....	224,797	38,361
Accrued interest receivable .....	821,890	1,041,620
Accrued dividends receivable .....	442,586	371,030
Receivable for investments sold .....	38,450	149,624
Notes receivable .....	—	1,734,784
Investments:		
Commercial Paper and certificates of deposit .....	29,551,274	7,731,792
Bonds .....	26,521,734	42,404,636
Common stocks .....	52,482,990	53,898,444
Real estate mortgages .....	401,449	438,432
Total investments .....	<u>108,957,447</u>	<u>104,473,304</u>
Rental properties, net of accumulated depreciation .....	53,216,620	42,631,930
Property held for sale or lease, net ....	2,239,127	892,589
Other .....	1,135	1,135
Total .....	<u>\$167,087,772</u>	<u>\$152,995,370</u>
<b>Current Liabilities</b>		
Member deposits payable .....	\$ 118,218	\$ 138,843
Payable for lump sum post-retirement benefit .....	835,000	—
Payable for investment securities purchased .....	149,949	161,324
Accounts payable .....	1,446	11,003
Rents received in advance .....	59,519	24,238
Deferred premiums received from outstanding call options on common stock .....	99,529	111,359
Total liabilities .....	<u>1,263,661</u>	<u>446,767</u>
Net assets available for plan benefits .....	<u>165,824,111</u>	<u>152,548,603</u>
Total .....	<u>\$167,087,772</u>	<u>\$152,995,370</u>

Note: Assets available for plan benefits were split between the basic and coordinated members. As of December 31, 1980, the balance for the coordinated members was \$281,062. As of December 31, 1981, the balance for the coordinated members is \$678,098.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**SUMMARY OF ACTUARIAL GAINS AND LOSSES AS OF**  
**DECEMBER 31, 1981**

(a)	Actual unfunded accrued liability as of December 31, 1980 for basic members .....	\$231,541,987
(b)	Normal cost as of December 31, 1980 .....	9,526,712
(c)	Interest at 5% on (a) and (b) .....	12,053,435
(d)	Employee contribution during 1981 .....	5,607,560
(e)	Employer contribution during 1981 .....	8,100,329
(f)	Estimated interest on (d) and (e) .....	342,697
(g)	Expected unfunded accrued liability as of December 31, 1981 = (a) + (b) + (c) - (d) - (e) - (f) .....	\$239,071,548
(h)	Actual unfunded accrued liability as of December 31, 1981 .....	\$241,694,918
(i)	Actuarial gain (loss) = (g) - (h)	\$ (2,623,370)

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION**  
**COVERED EARNINGS OF ACTIVE PARTICIPANTS INCLUDED**  
**IN DECEMBER 31, 1981 VALUATION. DISTRIBUTION BY**  
**SEX AND SERVICE GROUPS\***

**ANNUAL EARNINGS BY SERVICE GROUPS**

Service Group	MALE			FEMALE			TOTAL		
	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings	Number of Participants	Total Annual Earnings	Average Annual Earnings
0	0	0	0	0	0	0	0	0	0
1	8	98,421	12,303	25	279,386	11,175	33	377,807	11,449
2	2	48,514	24,257	20	284,365	14,218	22	332,879	15,131
3	4	65,190	16,298	12	156,360	13,030	16	221,550	13,847
4	12	253,231	21,103	56	883,494	15,777	68	1,136,725	16,717
0-4	26	465,356	17,898	113	1,603,605	14,191	139	2,068,961	14,885
5-9	99	2,211,640	22,340	343	5,825,679	16,984	442	8,037,319	18,184
10-14	328	8,821,443	26,895	611	13,602,720	22,263	939	22,424,163	23,881
15-19	249	7,441,036	29,884	234	5,991,036	25,603	483	13,432,072	27,810
20-24	177	5,520,577	31,190	124	3,218,340	25,954	301	8,738,917	29,033
25-29	176	5,631,892	31,999	76	2,005,958	26,394	252	7,637,850	30,309
30-34	14	491,834	35,131	24	631,058	26,294	38	1,122,892	29,550
35-39	0	0	0	4	111,311	27,828	4	111,311	27,828
40+	0	0	0	1	31,905	31,905	1	31,905	31,905
Total	1,069	30,583,778	28,610	1,530	33,021,612	21,583	2,599	63,605,390	24,473

\*Excludes 130 participants with estimated total annual earnings of \$1,170,000 included in the valuation but for whom data was incomplete, and 6 participants for whom the date of birth or date of hire was incorrect.

MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
 COVERED EARNINGS OF ACTIVE PARTICIPANTS INCLUDED  
 IN DECEMBER 31, 1981 VALUATION. DISTRIBUTION BY  
 SEX AND AGE GROUPS\*

Service Group	ANNUAL EARNINGS BY AGE GROUPS						TOTAL		
	MALE			FEMALE			Number of Participants	Average Annual Earnings	Total Annual Earnings
	Number of Participants	Average Annual Earnings	Total Annual Earnings	Number of Participants	Average Annual Earnings	Total Annual Earnings			
0-19	0	0	0	0	0	0	0	0	
20-24	0	0	0	0	0	0	0	0	
25-29	4	66,501	16,625	44	596,854	13,565	48	663,355	
30-34	80	1,710,118	21,376	268	4,318,755	16,115	348	6,028,873	
35-39	198	5,094,104	25,728	345	7,423,997	21,519	543	12,518,101	
40-44	207	6,024,918	29,106	225	5,038,794	22,395	432	11,063,712	
45-49	205	6,235,396	30,417	196	4,594,326	23,440	401	10,829,722	
50-54	192	5,916,436	30,815	199	4,847,243	24,358	391	10,763,679	
55-59	140	4,259,400	30,424	150	3,631,346	24,209	290	7,890,746	
60-64	34	976,864	28,731	82	2,027,528	24,726	116	3,004,392	
65-69	8	275,041	34,380	21	542,769	25,846	29	817,810	
70-74	1	25,000	25,000	0	0	0	1	25,000	
75-79	0	0	0	0	0	0	0	0	
80-84	0	0	0	0	0	0	0	0	
85+	0	0	0	0	0	0	0	0	
Total	1,069	30,583,778	28,610	1,530	33,021,612	21,583	2,599	63,605,390	

\*Excludes 130 participants with estimated total annual earnings of \$1,170,000 included in the valuation but for whom data was incomplete, and 6 participants for whom the date of birth or date of hire was incorrect.

