Background Information on the
Duluth Teachers Retirement Fund Association

The Duluth Teachers Retirement Fund Association (DTRFA) was created in 1910, under Laws 1909, Chapter 343 (currently Minnesota Statutes, Chapter 354A). The plan covers teachers employed by Independent School District No. 709, Duluth, and some faculty members at the Lake Superior College.

The DTRFA is managed by a governing board of nine members, including one school board representative, one designee of the school district superintendent, five active member-elected representatives, and two retired member-elected representatives. In addition to maintaining member records and determining benefit eligibility and amounts, the DTRFA governing board is the investment authority for the assets of the retirement fund.

The initial assets of the plan were invested in municipal bonds. In 1921, DTRFA was partially invested in individual home mortgages made by the plan. (The fund discontinued its home mortgage program for members in 1965.) The plan did not invest in corporate equities until 1943, when the first stock investments were made.

In 1919, the initial DTRFA retirement annuity formula was established with a benefit accrual rate of 1.42% of the highest ten years' average salary per year of allowable service, with the retirement annuity payable in full at age 55. The normal retirement age was increased from age 55 to age 60 on a phased-in basis between 1948 and 1953.

DTRFA coordinated with Social Security in 1957 on a total plan basis, meaning that all DTRFA members since 1957 have been coordinated program members. Also in 1957, the DTRFA retirement annuity formula was revised with the benefit accrual rate reset from 1.42% of the highest ten years' average salary per year of allowable service to 0.71% of the highest ten years' average salary per year of allowable service. The plan was also modified in 1957 to permit additional member contributions to produce a larger pension benefit.

In 1964, the plan added a tax-sheltered annuity program under Section 403(b) of the Internal Revenue Code and received a qualification determination from the Internal Revenue System.

The plan granted several ad hoc post-retirement adjustments during the period 1966-1981, with a 10% adjustment in 1966, a 9% adjustment in 1968, a 4% adjustment in 1969, a 5% adjustment in 1971, a 9.5% adjustment in 1975, a 3% adjustment in 1976, and an 8.7% adjustment in 1981.

In 1971, the DTRFA retirement annuity formula was again revised, with the benefit accrual rate reset to 1.15% of the highest five years' average salary per year of allowable service and the normal retirement age was set at age 60.

In 1973, the DTRFA tax-sheltered annuity program was expanded with the addition of the Variable Fund for equity investments.

In 1978, DTRFA coverage and Social Security coverage was extended to part-time and hourly Independent School District No. 709 educators.

In 1981, the DTRFA retirement annuity formula was further revised, with the benefit accrual rate reset to 1.25% of the highest five years' average salary per year of allowable service, and the member contribution was increased to 4.5% of covered salary.

In 1983, member contributions to the fund became pre-tax contributions under the federal Internal Revenue Code.

In 1985, member contributions to the fund became pre-tax contributions under state income tax law.

Also in 1985, a DTRFA 13th check post-retirement adjustment mechanism was established, based on investment returns in excess of the post-retirement actuarial interest rate assumption rate and allocated as a particular dollar amount (unit value) per number of years of service credit plus the number of years on retirement. The unit value over time was:

Year	Unit Value	Year	Unit Value
1985	$34	1991	$52
1986	$44	1992	$50
1987	$48	1993	$55
1988	--	1994	$52
1989	$46	1995	$55
1990	$50		

In 1995, the DTRFA 13th check provision was replaced by the same system then used by the Minneapolis Teachers Retirement Fund Association (MTRFA): Annuity payments were increased by 2% annually and benefit recipients could receive an additional investment-related post-retirement adjustment based on the five-year annualized return above 8.5%, with a minor adjustment for the contribution deficiency.

In 1989, the DTRFA retirement annuity was further modified with the creation of two benefit tiers. The first benefit tier included the Rule of 90 early retirement provision, applicable to teachers first employed before July 1, 1989, while the second benefit tier, applicable to those first hired after June 30, 1989 or to those hired before that date if the level benefit approach, with actuarial reduction if retiring early, provided a higher benefit. In 1995, the DTRFA benefit accrual rate was increased by 0.13% of the highest five years' average salary per year of allowable service credit, and the member contribution rate was increased from 4.5% of covered salary to 5.5%. In 1997, the DTRFA benefit accrual rate was increased by 0.07% of the highest five years' average salary, to 1.45% of average salary per year of service credit for the Old Law (pre-1981) plan, 1.20% of average salary for the first ten years of service and 1.70% of average salary for all subsequent years of service for the Tier I (Rule of 90) New Law (post-1981) plan, and 1.70% of average salary for all years of service for the Tier II (Level Benefit) New Law (post-1981) plan.

Also in 1997, direct annual state aid, initially $486,000 annually, was established. This was redirected to the MTRFA and the St. Paul Teachers Retirement Fund Association (SPTRFA) in 2001, when the DTRFA became fully funded. In 2003 the DTRFA funding ratio fell below 100%, and in 2008, aid was restarted to the DTRFA.

In 2002, coverage for teachers in charter schools located in Duluth was changed from DTRFA to the statewide Teachers Retirement Association (TRA).

In 2010, post-retirement adjustment procedures were again revised. The procedure adopted in 1995 was replaced with a procedure consisting of a transitional system followed by a move to an inflation match not to exceed 5%, after funding ratios improve considerably. Under the transition method, no increase is provided to DTRFA pensioners (retirees, disabilitants, and survivors) if the funding ratio, based on comparison of the market value of assets compared to accrued liability, is less than 80%. A 1% increase will be paid if the market-value funding ratio is at least 80% but less than 90%, and a 2% increase will be paid if the ratio is at least 90%. Also, when the funding ratio, when actuarial asset value rather than market is used, is at least 90%, the transition method ends and a new system is put in place which will match inflation up to 5%. However, if the funding ratio based on actuarial value falls below 80%, no increase will be paid.

Also in 2010, numerous changes were made to the DTRFA to address its deteriorating financial condition. These changes included increasing the employee and employer contribution rates by 0.5% each, revising post-retirement adjustment procedures as described earlier, increasing vesting from three years to five years, reducing the refund interest rate from 6% to 4%, reducing the deferred annuities augmentation rate to 2%, and eliminating interest payments on reemployed annuitant savings accounts.