



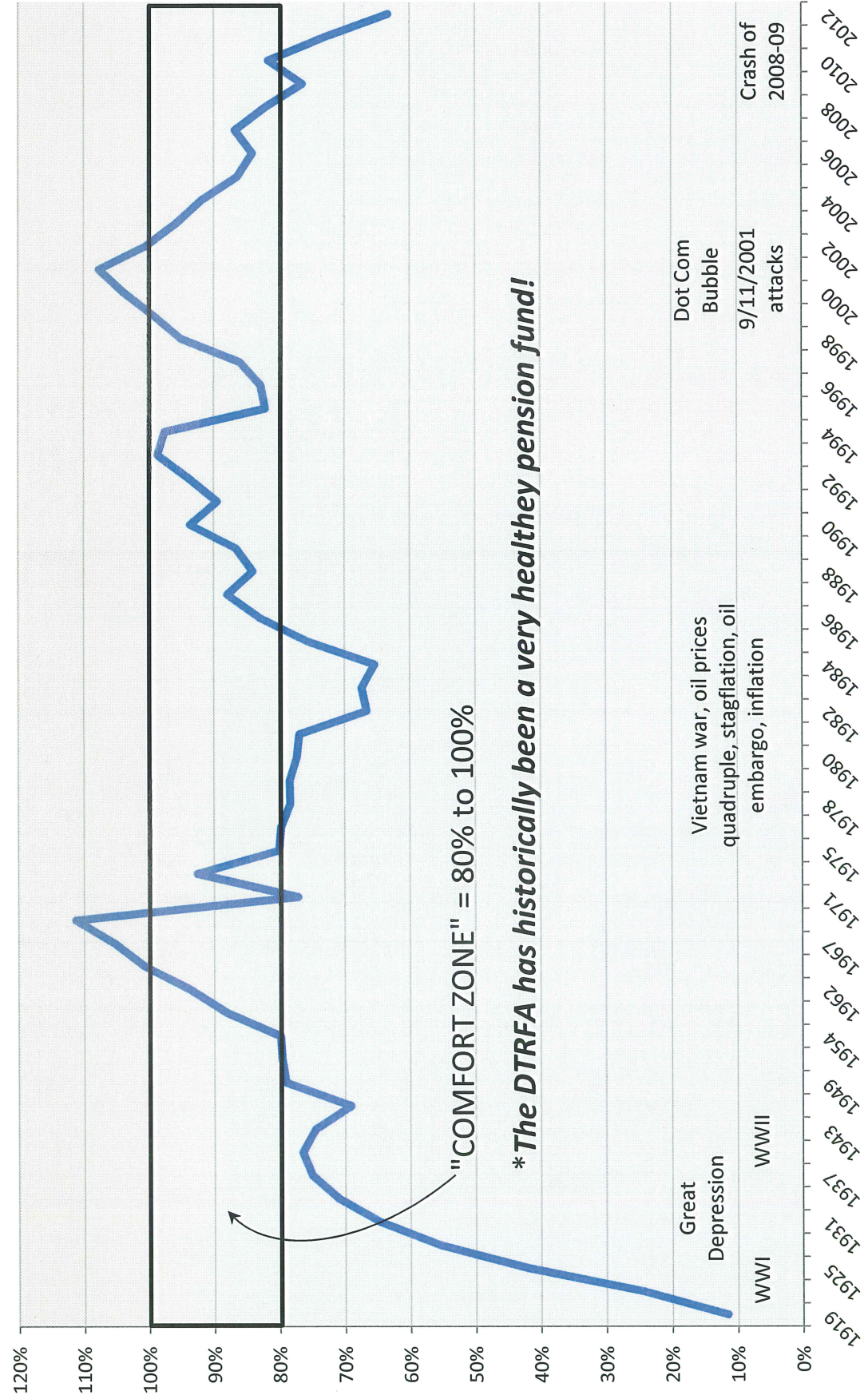
Duluth Teachers Retirement Fund Association