**PART II.**  
**VALUATION RESULTS AND ANALYSIS**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
COMPARISON OF INCREASES IN AVERAGE SALARY**

All Active Teachers			New Annuitants		
Year	Average Salary	Increase	Year	Average Salary	% Increase
1981	\$24,473	6.8%	1981	\$24,600	1.8%
1980	22,915	15.6%	1980	24,174	10.0%
1979	19,816	4.3%	1979	21,974	8.9%
1978	18,997	7.6%	1978	20,183	6.3%
1977	17,661	15.0%	1977	18,987	8.7%
1976	15,361	5.3%	1976	17,460	5.9%
1975	14,590	7.2%	1975	16,491	6.0%
1974	13,612	11.6%	1974	15,563	13.0%
1973	12,193	1.1%	1973	13,773	5.6%
1972	12,064	13.0%	1972	13,044	10.8%
1971	10,674	8.9%	1971	11,776	10.6%
1970	9,779	—	1970	10,643	5.0%
			1969	10,136	6.2%
			1968	9,544	4.8%
			1967	9,106	6.5%
			1966	8,552	3.0%
			1965	8,302	

**EXHIBIT X**

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION**  
**COMPARISON OF AVERAGE AGES AT ENTRY**

<u>Year</u>	<u>Average* Employment Age For New Entrants</u>
1981 .....	N/A
1980 .....	N/A
1979** .....	32.5
1978 .....	32.5
1977 .....	30.1
1976 .....	29.8
1975 .....	30.1
1974 .....	30.6
1973 .....	29.4
1972 .....	27.8
1971 .....	27.1
1970 .....	26.9
1969 .....	27.0
1968 .....	28.2
1967 .....	30.9
1966 .....	28.6
1965 .....	27.8

\*Arithmetic mean.

\*\*Includes basic members.

**EXHIBIT XI**

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION**  
**COMPARISON OF AVERAGE AGES AT RETIREMENT**

<u>Year</u>	<u>Average Age* at Retirement</u>
1981 .....	59.25
1980 .....	59.32
1979 .....	59.99
1978 .....	62.20
1977 .....	61.66
1976 .....	63.36
1975 .....	62.85
1974 .....	64.41
1973 .....	64.14
1972 .....	64.69
1971 .....	63.86
1970 .....	64.38
1969 .....	63.33
1968 .....	64.77
1967 .....	63.84
1966 .....	64.28
1965 .....	64.35

\*Arithmetic mean.

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION  
SUMMARY OF ACTIVE MEMBERSHIP AND ANNUITANTS**

**ACTIVE MEMBERS**

	<u>Number</u>	<u>Annual Covered Payroll</u>
As of December 31, 1980.....	2,803	\$64,229,513
Status changes and other adjustments.....	61	1,509,109 *
Salary increases.....	—	4,367,607 *
Withdrawal from service.....	(143)	(3,499,639)*
Retirements (including deceased eligible for death benefits).....	(122)	(3,001,200)*
As of December 31, 1981.....	<u>2,599 **</u>	<u>\$63,605,390 **</u>

**ANNUITANTS**

	<u>Number</u>	<u>Annual Amount</u>
As of December 31, 1980.....	2,243	\$12,797,487
New entrants.....	122	1,327,227
Terminations.....	(5)	(12,746)
Deaths.....	(78)	(362,071)
Net of other increases.....	(4)	120,205 *
As of December 31, 1981.....	<u>2,278</u>	<u>\$13,870,102</u>

\* Approximate figures.

\*\* Excludes 130 participants with estimated total annual earnings of \$1,170,000, included in the valuation, but for whom data was incomplete and also excludes 6 participants for whom the date of birth or date of hire was incorrect.

**MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION  
 APPROXIMATE BREAKDOWN OF THE CHANGE IN UNFUNDED  
 ACCRUED LIABILITY AS OF DECEMBER 31, 1981**

1. Actual unfunded accrued liability as of December 31, 1981 .....	\$241,694,918
2. Actual unfunded accrued liability as of December 31, 1980 .....	\$231,541,987
3. Increase in actual unfunded accrued liability = (1) - (2) .....	<u>\$ 10,152,931</u>

Sources of Increase and (Decrease)

Amortization of unfunded accrued liability .....	\$ 7,529,561*
Experience (gains) and losses	
Interest – excluding capital gains .....	\$ (7,791,993)
Realized capital gains .....	(1,067,503)
Salary change experience .....	7,234,215
Turnover and status change experience .....	(4,139,122)
Retirement experience .....	2,274,830
Mortality experience .....	(1,929,806)
Disability experience .....	(2,046)
Other - unallocated .....	<u>(233,449)</u>
Total .....	\$ <u>2,623,370</u>
Total .....	<u>\$ 10,152,931</u>

\*The portion of the 1981 contribution applied to amortize the unfunded accrued liability is \$(7,529,561). This is derived from Exhibit VI as of the excess of item (a) over item (g) therein.

**PART III.**  
**SUMMARY OF THE PRINCIPAL PROVISIONS**  
**OF THE PLAN**

**MINNEAPOLIS TEACHERS RETIREMENT  
FUND ASSOCIATION  
SUMMARY OF THE PRINCIPAL PROVISIONS  
OF THE PLAN**

- I. ELIGIBILITY** — Any teacher employed by the Board of Education of the City of Minneapolis shall be eligible for membership in the association.
- II. STATE CONTRIBUTIONS** — The State shall contribute to the Association an employer contribution equal to the amount, expressed as a percent of payroll, that the State is required to pay for all contributing members of the State Teachers Retirement Association. Of the amount so contributed by the State, an amount equal to 6½% of compensation shall be deposited in the Retirement Deposit Fund on behalf of each basic member.
- III. MEMBER CONTRIBUTIONS (“REQUIRED DEPOSITS”)** — Each basic member shall deposit in the Retirement Deposit Fund 8½% of all compensation.
- IV. NORMAL RETIREMENT BENEFITS (“FORMULA ANNUITY”) FOR BASIC MEMBERS** —
- 1. Eligibility** — A member is eligible for the Formula Annuity if he has attained age 60 or has completed 30 years of teaching service regardless of age when he retires. Each member so eligible may elect to relinquish all other benefits from the required and City/State deposits and receive in lieu thereof the Formula Annuity.
  - 2. Annual Amount** — The annual Formula Annuity benefit is 2.25% (1-2/3% for participants who cease to be employed on or before May 1, 1974) of average annual compensation received by the member during any 5 consecutive years of teaching service, multiplied by his years of teaching service (maximum 30 years).
  - 3. Normal Form of Payment** — single life annuity. Specified optional forms are available.
- V. WITHDRAWAL BENEFIT FOR BASIC MEMBERS** —
- A. Benefit from Member Deposits** —
- 1. Eligibility** — the member ceases to be employed in teaching in the public schools of Minneapolis.
  - 2. Amount** — The accumulation from the member’s deposits may be withdrawn in a single sum or in installments. However, if the member is not entitled to receive an annuity from City/State deposits, the accumulation from the member’s deposits shall be returned. Alternatively, that accumulation may be applied by the member at rates published by the Board to

purchase an annuity. The annuity shall commence according to the member's election.

3. **Normal Form of payment** — single life annuity. Optional annuity forms are available.

**B. Benefit from City/State Deposits** —

1. **Eligibility** — the member ceases to be employed in teaching in the public schools of Minneapolis.

2. **Amount** — The accumulation from City/State deposits may be applied by the member at rates published by the Board to purchase an annuity to commence not before age 50 provided that:

- (a) if the member ceases teaching after the completion of 20 years of service and the attainment of age 55, or if the member attains the age of 62 at the commencement of the annuity payments, such benefit shall not be less than \$2.00 per month for each year of teaching service;

- (b) if the member ceases teaching with less than 10 years of teaching service, all City/State deposits credited before he attained age 45 are cancelled; and

- (c) if a member hired after July 1, 1967 ceases teaching with less than 7 years of teaching service, all City/State deposits accumulated after July 1, 1967 are cancelled.

3. **Normal Form of Payment** — single life annuity. Optional annuity forms are available.