2013 Legislative Proposal

House File 1330, M. Murphy

Senate File 1235, Reinert

Duluth Teachers' Retirement Fund Funding Ratio: 1919 - 2012

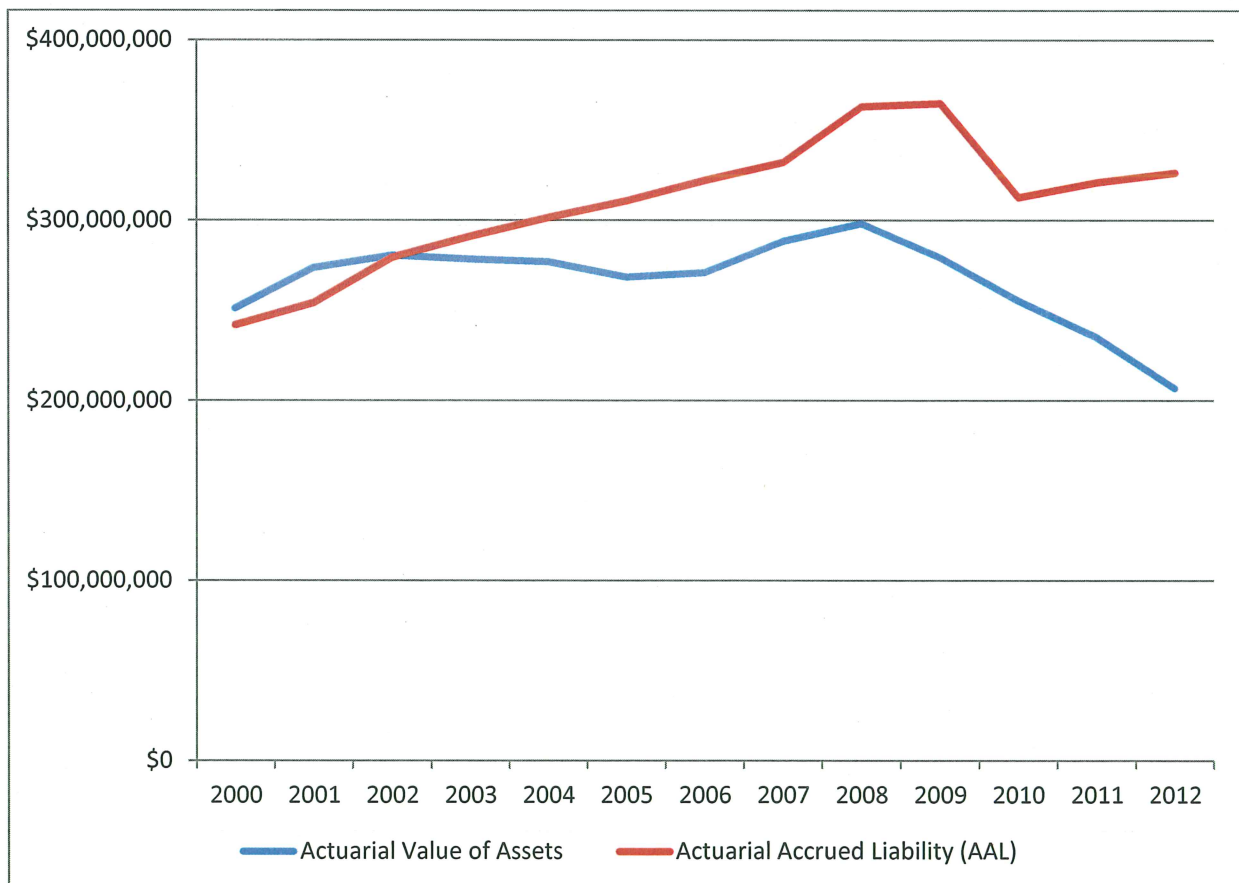


"COMFORT ZONE" = 80% to 100%

**The DTRFA has historically been a very healthy pension fund!*

Duluth Teachers' Retirement Fund Association
Funding Ratio - Actuarial Value of Assets

| June 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Covered Payroll | Unfunded AAL as a % of Payroll |
|---------|---------------------------|-----------------------------------|---------------|---------------|-----------------|--------------------------------|
| 2000 | \$251,007,000 | \$241,899,000 | -\$9,108,000 | 103.8% | \$52,270,000 | -17.4% |
| 2001 | \$273,618,000 | \$254,255,000 | -\$19,363,000 | 107.6% | \$51,996,000 | -37.2% |
| 2002 | \$280,515,000 | \$279,428,000 | -\$1,087,000 | 100.4% | \$51,054,000 | -2.1% |
| 2003 | \$278,467,000 | \$291,109,000 | \$12,642,000 | 95.7% | \$50,656,000 | 25.0% |
| 2004 | \$276,949,000 | \$301,704,000 | \$24,755,000 | 91.8% | \$48,821,000 | 50.7% |
| 2005 | \$268,481,000 | \$310,924,000 | \$42,443,000 | 86.3% | \$49,148,000 | 86.4% |
| 2006 | \$270,926,000 | \$322,229,000 | \$51,303,000 | 84.1% | \$49,522,000 | 103.6% |
| 2007 | \$288,265,000 | \$332,217,000 | \$43,952,000 | 86.8% | \$50,789,000 | 86.5% |
| 2008 | \$298,067,000 | \$363,044,000 | \$64,977,000 | 82.1% | \$51,711,000 | 125.7% |
| 2009 | \$279,256,000 | \$364,811,000 | \$85,555,000 | 76.5% | \$51,019,000 | 167.7% |
| 2010 | \$255,309,000 | \$312,650,000 | \$57,341,000 | 81.7% | \$49,502,000 | 115.8% |
| 2011 | \$235,072,000 | \$321,065,000 | \$85,993,000 | 73.2% | \$48,325,000 | 177.9% |
| 2012 | \$206,833,000 | \$326,244,000 | \$119,411,000 | 63.4% | \$45,764,000 | 260.9% |



Duluth Teachers' Retirement Fund Association
Funding Ratio - Market Value of Assets