- C. **Additional Benefit** — If an annuity is purchased for the member in accordance with either A or B above, or both, an additional annuity ("Subsection (9) annuity") equal to the lesser of \$1,800 or the aggregate annual annuity so purchased is also paid.

- D. A member who is vested in City/State deposits (see B above) and who terminates after May 1, 1974, prior to attainment of age 60, is entitled to elect to receive a formula annuity at age 60. In such event the member will be entitled to an additional annuity provided by:

- (a) the interest accumulated from date of termination to age 60 on the City/State and the member's deposits.

- (b) the rate published by the Board for the purchase of an additional annuity.

**VI. DISABILITY BENEFITS FOR BASIC MEMBERS** —

1. **Eligibility** — A member must be totally disabled (which is the presumably permanent inability of the member by reason of physical or mental disability to render further satisfactory service as a teacher) and have completed 3 years of teaching service to be eligible for a disability benefit.

2. **Annual Amount** — The total disability annuity is equal to the

annuity which would become available to the member on the valuation date (the date 15 years after the commencement of total disability but not later than June 30 next following the attainment of age 65) under the provisions of Sections (2) and (3) of Article IX (see V above) from the accumulation of City/State and required deposits upon assumed compensation continuing at the rate last received by the member to the valuation date.

3. **Additional Benefit (Subsection (9) Annuity)** — An additional annuity equal to the lesser of \$1,800 or the annual benefit otherwise available is also paid.
4. **Normal Form of Payment** — A single life annuity, commencing after the Board has determined that the total disability exists, is paid during the continued existence of the disability.

## VII. DEATH BENEFITS FOR BASIC MEMBERS —

1. **General** — A member may elect one of the three death benefits as described below. If no election is made, the “C” Death Benefit or, if there is no individual eligible to receive that benefit, the death benefit of greatest value shall be paid.
2. **“A” Death Benefit** — The full amount of the accumulation to the credit of the member in the Retirement Deposit Fund may be paid to a beneficiary in a lump sum, in installments or as an annuity. In the last case, an additional annuity (Subsection (9) Annuity), equal to the lesser of \$1,800 or the annual annuity so provided, is also paid.
3. **“B” Death Benefit** —
  - (a) **Eligibility** — The “B” death benefit is available to a member who dies while in the teaching service, on leave of absence or who is entitled to a deferred benefit and who leaves a dependent survivor.
  - (b) **Amount** — The death benefit shall be computed as the annuity purchased by the “amount” defined below applied as a net single premium at the rates published by the Board.

The “amount” to be applied shall be determined as the actuarial equivalent of any annuity benefit, including a deferred annuity, which would have been available to the member if he resigned from teaching at the time of death.
  - (c) **Normal Form of Payment** — Life annuity to dependent survivor.
4. **“C” Death Benefit** —
  - (a) **Eligibility** — The “C” death benefit is available to a member who dies while in the teaching service of the City or on leave of absence and who leaves a beneficiary for whom benefits are provided.
  - (b) **Widow’s Benefit** — The dependent widow of the deceased member shall receive \$163.50 per month for

each month during which she maintains a child who is under 18 and who is entitled to benefits as described below. The payments cease upon her death or remarriage or if she no longer maintains such a child, and payments are reduced if her earnings exceed \$1,680 for any 12 month period.

- (c) **Child's Benefit** — Each dependent child of the deceased member shall receive \$163.50 per month while he is under age 18 and \$163.50 per month while he is a full-time student between the ages of 18 and 22.
- (d) **Maximum Benefit** — The maximum total "C" Death Benefit paid to all beneficiaries is \$434.40 per month. Such maximum may be amended from time to time.

#### VIII. ANNUAL AUTOMATIC ANNUITY INCREASE —

- (a) **Eligibility** — Every member entitled to receive an annuity is entitled to an Annual Automatic Annuity Increase in his annuity. All beneficiaries (except "C" Death Benefit beneficiaries) shall be entitled to the same Annual Automatic Annuity Increase as the member would have been entitled to receive if living and according to the age the member would have attained if living.
- (b) **Amount** — The amount of Annual Automatic Annuity Increase in any year shall be equal to  $1\frac{1}{2}\%$  of the benefit the member was receiving as of the end of the preceding year, which increase shall first become payable on the July 1 of the calendar year in which the member becomes 65. If a member is entitled to a Total Disability Annuity, the Annual Automatic Annuity Increase of  $1\frac{1}{2}\%$  shall commence upon the earlier of attainment of age 60 or 9 years after the member becomes entitled to such annuity.



# **Minneapolis Teachers' Retirement Fund Association**

## **Financial Statements and Supplementary Data**

**December 31, 1981 and 1980**

**Peat, Marwick, Mitchell & Co.**

The Board of Trustees  
Minneapolis Teachers' Retirement Fund Association:

We have examined the consolidated statements of net assets available for plan benefits of Minneapolis Teachers' Retirement Fund Association and subsidiaries as of December 31, 1981 and 1980 and the related consolidated statements of revenues, expenditures and provision for losses, and changes in obligations for plan benefits, reserves and funding deficiency for the years then ended. 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.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Minneapolis Teachers' Retirement Fund Association and subsidiaries at December 31, 1981 and 1980 and their revenues, expenditures and provision for losses, and changes in obligations for plan benefits, reserves and funding deficiency for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

The examinations referred to above were directed primarily toward formulating an opinion on the consolidated financial statements of Minneapolis Teachers' Retirement Fund Association and subsidiaries, taken as a whole. The supplementary data included in Schedules 1 through 5 are presented for supplementary analysis purposes and are not necessary for a fair presentation of the net assets available for plan benefits and revenues, expenditures and provision for losses and changes in obligations for plan benefits, reserves and funding deficiency of Minneapolis Teachers' Retirement Fund Association and subsidiaries. The supplementary data have been subjected to the auditing procedures applied in the examinations of the basic consolidated financial statements and, in our opinion, are stated fairly in all material respects only when considered in conjunction with the consolidated financial statements taken as a whole.

PEAT, MARWICK, MITCHELL & CO.

Minneapolis, Minnesota  
March 19, 1982

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Consolidated Statements of Net Assets Available for Plan Benefits  
December 31, 1981 and 1980**

Assets	1981	1980
Cash and savings accounts (note 2) . . . . .	\$ 299,969	\$ 888,491
Accounts receivable from governmental units . . . . .	845,751	772,502
Accounts receivable from lessees . . . . .	224,797	38,361
Accrued interest receivable . . . . .	821,890	1,041,620
Accrued dividends receivable . . . . .	442,586	371,030
Receivable for investments sold . . . . .	38,450	149,624
Notes receivable (note 3) . . . . .	—	1,734,784
Investments (notes 4 and 11):		
Commercial paper and certificates of deposit . . . . .	29,551,274	7,731,792
Bonds . . . . .	26,521,734	42,404,636
Common stocks . . . . .	52,482,990	53,898,444
Real estate mortgages . . . . .	401,449	438,432
Total investments . . . . .	108,957,447	104,473,304
Rental properties, net of accumulated depreciation (notes 5 and 11) . . . . .	53,216,620	42,631,930
Property held for sale or lease, net (note 6) . . . . .	2,239,127	892,589
Other . . . . .	1,135	1,135
	\$167,087,772	152,995,370
<b>Liabilities and Net Assets Available for Plan Benefits</b>		
Member deposits payable . . . . .	\$ 118,218	138,843
Payable for lump sum post-retirement benefit (note 8) . . . . .	835,000	—
Payable for investment securities purchased . . . . .	149,949	161,324
Accounts payable . . . . .	1,446	11,003
Rents received in advance . . . . .	59,519	24,238
Deferred premiums received from outstanding call options on common stock . . . . .	99,529	111,359
Total liabilities . . . . .	1,263,661	446,767
Obligations for plan benefits:		
Annuity reserve fund . . . . .	50,009,943	45,256,687
Retirement deposit fund . . . . .	112,465,752	105,095,760
Unfunded accrued plan benefits (note 9) . . . . .	241,833,892	231,640,086
Total obligations for plan benefits . . . . .	404,309,587	381,992,533
Reserve for investment and other losses . . . . .	34,047,320	25,205,218
Funding deficiency — State of Minnesota . . . . .	(30,698,904)	(23,009,062)
Actuarial unfunded liability . . . . .	(241,833,892)	(231,640,086)
Net assets available for plan benefits (note 9) . . . . .	165,824,111	152,548,603
Commitments (note 10) . . . . .		
	\$167,087,772	\$152,995,370

See accompanying notes to consolidated financial statements.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Consolidated Statements of Revenues, Expenditures and Provision for Losses  
Years ended December 31, 1981 and 1980**

	<u>1981</u>	<u>1980</u>
Revenues:		
Revenue from governmental units:		
Ad valorem city taxes .....	\$ 1,043	8,518
State contributions .....	8,279,942	8,371,188
District contributions (note 7)	<u>—</u>	<u>2,053,877</u>
Total revenue from governmental units .....	<u>8,280,985</u>	<u>10,433,583</u>
Contributions by members:		
Required .....	5,768,447	5,798,956
Other .....	<u>20,087</u>	<u>19,409</u>
Total contributions by members .....	<u>5,788,534</u>	<u>5,818,365</u>
Investment income:		
Interest .....	5,802,617	4,821,495
Dividends .....	4,420,428	4,138,897
Gain (loss) on sale of investments .....	(203,783)	108,977
Gain on option trades .....	136,451	74,577
Income from rental properties (note 5) .....	6,449,971	3,745,922
Gain on sale of rental property .....	1,139,217	—
Other .....	<u>—</u>	<u>18,750</u>
Total investment income .....	<u>17,744,901</u>	<u>12,908,618</u>
Total revenues .....	<u>31,814,420</u>	<u>29,160,566</u>
Expenditures and provisions for losses:		
Retirement, beneficiary and disability annuities (note 8) .....	14,910,355	12,103,014
Withdrawals .....	997,404	1,084,669
Death benefits .....	8,883	187,407
Administrative expenses .....	710,188	543,354
Depreciation on rental properties .....	1,082,082	606,093
Provision for losses on property held for sale or lease .....	<u>830,000</u>	<u>72,750</u>
Total expenditures and provision for losses .....	<u>18,538,912</u>	<u>14,597,287</u>
Revenues in excess of expenditures and provision for losses .....	<u>\$13,275,508</u>	<u>14,563,279</u>
<b>Distribution of Excess Revenues (in accordance with the Articles of Incorporation)</b>		
Annuity reserve fund .....	(1,672,889)	(1,545,194)
Retirement deposit fund .....	13,988,520	13,493,109
Reserve for investment and other losses .....	8,649,719	5,652,959
Funding deficiency — State of Minnesota .....	<u>(7,689,842)</u>	<u>(3,037,595)</u>
Total distributions .....	<u>\$13,275,508</u>	<u>14,563,279</u>

See accompanying notes to financial statements.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Obligations for Plan Benefits, Reserves and Funding Deficiency**  
**Years ended December 31, 1981 and 1980**

	Annuity reserve fund	Retirement deposit fund	Unfunded plan benefits	Reserve for investment and other losses	Funding deficiency - State of Minnesota
Balance at December 31, 1979 .....	\$39,423,846	99,254,144	196,129,534	19,278,801	(19,971,467)
Distribution of excess revenues .....	(1,545,194)	13,493,109	—	5,652,959	(3,037,595)
Transfers:					
From retirement deposit fund to annuity reserve fund for purchase of annuities .....	7,378,035	(7,378,035)	—	—	—
From retirement deposit fund to reserve for investments and other losses for cancellation of employer contributions .....	—	(273,458)	—	273,458	—
Increase in actuarially computed prospective plan benefits and administrative expenses over Association net assets .....	—	—	35,510,552	—	—
Balance at December 31, 1980 .....	45,256,687	105,095,760	231,640,086	25,205,218	(23,009,062)
Distribution of excess revenues .....	(1,672,889)	13,988,520	—	8,649,719	(7,689,842)
Transfers:					
From retirement deposit fund to annuity reserve fund for purchase of annuities .....	6,426,145	(6,426,145)	—	—	—
From retirement deposit fund to reserve for investments and other losses for cancellation of employer contributions .....	—	(192,383)	—	192,383	—
Increase in actuarially computed prospective plan benefits and administrative expenses over Association net assets .....	—	—	10,193,806	—	—
Balance at December 31, 1981 .....	\$50,009,943	112,465,752	241,833,892	34,047,320	(30,698,904)

See accompanying notes to consolidated financial statements.

# MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements December 31, 1981 and 1980

### (1) Summary of Significant Accounting Policies

#### Principal Business

The principal business of the Association is the management and control of funds obtained from contributions by members, public taxes and income from investments.

The Association uses these funds to pay annuities and other benefits to members of the Association.

Effective July 1, 1978, the Association established a plan, coordinated with Social Security, in accordance with Minnesota State Statutes. Teachers who become members of the Association subsequent to June 30, 1978 automatically become members of the coordinated plan. Teachers who were members of the Association prior to July 1, 1978, referred to as basic members, were given an opportunity to elect coverage under the coordinated plan. Members' contributions and benefits under the coordinated plan have been adjusted to reflect contributions to and benefits from Social Security. As described in note 9, separate actuarial valuations are required for the basic and coordinated plans of the Association.

#### Basis of Accounting

The financial statements reflect a modified accrual basis of accounting in which revenues are recognized as described below under "revenues," and expenditures are recognized when services are rendered or plan benefits and claims are payable. Fixed assets are not capitalized but instead are charged to expenditures in the year purchased.

The Association's financial statements include the consolidated accounts of the Association, MRT Properties, Inc., Min-Tex Foods, Inc. and Min-Tex Foods Ltd. MRT Properties, Inc. is a wholly-owned subsidiary of the Association and its principal activity consists of investing in real estate in the State of Minnesota. Min-Tex Foods Ltd. is a limited partnership of which the Association is the sole limited partner, with Min-Tex Foods, Inc. (a Texas corporation) as the general partner, and its principal activity consists of investing in real estate in the State of Texas. Min-Tex Foods, Inc. and the limited partnership were organized to allow the Association's real estate acquisitions to qualify as tax-exempt transactions in Texas.

The Association is tax-exempt as an organization under Section 501(c)(11) of the Internal Revenue Code and is subject to Federal income tax only on net unrelated business income. The Association had no unrelated business income in 1981 or 1980.