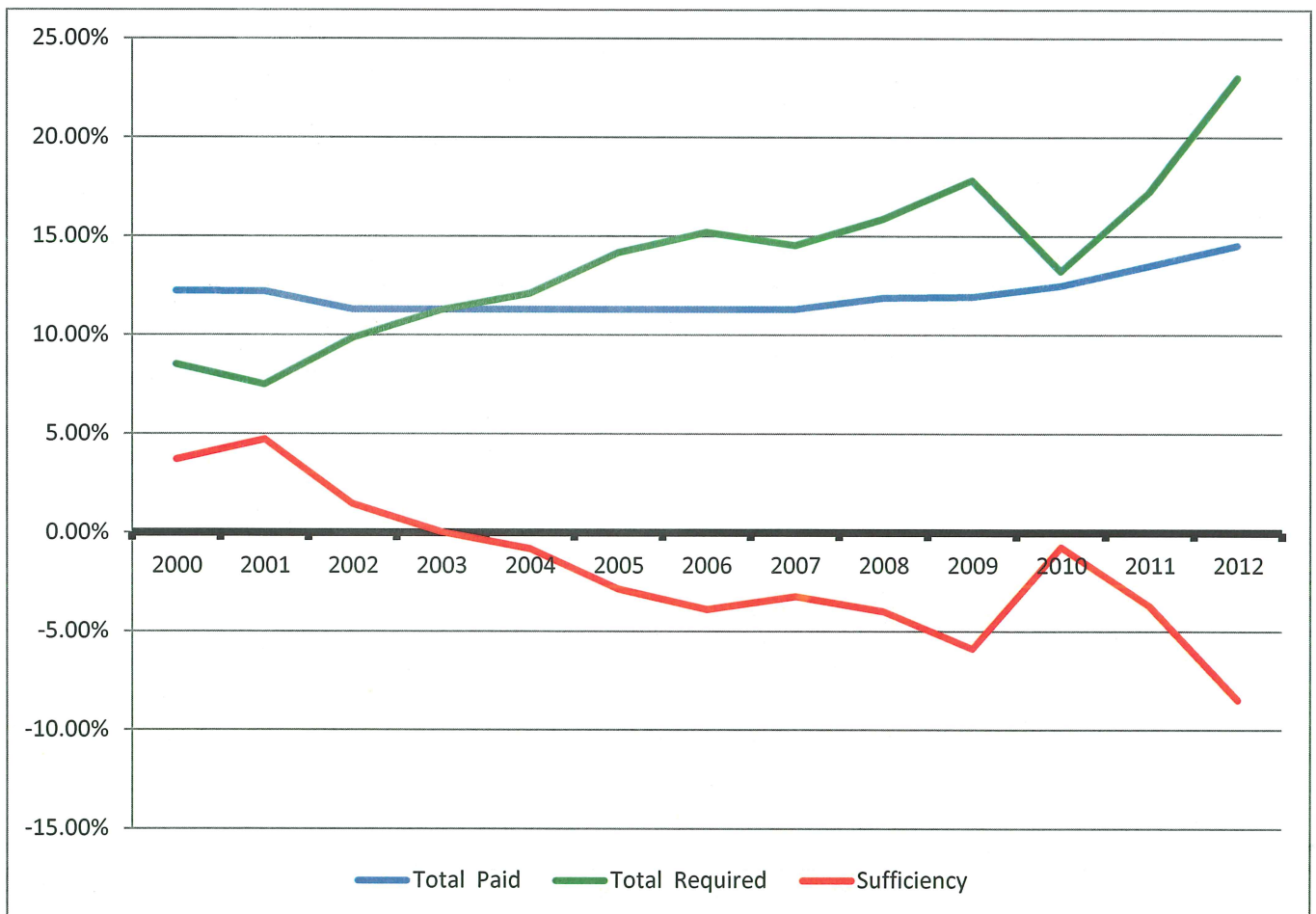
| June 30 | Market Value of Assets | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio | Investment Return |
|---------|------------------------|-----------------------------|--------------------------------------|--------------|-------------------|
| 2000 | \$298,839,000 | \$241,899,000 | -\$56,940,000 | 124% | 26.5% |
| 2001 | \$266,704,000 | \$254,255,000 | -\$12,449,000 | 105% | -8.2% |
| 2002 | \$234,371,000 | \$279,428,000 | \$45,057,000 | 84% | -8.3% |
| 2003 | \$231,247,000 | \$291,109,000 | \$59,862,000 | 79% | 3.7% |
| 2004 | \$258,832,000 | \$301,704,000 | \$42,872,000 | 86% | 17.9% |
| 2005 | \$267,384,000 | \$310,924,000 | \$43,540,000 | 86% | 8.7% |
| 2006 | \$281,950,000 | \$322,229,000 | \$40,279,000 | 87% | 11.0% |
| 2007 | \$318,974,000 | \$332,217,000 | \$13,243,000 | 96% | 19.2% |
| 2008 | \$271,617,000 | \$363,044,000 | \$91,427,000 | 75% | -10.6% |
| 2009 | \$179,933,000 | \$364,811,000 | \$184,878,000 | 49% | -26.9% |
| 2010 | \$192,403,000 | \$312,650,000 | \$120,247,000 | 62% | 17.0% |
| 2011 | \$213,368,000 | \$321,065,000 | \$107,697,000 | 66% | 21.7% |
| 2012 | \$194,553,000 | \$326,244,000 | \$131,691,000 | 60% | -0.2% |



Duluth Teachers' Retirement Fund Association

Contribution Sufficiency

| Fiscal Year | Emp'ee. Contrib. | Emp'er. Contrib. | State Aid | Total Paid | Normal Cost | Amort. of UAAL | Admin. Expense | Total Required | Sufficiency |
|-------------|------------------|------------------|-----------|---------------|-------------|----------------|----------------|----------------|---------------|
| 2000 | 5.50% | 5.79% | 0.92% | 12.21% | 8.68% | -0.92% | 0.75% | 8.51% | 3.70% |
| 2001 | 5.50% | 5.79% | 0.91% | 12.20% | 8.66% | -1.96% | 0.79% | 7.49% | 4.71% |
| 2002 | 5.50% | 5.79% | 0.00% | 11.29% | 9.13% | -0.12% | 0.84% | 9.85% | 1.44% |
| 2003 | 5.50% | 5.79% | 0.00% | 11.29% | 9.08% | 1.31% | 0.88% | 11.27% | 0.02% |
| 2004 | 5.50% | 5.79% | 0.00% | 11.29% | 8.77% | 2.49% | 0.85% | 12.11% | -0.82% |
| 2005 | 5.50% | 5.79% | 0.00% | 11.29% | 9.05% | 4.33% | 0.78% | 14.16% | -2.87% |
| 2006 | 5.50% | 5.79% | 0.00% | 11.29% | 9.19% | 5.24% | 0.76% | 15.19% | -3.90% |
| 2007 | 5.50% | 5.79% | 0.00% | 11.29% | 9.23% | 4.51% | 0.79% | 14.53% | -3.24% |
| 2008 | 5.50% | 5.79% | 0.58% | 11.87% | 8.44% | 6.60% | 0.83% | 15.87% | -4.00% |
| 2009 | 5.50% | 5.79% | 0.63% | 11.92% | 7.42% | 9.55% | 0.85% | 17.82% | -5.90% |
| 2010 | 5.50% | 5.79% | 1.19% | 12.48% | 5.85% | 6.46% | 0.91% | 13.22% | -0.74% |
| 2011 | 6.00% | 6.29% | 1.21% | 13.50% | 6.07% | 10.27% | 0.89% | 17.23% | -3.73% |
| 2012 | 6.50% | 6.79% | 1.23% | 14.52% | 6.49% | 15.36% | 1.16% | 23.01% | -8.49% |



Duluth Teachers' Retirement Fund Association 2010 Legislation

| 1. Annual Cost of Living Adjustment (COLA) – Suspended | |
|---|-------------|
| Funding Ratio < 80% (using market value of assets) | COLA = 0.0% |
| Funding Ratio 80% - 90% (using market value of assets) | COLA = 1.0% |
| Funding Ratio > 90% (using market value of assets) | COLA = 2.0% |
| <p><u>Trigger:</u> When funding ratio > 90% using actuarial value of assets, the COLA will permanently change to a match of CPI-U in the previous year, up to 5.0%. No COLA will be paid in any year when the funding ratio as of the previous fiscal year-end falls below 80%.</p> | |

| 2. Contribution Rates – Increased | Employee Rate | Employer Rate |
|---|---------------|---------------|
| Prior to July 1, 2011, before 2010 law change | 5.50% | 5.79% |
| Effective July 1, 2011 | 6.00% | 6.29% |
| Effective July 1, 2012 | 6.50% | 6.79% |