#### Revenues

Members' contribute 8½% of compensation paid if they are basic plan members and 4½% of compensation paid if they are coordinated plan members. Contributions are recorded as revenues when received.

State contributions are based upon a specific formula applied to teacher compensation used to fund all teachers' retirement plans in the State of Minnesota and are recorded when earned.

District contributions are based on a specific formula applied to teacher compensation funded primarily by Federal grants and are recorded when received from the Minneapolis School District.

Interest income is recorded when earned and dividend income is recorded as of the date of record. Average cost is used in determining net realized gains and losses upon disposal of investment securities.

Income from rental property is recorded when earned.

#### Investments

Common stocks, bonds and real estate mortgages, commercial paper and certificates of deposit are carried at cost, reduced by provisions for losses on certain securities with apparent permanent declines in the underlying value and earning power of the individual issuers.

#### Rental Property

Rental properties have been classified as operating leases and are carried at depreciated cost (note 5). Depreciation has been provided using the straight-line method over the estimated useful lives, approximately 30 to 35 years.

#### Property Held for Sale or Lease

Property held for sale or lease is stated at the lower of depreciated cost or net realizable value.

**Annuity Reserve Fund**

At the time a member ceases to teach in the public schools of Minneapolis, the accumulation of the member's deposits and, under certain conditions, State deposits may be applied by the member for the purchase of an annuity from the Association. Funds to the member's credit in the Retirement Deposit Fund are then transferred to the Annuity Reserve Fund from which annuities are paid. Interest is added annually at a rate of 5% to the fund.

**Retirement Deposit Fund**

All amounts received for deposit by or on behalf of members, plus interest at a rate of 5% annually, are held in the Retirement Deposit Fund for providing of benefits until withdrawal, death or retirement.

**Reserve for Investments and Other Losses**

Amounts included in this reserve represent investment income in excess of amounts credited to the retirement deposit fund less provisions for losses and other costs related to maintaining the investment portfolio.

**Funding Deficiency — State of Minnesota**

The funding deficiency represents the cumulative excess of the actual cost of annuities purchased upon member's retirement and administrative expenses in excess of revenues received from the State of Minnesota.

**Unfunded Accrued Plan Benefits and Actuarial Unfunded Liability**

The unfunded accrued plan benefits and the actuarial unfunded liability represent the excess of the present value of future benefits over current plan net assets.

**(2) Line of Credit**

The Association has a line of credit with a bank which provides for borrowings up to \$800,000 at an interest rate of ¼% above the prevailing prime rate and requires compensating balances of not less than 10% of the unused line of credit and 10% of the average borrowings. The Association obtained this line of credit to provide for the financing, as needed, of rental property acquisitions. Provisions of the line of credit agreement require that borrowings be repaid within thirty days.

There is no outstanding balance under this line of credit at December 31, 1981 nor did the Association borrow under this line during 1981. In the ordinary course of business, the minimum compensating balance requirement, 10% of the line of credit (\$80,000 at December 31, 1981), is satisfied by the average monthly checking account balance.

**(3) Notes Receivable**

At December 31, 1980, notes receivable consisted of loans made by the Association to finance the interim construction of properties which were subject to a purchase/leaseback agreement between the maker of the note and the Association. The principal of these loans represented the purchase price of the properties to the Association. The terms of the notes ranged from six to twelve months, with interest at stated rates of 14% to 15%, and were secured either by a deed or a personal guarantee. During 1981, the notes were exchanged for the properties.

**(4) Investments**

Investments at December 31, 1981 and 1980 are summarized as follows:

	<u>Carrying value</u>	<u>Approximate market value</u>	<u>Unrealized appreciation (depreciation)</u>
<b>December 31, 1981:</b>			
Commercial paper and certificates of deposit .....	\$ 29,551,274	29,551,274	—
Bonds .....	26,521,734	18,650,490	(7,871,244)
Common stocks .....	52,482,990	70,838,704	18,355,714
Real estate mortgages .....	401,449	401,449	—
	<u>\$108,957,447</u>	<u>119,441,917</u>	<u>10,484,470</u>
<b>December 31, 1980:</b>			
Commercial paper and certificates of deposit .....	7,731,792	7,731,792	—
Bonds .....	42,404,636	31,128,612	(11,276,024)
Common stocks .....	53,898,444	77,709,351	23,810,907
Real estate mortgages .....	438,432	438,432	—
	<u>\$104,473,304</u>	<u>117,008,187</u>	<u>12,534,883</u>

Market values for investments are based on published market quotations. Management of the Association believes that unrealized depreciation of bonds is primarily a function of the rise in interest rates since dates of purchase and does not reflect unfavorably on the ability of the underlying issuers to meet principal payments upon maturity.

**(5) Description of Leasing Arrangements**

The Association is the lessor of real estate (land and buildings) to various franchise operations with lease terms ranging from twenty to twenty-five years. The Association purchases the land and building and leases it back to the franchise operator. The franchise operations are primarily in the fast food and, to a lesser extent, in the minor automotive maintenance industries. The lease obligations are generally guaranteed by individuals and/or corporations.

The Association's investment in rental properties under lease consists of the following as of December 31:

	<u>1981</u>	<u>1980</u>
Land .....	\$16,404,772	13,145,502
Buildings .....	38,842,925	30,656,865
	55,247,697	43,802,367
Less accumulated depreciation .....	(2,031,077)	(1,170,437)
	<u>\$53,216,620</u>	<u>42,631,930</u>

Under the terms of the various lease agreements the Association is entitled to receive minimum lease payments as follows:

Years ending December 31:	
1982 .....	\$ 6,821,356
1983 .....	6,815,226
1984 .....	6,815,226
1985 .....	6,815,226
1986 .....	6,815,226
Thereafter .....	<u>92,468,028</u>
Total minimum future rentals .....	<u>\$126,550,288</u>

The Association is also entitled to receive contingent rentals which are determined on the basis of a percentage of sales in excess of contractually stated minimums. Contingent rentals were \$227,925 in 1981 and \$186,637 in 1980.

The Association has reported all real estate leases as operating leases even though such leases meet the criteria for classification as direct financing leases in accordance with the provisions of Financial Accounting Standards Board Statement No. 13. The Association's "revenues in excess of expenditures and provision for losses" and net assets would have been \$514,658 and \$944,303 more in 1981 and \$293,861 and \$429,645 more in 1980, respectively, had the Association reported these leases as direct financing leases.

**(6) Property Held for Sale or Lease**

The Association holds for sale or subsequent lease property on which the lessee has discontinued operations and defaulted on contractual monthly payments. Property held for sale or lease in 1981 consists of eight properties with an aggregate depreciated cost of \$3,069,127, net of allowance for loss of \$830,000.

**(7) District Contributions**

District contributions relate to teachers' compensation funded primarily by Federal grants and, in accordance with Association policy, are recognized as revenue upon receipt. At December 31, 1981, the District owes the Association \$652,793 for teachers' compensation funded in 1981.

The Association received district contributions in 1980 of \$2,053,877, \$1,211,061 of which relates to years prior to 1980 (\$673,035 for 1979 and \$538,026 for 1978).