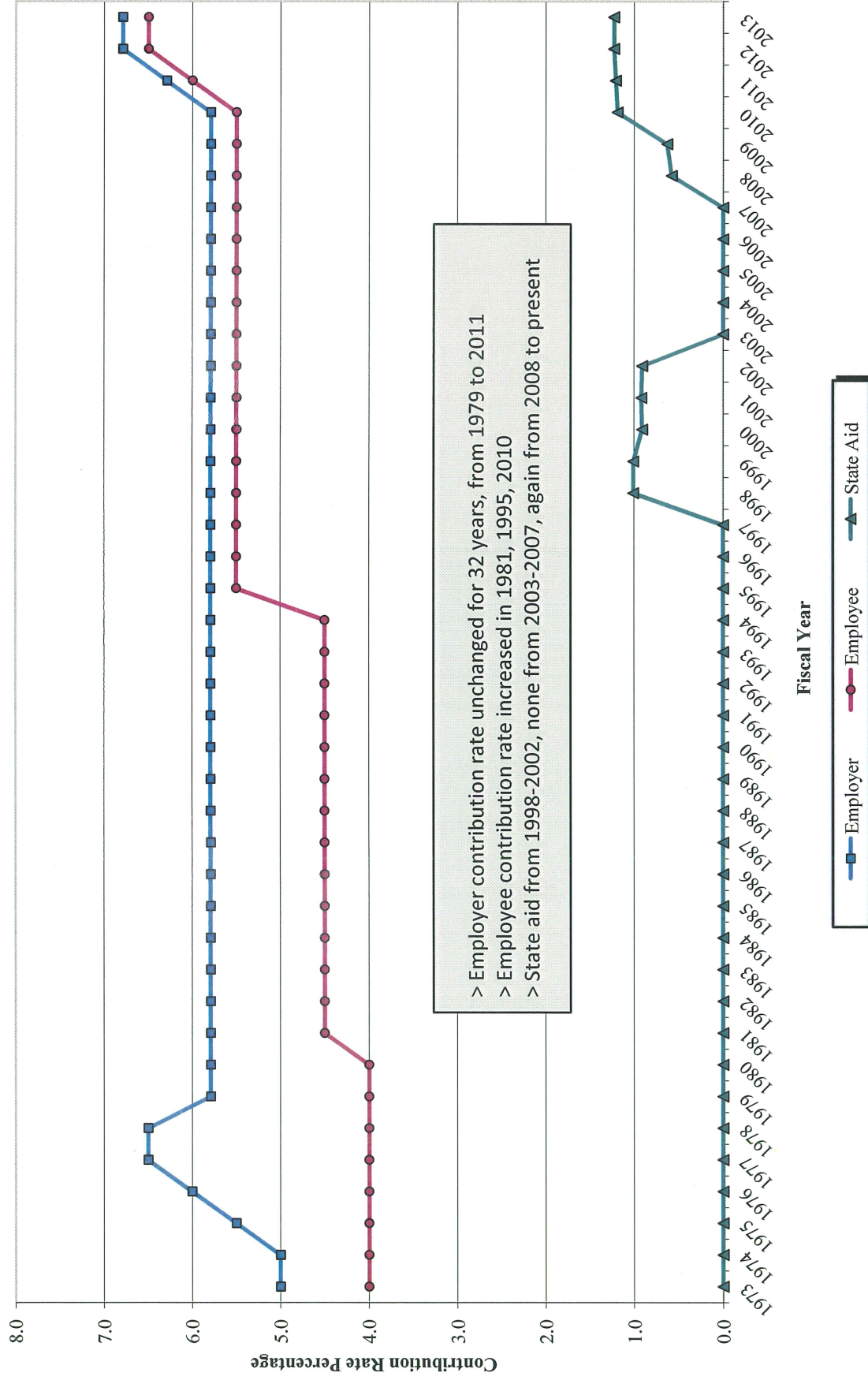
| 3. Other Changes | Prior Law: | Changed to: |
|---|---------------------|-------------|
| Vesting | 3 years | 5 years* |
| Interest on Refunds | 6.0% | 4.0%** |
| Deferred Augmentation – Employee Hired before 7/1/06 Deferred Augmentation – Employees Hired after 6/30/06 | 3.0% / 5.0% 2.5% | 2.0%** |
| Interest on Re-employed Retiree Accounts | 6.0% | 0.0%** |

**Effective for employees hired after 6/30/10*

*** Effective for all accounts, for any accrued interest or augmentation after 6/30/12*

THESE CHANGES REDUCED PLAN LIABILITY BY \$61.6 MILLION.

Duluth Teachers' Retirement Fund Association Contribution Rate History



Duluth Teachers' Retirement Fund Association

Funding Ratio & Sufficiency

| | <u>6/30/2011</u> | <u>Change FY 2012</u> | <u>6/30/2012</u> |
|--------------------------------|----------------------|---------------------------|----------------------|
| Assets - Actuarial Value | \$235,071,975 | -\$28,238,550 | \$206,833,425 |
| Actuarial Accrued Liability | <u>\$321,065,000</u> | <u>\$5,178,873</u> | <u>\$326,243,873</u> |
| Unfunded Liability | -\$85,993,025 | -\$33,417,423 | -\$119,410,448 |
| Funded Ratio | 73.2% | | 63.4% |
| Contribution Deficiency | -3.7% | | -8.5% |

Change in Unfunded Liability

| | |
|--------------------------------------|---------------------|
| Unfunded Liability at 6/30/11 | \$85,993,025 |
| + Normal Cost | \$3,782,005 |

| | | |
|-------------------------------------|-------------------|--------------|
| - Contributions: Employees | -\$2,888,242 | |
| - Contributions: Employers | -\$2,878,549 | |
| - Contributions: State of Minnesota | <u>-\$553,710</u> | -\$6,320,501 |

| | |
|----------------------------------|-------------|
| + Interest on Unfunded Liability | \$7,362,256 |
|----------------------------------|-------------|

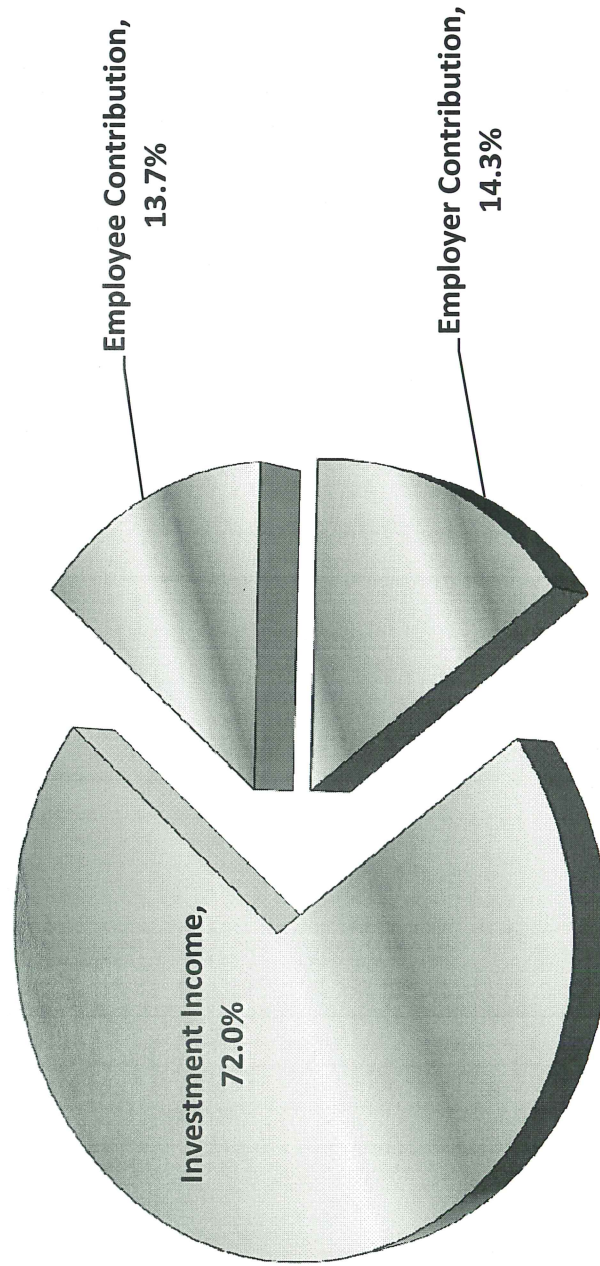
Actuarial Experience During Fiscal Year 2012:

| | | |
|--|-------------------|--------------|
| + Loss on Investments | \$28,191,456 | |
| - Gains: Salary experience | -\$2,660,739 | |
| - Gain: Mortality experience | -\$851,593 | |
| - Loss: Turnover & retirement experience | \$107,153 | |
| + Gain: Other experience | <u>-\$553,887</u> | \$24,232,390 |

| | | |
|---|--|--------------------|
| + Effect of Actuarial Assumption Changes | | <u>\$4,361,273</u> |
| • Investment assumption reduced for 5 years from 8.5% to 8.0% | | |
| • Mortality assumption changed for longer lives | | |
| • Payroll growth reduced from 4.5% to 3.5% per year | | |

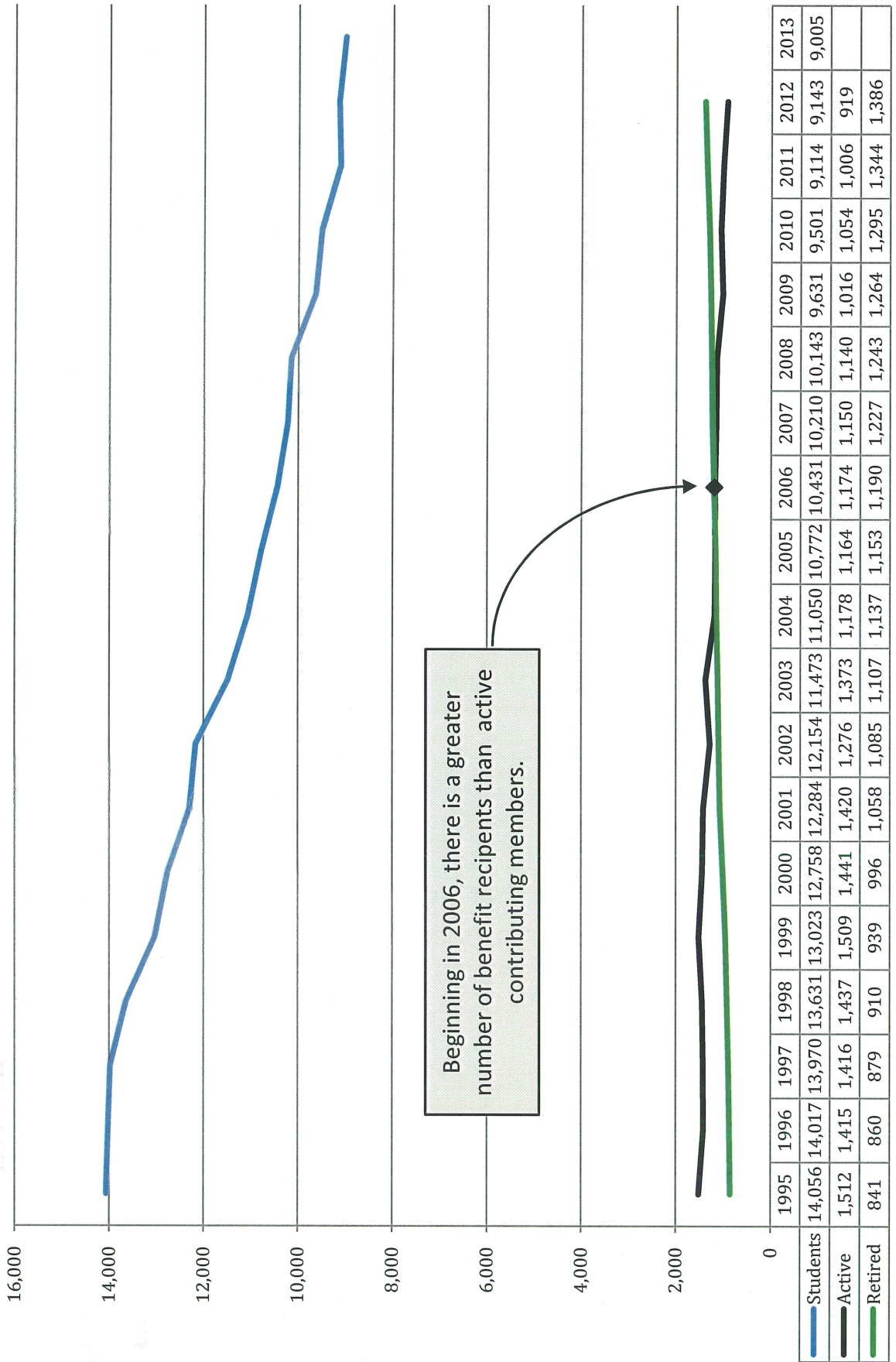
| | |
|--------------------------------------|----------------------|
| Unfunded Liability at 6/30/12 | \$119,410,448 |
|--------------------------------------|----------------------|