**(8) Lump Sum Post-Retirement Benefit**

The lump sum post-retirement benefit, authorized by the Board of Trustees on May 6, 1981 and made retroactive to 1980, is determined by applying 5½% to the Association's total assets at year end and is recorded when payable to eligible annuitants and benefit recipients. In 1981, the Association paid \$761,154 and

recorded a payable of \$835,000 based on total assets at December 31, 1980 and 1981, respectively.

**(9) Actuarial Valuations**

The laws of Minnesota, 1978, require that actuarial valuations after July 1, 1978 show separately the actuarial valuation of the basic and coordinated plans. Compliance with this statutory requirement necessitates an allocation of Association assets to the two plans. Assets have been allocated for actuarial purposes by adding deposits and investment income on a time-weighted basis to beginning-of-the-year assets. An aggregate interest rate based on total investment income and average ledger assets as determined in accordance with a formula approved by the State Insurance Commissioner is used in the calculation.

The allocation of net assets available for plan benefits and the unfunded accrued plan benefits is as follows:

	<b>December 31, 1981</b>		
	<b>Basic plan</b>	<b>Coordinated plan</b>	<b>Total</b>
Net assets available for plan benefits	<u>\$165,146,013</u>	<u>678,098</u>	<u>165,824,111</u>
Unfunded accrued plan benefits	<u>\$241,694,918</u>	<u>138,974</u>	<u>241,833,892</u>
	<b>December 31, 1980</b>		
	<b>Basic plan</b>	<b>Coordinated plan</b>	<b>Total</b>
Net assets available for plan benefits	<u>\$152,267,541</u>	<u>281,062</u>	<u>152,548,603</u>
Unfunded accrued plan benefits	<u>\$231,541,987</u>	<u>98,099</u>	<u>231,640,086</u>

**(10) Commitments**

The Association has entered into commitments to purchase and lease back property totaling approximately \$14,100,000 at December 31, 1981. All of these commitments are subject to the seller meeting various terms of the commitments.

**(11) Subsequent Events**

From January 1, 1982 to the date of this report, the following events occurred:

- a) Bonds with a carrying value of \$1,649,010 were sold for \$1,303,478, resulting in a realized loss of \$345,532.
- b) Rental property with a cost of \$3,640,000 was purchased.

**Schedule 1**

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Tax Revenue and District Contributions  
Years ended December 31, 1981 and 1980**

	<b>1981</b>	<b>1980</b>
Tax revenue collected:		
Ad valorem city taxes .....	\$ 1,043	8,518
State contributions .....	8,279,942	8,371,188
District contributions (note 7) .....	—	2,053,877
Total revenue .....	<u>\$8,280,985</u>	<u>10,433,583</u>
Application of tax revenue:		
Credited to:		
Contingent fund:		
For payments made to annuitants .....	10,725,593	8,316,074
For expenses of management .....	697,832	532,258
For general annuities .....	231,209	219,226
	<u>11,654,634</u>	<u>9,067,558</u>
Retirement deposit fund for stipulated deposits ....	4,316,193	4,403,620
Funding deficiency — State of Minnesota .....	(7,689,842)	(3,037,595)
	<u>\$8,280,985</u>	<u>10,433,583</u>

Note: Amounts charged during the year to the contingent fund are the unfunded portion of annuity expenditures and only those general and administrative expenses incurred by the Association. State contributions in excess of stipulated deposits are credited to the contingent fund. At the end of each year, the remaining deficiency in the contingent fund is added to the funding deficiency — State of Minnesota.

See accompanying accountants' report.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Annuity Reserve Fund**

**Years ended December 31, 1981 and 1980**

	<u>1981</u>	<u>1980</u>
Balance at beginning of year .....	\$45,256,687	39,423,846
Add (deduct):		
Interest at 5% .....	2,280,664	2,022,520
Annuity expenditures .....	<u>(3,953,553)</u>	<u>(3,567,714)</u>
	<u>(1,672,889)</u>	<u>(1,545,194)</u>
Members' accumulations transferred from retirement deposit fund for purchase of annuities .....	6,426,145	7,378,035
Balance at end of year .....	<u>\$50,009,943</u>	<u>45,256,687</u>

See accompanying accountants' report.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Retirement Deposit Fund**

**Years ended December 31, 1981 and 1980**

	<u>1981</u>	<u>1980</u>
Balance at beginning of year .....	\$105,095,760	99,254,144
Add:		
Members' contributions:		
Required .....	5,768,447	5,798,956
Other .....	20,087	19,409
	5,788,534	5,818,365
Tax revenue credited to members — stipulated state deposits .....	4,316,193	4,403,620
Interest at 5% .....	4,890,080	4,543,200
	<u>14,994,807</u>	<u>14,765,185</u>
Deduct:		
Death benefits .....	8,883	187,407
Withdrawals — members' contribution refundable .....	997,404	1,084,669
Transfer to annuity reserve fund for purchase of annuities .....	6,426,145	7,378,035
Cancellation of employer's contributions in accordance with the Articles of Incorporation .....	192,383	273,458
	<u>7,624,815</u>	<u>8,923,569</u>
Balance at end of year .....	<u>\$112,465,752</u>	<u>105,095,760</u>

See accompanying accountants' report.

**Schedule 4**  
**MINNEAPOLIS TEACHERS' RETIREMENT FUND**  
**ASSOCIATION AND SUBSIDIARIES**  
**Annuity Expenditures**  
**Years ended December 31, 1981 and 1980**

	<b>1981</b>	<b>1980</b>
Charged to the annuity reserve fund .....	\$ 3,953,553	3,567,714
Charged to the contingent fund:		
In accordance with Articles of Incorporation,		
Article IX, sections:		
8 .....	2,178	2,785
9 .....	440,610	421,482
11 .....	7,164,598	6,398,128
14 .....	1,395,285	1,356,111
15 .....	126,768	137,568
18 (note 8) .....	1,596,154	—
	10,725,593	8,316,074
General annuities .....	231,209	219,226
	10,956,802	8,535,300
	\$14,910,355	12,103,014

See accompanying accountants' report.

**MINNEAPOLIS TEACHERS' RETIREMENT FUND ASSOCIATION  
AND SUBSIDIARIES**

**Administrative Expenses**

**Years ended December 31, 1981 and 1980**

	<u>1981</u>	<u>1980</u>
Personal service:		
Staff payroll .....	\$ 170,893	144,824
Social security taxes .....	11,145	8,749
Professional fees .....	251,219	170,362
	<u>433,257</u>	<u>323,935</u>
Investment and travel:		
Air transportation .....	27,754	23,930
Conference fees, tuition and registration .....	10,045	15,039
Hotels and meals .....	27,523	25,278
Investment expense .....	29,640	23,365
	<u>94,962</u>	<u>87,612</u>
Other expenses:		
Postage and mailing .....	12,998	10,336
Telephone and electricity .....	10,700	11,255
Printing, binding and address plates .....	17,470	13,627
Office supplies .....	3,260	3,015
Office rent .....	35,457	30,288
Employees' hospitalization insurance .....	11,272	9,357
Other insurance .....	29,468	24,569
Office equipment purchased .....	23,762	1,462
Collection and exchange .....	900	200
Data processing .....	13,539	11,938
Miscellaneous .....	23,143	15,760
	<u>\$ 710,188</u>	<u>543,354</u>

See accompanying accountants' report.