**Duluth Teachers' Retirement Fund
Source of Revenues
Twenty Years: 1993-2012**

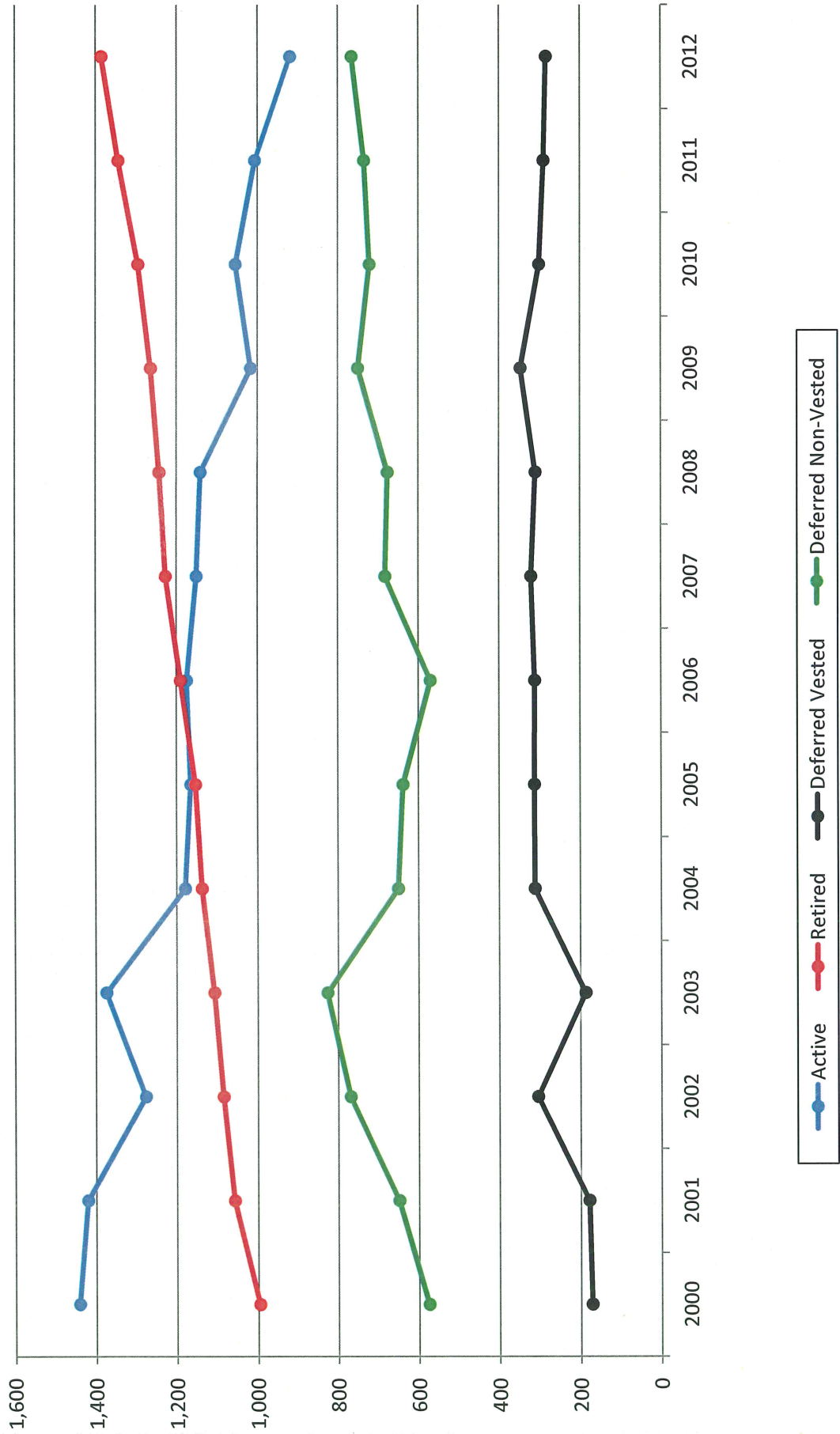


Investment Income is Primary Source of Funding.

Duluth Public School Enrollment vs DTRFA Membership



Duluth Teachers' Retirement Fund Association Membership - Census



Duluth Teachers' Retirement Fund Association Demographic Issues & Challenges

| DTRFA Demographics at June 30, 2012: | |
|---|---------------------------------|
| Number of active members | 919 |
| Number of benefit recipients | 1,386 |
| Percent of actuarial accrued liability for: • retirees & beneficiaries • active members, deferred members | 67% 33% |
| Percent of active members who are: • Age 50-54 • Age 55-59 • Age 60 + Total | 15% 21% <u>13%</u> 49% |

Ongoing Concerns & Contributing Factors:

Duluth Public Schools, ISD 709:

- The number of active, contributing members in the DTRFA has declined steadily over the last several years. It is expected that this trend will continue.
- ISD #709 has a very senior staff. It is expected that twice the usual number of teachers will retire by the end of the 2012-13 academic year.

Duluth Charter Schools

2002 legislation - changed pension coverage from DTRFA to TRA for all Duluth charter school educators, immediately for all (not only new hires).

Lake Superior College

1995 legislation – changed pension coverage from DTRFA to TRA/IRAP for staff at Lake Superior College hired after 6/30/1995.

| |
|--|
| Amortization of DTRFA unfunded liability is very challenging! |
|--|

Duluth Teachers' Retirement Fund Association
2013 Legislative Program
HF1330 / SF1235

| | Percent of Covered Payroll | Amount per Year |
|--|----------------------------|----------------------------|
| 1. Current contribution deficiency | -8.49% | -\$4,325,000 |
| 2. Increase employee contribution rate by 1%, from 6.5% to 7.5%, to equalize with TRA. | 0.94% | \$480,000 |
| 3. Increase employer contribution rate by 0.71%, from 6.79% to 7.5%, to equalize with TRA. | 0.71% | \$362,000 |
| 4. Increase benefit formula multiplier by 0.2 %, from 1.7% to 1.9% per year, to equalize with TRA. | -0.80% | -\$409,000 |
| 5. Reinstate 2% COLA, to equalize with TRA. | -8.01% | -\$4,087,000 |
| 6. Employer contributions required on re-employed DTRFA annuitants. | -- | -- |
| 7. Forfeiture of penalty amount (1 for 3 offset) when re-employed annuitant exceeds earnings limitation. | -- | -- |
| Total Impact | <u>-15.65%</u> | <u>-\$7,979,000</u> |
| <i>Note: DTRFA covered payroll = \$50,973,110</i> | | |

Policy Considerations:

1. **Teacher contribution rate was increased** in 1981, in 1995 and in 2011. SF1235/HF1330 increases the teacher contribution rate again. The employer contribution rate remained unchanged at 5.79% for 32 years, 1979-2011.
2. The DTRFA **benefit formula is lower** than the formula for teachers in the TRA.
3. There is **no cost of living adjustment** in sight for retirees of the DTRFA. Retirees in all the other major public pension funds in the State of Minnesota receive a COLA.
4. There is a very **short history of State aid** to the DTRFA. **State aid to the DTRFA is small** relative to the amounts paid to the other major public pension funds -
 - as a percentage of unfunded liability
 - as a percentage of covered payroll
 - on a per member basis

Minnesota Teacher Pension Funds

Comparison of Contribution Rates & Benefits

| Contribution Rates & Benefits - Current Law | | | | | Actuarial Condition | |
|--|----------------------------|----------------------------|----------------------------|------------------------|---------------------|----------------|
| | Employee Contribution Rate | Employer Contribution Rate | Benefit Formula Multiplier | Cost of Living Adjust. | Funded Ratio | Contrib. Suff. |
| St. Paul TRFA Effective 7/1/14 | 6.50% | 9.34% | 1.7% per year | 1.0% | 62% | (6.4%) |
| Duluth TRFA | 6.50% | 6.79% | 1.7% per year | 0.0% | 63% | (8.5%) |
| TRA Effective 7/1/14 | 7.50% | 7.50% | 1.9% per year | 2.0% | 73% | (5.0%) |
| 2013 Proposed Legislation HF1330 / SF1235 | | | | | | |
| Proposed Duluth TRFA | 7.50% | 7.50% | 1.9% per year | 2.0% | | |