## Membership

ACTIVE MEMBERS — teachers employed by the Board of Education.

INACTIVE MEMBERS — teachers who have left the employ of the Board of Education, but retain membership because they are entitled to a present or future benefit.

ANNUITANTS — members who have applied for an annuity.

	Women	Men	Total
<b>ACTIVE MEMBERS:</b>			
January 1, 1981 .....	1959	1268	3227
December 31, 1981 .....	1883	1227	3110
<b>INACTIVE MEMBERS:</b>			
January 1, 1981 .....	305	191	496
December 31, 1981 .....	345	214	559
<b>ANNUITANTS:</b>			
January 1, 1981 .....	1679	424	2103
December 31, 1981 .....	1666	468	2134
<b>TOTAL MEMBERSHIP:</b>	<b>3894</b>	<b>1909</b>	<b>5803</b>

Annuities paid to Beneficiaries in Accordance with Article IX, Section 2, Sub-sections (b) and (c):

January 1, 1981 .....			140
December 31, 1981 .....			144

DECEASED:

Name	Status	Date of Death
Donna C. Dahlen .....	Active .....	2-19-81
Sharon C. Wyrowski .....	Active .....	9-11-81

## ANNUITANTS

In the calendar year 1981, the following new annuities were granted: 98 Formula Annuities and 23 other Annuities. Annuities paid amounted to \$14,910,355 and annuities in force at the close of the year totaled \$13,870,101.72.

NAME	Date Effective	NAME	Date Effective
Winifred H. Northcott	8-1-80	Richard J. Hughes	7-1-81
Robert X. Casserly	1-1-81	John L. Jensen	7-1-81
Edith Garmezy	1-1-81	Grace B. Johnson	7-1-81
Betty R. Goldman	1-1-81	Kathlyn B. Johnson	7-1-81
Beulah B. Johnson	1-1-81	Lois N. Keen	7-1-81
Burton O. Parks	1-1-81	George Keprios	7-1-81
Robert H. Samples	1-1-81	Alma V. Knapp	7-1-81
Mary M. Vochko	1-1-81	William J. Knutson	7-1-81
Grace M. Whalen	1-1-81	Norma Levang	7-1-81
Floraine V. Wold	1-1-81	Lucile C. Lindahl	7-1-81
Wyoma Wrayge	1-1-81	Michael R. Lund	7-1-81
Ruth U. Lofgren	2-1-81	Nada Mijanovich	7-1-81
Robert G. Rainey	2-1-81	Mary Audrey McCarthy	7-1-81
Paddy J. Theis	2-1-81	Elizabeth A. Mekkelsen	7-1-81
Beatrice C. Antholz	3-1-81	Lucille F. Miller	7-1-81
Daly D. King	3-1-81	Esther Morrow	7-1-81
Harry J. Brown	4-1-81	Howard W. Nordby	7-1-81
Ralf T. Kolsrud	4-1-81	Mildred V. Nuessle	7-1-81
Frederic E. Lussky	4-1-81	D. Eleanor Oren	7-1-81
Beverly Tupper	4-1-81	Floyd H. Pearson	7-1-81
Joseph S. Darby, Jr.	5-1-81	Woodrow A. Pearson	7-1-81
Helen F. Erickson	6-1-81	Shirley M. Price	7-1-81
Milton Grein	6-1-81	Marilyn Quist	7-1-81
Ray H. Grobe	6-1-81	Alan E. Rasmussen	7-1-81
Willard E. Kottke	6-1-81	Lilah T. Raudenbush	7-1-81
Dolores S. Sester	6-1-81	Betty Jane Reed	7-1-81
Joyce E. Truax	6-1-81	Janet M. Rico	7-1-81
George J. Acko	7-1-81	Marjorie H. Ritschel	7-1-81
Mary Rae Adamson	7-1-81	Gerald E. Roehning	7-1-81
Hubert R. Allmann	7-1-81	Helen E. Rood	7-1-81
John R. Anderson	7-1-81	David W. Ruliffson	7-1-81
Paul V. Anderson	7-1-81	Carola L. Russell	7-1-81
Renza H. Anderson	7-1-81	Richard J. Scott	7-1-81
Gordon T. Berg	7-1-81	Eileen Z. Scully	7-1-81
Richard S. Bronniche	7-1-81	Arthur C. Sloth	7-1-81
Frederick L. Brown	7-1-81	Joseph L. Spaeth	7-1-81
Ila J. Brown	7-1-81	Jean Spiroff	7-1-81
Frank P. Bruce	7-1-81	Allan W. Springen	7-1-81
Roberta Burns	7-1-81	Edward A. Swiderski	7-1-81
George Capetz	7-1-81	Donald W. Thom	7-1-81
Catherine Connors	7-1-81	Donald Turkington	7-1-81
Rosemary Daly	7-1-81	C. Jerome Tyler	7-1-81
Edwin Y. Daniel	7-1-81	Helen Tyler	7-1-81
Joseph Darwich	7-1-81	Thomas O. Valvik	7-1-81
Edna C. Downing	7-1-81	Frances G. Vasilou	7-1-81
Ingeborg Droune	7-1-81	Merle H. Vokaty	7-1-81
Jeannette A. Eide	7-1-81	Sybil S. Wersell	7-1-81
Conrad Emerson	7-1-81	Genevieve C. Winter	7-1-81
Alfred A. Fischer	7-1-81	Carol M. Yoder	7-1-81
John Fitchette	7-1-81	Harold J. Youngmans	7-1-81
Evelyn B. Froise	7-1-81	Eudora M. Zellers	7-1-81
Michael J. Gooley	7-1-81	Waldamar P. Buchanan	8-1-81
Margaret M. Grunow	7-1-81	Elmer G. Eckland	8-1-81
Robert E. Hanson	7-1-81	Charles R. McCoy	8-1-81
Marilyn F. Hayman	7-1-81	Donald H. Rosholt	8-1-81
Berniece Higgins	7-1-81	Mary Ann Anderson	9-1-81
Wallace C. Hitzman	7-1-81	Joseph M. Budish	9-1-81

NAME	Date Effective
Addell H. Dahlen	9-1-81
Evelyn Kamel	9-1-81
Ruth S. Stewart	9-1-81
Inez E. Gunberg	10-1-81
M. Corrine Swanson	10-1-81
Dolores K. Sartell	10-1-81
Doris Ballintine	11-1-81

The following death benefit annuities were granted:

David W. Dale	7-1-80
Donna C. Dahlen	3-1-81

## DECEASED

*Constance K. Turner	12-2-80
Verna Dabelsteen	12-8-80
Joseph H. Markley	12-8-80
Julia E. Michelsen	12-15-80
Evelyn M. Peterson	12-17-80
Lois D. Hosford	12-21-80
Palma L. Howe	12-21-80
Minnie Nelson	12-22-80
Ellen S. Laurence	12-27-80
Gladys A. Kittleson	1-1-81
Mary A. Payne	1-6-81
Phyllis Saxby	1-6-81
*Allan Brenny	1-8-81
Katherine DeSmidt	1-14-81
Lillian I. Adams	1-15-81
Blanche E. Door	1-15-81
Margaret C. Kruger	1-16-81
Effie M. Hake	1-17-81
Anastasia Mee	1-17-81
Tessie Osterman	1-21-81
*Malinda R. Seep	1-21-81
Cora Thronson Bursh	1-22-81
Norma G. Sinclair	1-22-81
Myrtle L. Wiik	1-22-81
Kathleen M. McMahon	1-28-81
Gretchen G. Waara	2-3-81
Julia A. Anderson	2-6-81
Maybelle Boyson	2-7-81
Muriel M. Stubkjaer	2-7-81
Grace R. Crawford	2-8-81
Arthur P. Anderson	2-18-81
Eva A. Vinton	2-27-81
Georgia S. Kohler	3-5-81
Helen C. Willmert	3-9-81
Vivian M. Bay	3-16-81
Clarence M. Booth	3-24-81
Mary R. Hawlish	3-26-81
Helen L. Chapman	4-6-81
Genevieve M. Bailey	4-8-81

NAME	Date Effective
Gladys C. Dahlin	4-8-81
Rosemary M. Gilmore	4-10-81
*Max Lee Murray	4-18-81
Elizabeth R. Mills	4-22-81
Florence L. Lindow	4-23-81
*Ernest M. Robertson	4-27-81
Valencia E. Ackerson	4-30-81
Clifford K. Lush	5-8-81
Dora V. Williams	5-9-81
Adelia M. Larson	5-12-81
Frances Flahavan	5-18-81
Vera M. Dendinger	5-19-81
Sylvia M. Bunsness	6-2-81
Esther C. Smith	6-3-81
Elva N. Carlson	6-7-81
Ellamarie Over	6-8-81
Walter J. Botz	6-9-81
Lida M. Robidoux	6-13-81
Lella B. Christian	6-22-81
Catherine Gallagher	6-22-81
Ora C. McLaughlin	6-22-81
Mary Starch	6-23-81
Stella D. Lombard	6-25-81
Mildren Rechcygl Dvorak	6-28-81
*Leo F. Brick	6-29-81
Arta E. Kocken	7-5-81
Rose M. Hoover	7-7-81
Eva Gans	7-29-81
Orvetta Riley	7-29-81
Lucy M. Gleason	8-6-81
Elizabeth L. Scheaffer	8-6-81
Ethel M. Mellem	8-10-81
Hilda L. Pepper	8-14-81
Thomas V. Cunningham	8-20-81
*Ardis A. Berscheid	8-22-81
*Anne Jolly	9-27-81
Josephine J. Cantieny	9-30-81
*V. Francis Soderquist	10-2-81
Maude C. Madson	10-6-81
Gustave S. Nestegard	10-9-81
Signe E. Swanson	10-11-81
Ruth J. Jones	10-18-81
Elizabeth Buckbee Taylor	10-21-81
*Wilva Hanson	10-25-81
Maria R. Porcher	10-26-81
*Rhoda N. Thomson	10-29-81
Evelyn B. Foster	11-13-81
Mary Snyder	11-16-81
*George J. O'Neil	11-18-81
Marguerite C. Meek	11-25-81
N. Pearl W. Ellor	11-27-81
*Annuity continued to beneficiary according to Article IX, Section (2), Subsections (b) and (c).	

**Statement Showing Mean Ledger Assets, as Adjusted and Amount and  
Rate of Interest Earned for the Years 1924 to 1981 Inclusive**

Year ended December 31	Mean Ledger	Interest Earned	
	Assets, as adjusted	Amount	Rate
1924	\$ 587,050.08	\$ 22,420.03	3.819%
1925	1,006,594.73	43,241.84	4.296
1926	1,448,643.89	64,792.71	4.473
1927	1,897,742.32	86,296.42	4.547
1928	2,364,529.38	106,684.96	4.512
1929	2,895,964.01	129,892.32	4.485
1930	3,513,913.19	156,459.89	4.453
1931	4,173,207.88	182,277.63	4.368
1932	4,810,177.70	207,277.66	4.309
1933	5,395,507.11	227,254.57	4.212
1934	6,036,087.19	256,574.71	4.251
1935	6,741,092.30	275,790.07	4.091
1936	7,452,624.01	283,542.42	3.805
1937	8,154,626.79	301,951.16	3.703
1938	8,836,807.22	318,229.50	3.601
1939	9,524,180.18	329,502.33	3.460
1940	10,196,598.63	333,087.48	3.267
1941	10,817,852.83	325,629.10	3.010
1942	11,303,712.07	344,634.06	3.049
1943	11,752,470.13	349,777.19	2.976
1944	12,240,130.42	354,096.35	2.892
1945	12,714,006.41	379,850.01	2.987
1946	13,384,728.20	391,046.39	2.921
1947	14,536,784.39	373,731.25	2.571
1948	15,695,815.67	415,271.39	2.646
1949	16,547,387.66	472,841.11	2.858
1950	17,550,340.60	520,238.90	2.964
1951	18,559,601.68	566,824.11	3.054
1952	19,457,766.21	607,935.49	3.124
1953	20,370,891.76	658,579.25	3.233
1954	21,429,372.66	703,029.44	3.281
1955	22,627,156.81	751,597.06	3.321
1956	23,958,498.11	810,268.45	3.381
1957	25,230,130.36	912,070.82	3.615
1958	26,560,860.62	991,336.08	3.732
1959	27,846,792.94	1,126,328.62	4.045
1960	29,080,638.95	1,142,686.48	3.929
1961	30,437,359.43	1,164,795.25	3.826
1962	31,899,302.87	1,247,245.82	3.909
1963	33,647,847.97	1,349,232.98	4.009
1964	35,391,079.71	1,517,775.56	4.288
1965	37,449,239.33	1,611,580.12	4.303
1966	39,281,614.43	1,756,422.58	4.471
1967	42,365,970.56	1,884,841.39	4.448
1968	46,162,651.99	2,111,541.20	4.575
1969	50,987,871.61	2,291,990.27	4.495
1970	57,281,444.00	2,680,399.00	4.679
1971	63,956,260.00	3,082,911.00	4.820
1972	73,156,501.00	3,507,766.00	4.794
1973	82,860,227.00	4,248,383.00	5.127
1974	89,803,630.00	4,748,985.00	5.288
1975	96,021,440.00	5,356,739.00	5.579
1976	102,482,504.00	6,031,834.00	5.886
1977	109,690,047.00	7,080,484.00	6.455
1978	119,002,976.00	8,244,038.00	6.928
1979	127,441,400.00	9,555,212.00	7.498
1980	137,369,213.00	12,110,211.00	<del>7.498</del>
1981	149,966,838.00	15,590,934.00	10.396

Notes:

- (1) The mean ledger assets, as adjusted, have been computed in accordance with the formula approved by State Insurance Commissioners and represent the average of the net ledger assets at the beginning and end of each year, less one-half of the interest earned. The non-ledger assets excluded from the computation include "Interest due and accrued on investment," and "Taxes due and accrued."
- (2) For the years 1941 to 1945, inclusive, amounts aggregating \$197,284.21 representing the net premiums realized from the sale of securities (principally tax exempt) have been applied against purchases in determining costs for the reason that, in effect, the transactions amount to an exchange. In view of the change in investment policy, profits or losses on security sold or called have been credited to income account, but have been excluded from the interest earned in the above tabulation.