STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

Large Public Pension Plan Investment Report

For the Year Ended December 31, 2004

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Large Public Pension Plan Investment Report

For the Year Ended December 31, 2004

December 8, 2005

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Table of Contents

Overview.....1

Understanding Investment Performance Terms.....1

8-Year Performance Analysis.....2

Contribution Analysis.....9

Administrative Expense Analysis.....11

Funding Ratio Analysis.....13

2004 Investment Performance.....16

Conclusion and Recommendations.....23

List of Tables in Report

2004 Plan Summaries.....25

Bloomington Fire Department Relief Association
Duluth Teachers' Retirement Fund Association
Eden Prairie Fire Relief Association
Minneapolis Employees Retirement Fund
Minneapolis Firefighters' Relief Association
Minneapolis Police Relief Association
Minneapolis Teachers' Retirement Fund Association
St. Paul Teachers' Retirement Fund Association
State Board of Investment Basic Fund
State Board of Investment Post Fund

Summary Data Tables

Table 1: Financial and Investment Summary for the Year Ended December 31, 2004.....38

Table 2: Broad Market Index Returns for the Year Ended December 31, 2004.....39

Table 3: 8-Year Annualized Rate of Return.....40

Table 4: Historical Rates of Return.....41

Table 5: Large Public Pension Plan Funding Levels - 1997 to 2004....................................42

Table 6: Contributions for Fiscal Year 1997..43

Table 7: Contributions for Fiscal Year 2004..44

Table 8: Administrative Expenses for Fiscal Year 1997..45

Table 9: Administrative Expenses for Fiscal Year 2004..46

Table 10: Investment Expense for Fiscal Year 2004..47

Overview

This report reviews the investment performance of Minnesota's large public pension plans. These pension funds held almost $44 billion in assets at the end of their 2004 fiscal years, and represent the retirement savings of thousands of public employees. Strong oversight of these pension funds is important to safeguard the pensions of public employees, limit local and state liabilities, and prevent fraud. Ensuring that these pension funds are managed effectively can improve retiree benefits and lower costs to both taxpayers and current public employees.

These large public pension plans include eight individual plans and the State Board of Investment (SBI). The eight individual plans included in this report are: the Bloomington Fire Department Relief Association, the Duluth Teachers' Retirement Fund Association, the Eden Prairie Fire Relief Association, the Minneapolis Firefighters Relief Association, the Minneapolis Employees Retirement Fund, the Minneapolis Police Relief Association, the Minneapolis Teachers' Retirement Fund Association, and the St. Paul Teachers' Retirement Fund Association. The State Board of Investment is not a pension plan, but invests the assets of certain public employee pension plans. The Teachers' Retirement Association[1] (TRA), the Public Employees Retirement Association[2] (PERA) and the Minnesota State Retirement System[3] (MSRS), whose assets are managed by the SBI, are presented as benchmarks for comparative purposes in this report.

Understanding Investment Performance Terms

When discussing investment performance there are a few key concepts to understand.

Asset Allocation

Asset allocation describes the practice of distributing a certain percentage of a portfolio between different types of investment assets, such as stocks, bonds, cash, real estate, options, etc. By diversifying an asset base, one hopes to create a favorable risk/reward ratio for a portfolio. All of Minnesota's large public pension plans have chosen to invest a significant portion of their assets in the equity markets (stocks). Stocks have historically had higher returns than investments in debt (bonds) or cash. Within equities there are many sectors, which are usually based on the size of the companies (capitalization), rate of growth, or value compared to price.

Active or Passive Investment Strategy

In addition to choosing their asset allocation, investors can choose to actively or passively invest. Passive management is more commonly called indexing. Indexing is an investment management

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[1] Teachers' Retirement Association (TRA) is one of Minnesota's statewide public pension funds providing retirement, disability and death benefits to Minnesota college faculty, public school teachers, administrators, retirees, and their families. TRA covers all public school teachers outside of Minneapolis, St. Paul and Duluth.

[2] Established in 1931, PERA administers three statewide retirement plans providing defined benefit plan coverage to employees of local governments and school districts, and one statewide retirement plan providing defined contribution (DCP) coverage to elected officials and medical personnel.

[3] The Minnesota State Retirement System (MSRS) administers ten different retirement plans which provide retirement, survivor, and disability benefit coverage for Minnesota state employees as well as employees of the Metropolitan Council and many non-faculty employees at the University of Minnesota. MSRS covers over 50,000 active employees and currently pays monthly benefits to over 20,000 retirees, survivors, and disabled employees.

approach based on investing in exactly the same securities, in the same proportions, as an index. The management style is considered passive because portfolio managers do not make decisions about which securities to buy and sell; they simply copy the index by purchasing the same securities included in a particular stock or bond market index. Common indices include the S&P 500 and the Wilshire 5000. In contrast, active management is simply an attempt to "beat" the market as measured by a particular benchmark or index. The aim of active fund management — after fees are paid — is to outperform the index for a particular fund. Prevailing market trends, the economy, political and other current events, and company-specific factors (such as earnings growth) all affect an active manager's decisions.

Passive investing often has lower costs than active investing. In general, trading fees and research expenses are less. These extra expenses of actively managed funds can nullify any extra gains an active manager might earn. Some studies[4] have shown that active money managers are not able to beat an index over the long term. This is an ongoing debate in the investment community. The results of the large plans' active management have been mixed, with some plans benefiting from active management and others being hurt by it.

Besides active and passive investing, there is a hybrid strategy that many of the large plans are using. It is called enhanced indexing. The goal is to return the same as an index, plus a half to one percent. The underlying strategies are complex but these investments have become common and are prevalent in the investing world.

Eight-Year Performance Analysis

The State Auditor's Office has been collecting data on Minnesota's large pension plans since 1997, allowing the Office to calculate rates of return over an eight-year period. The rates of return are affected by overall market conditions, investment strategies, investment costs, and the performance of investment managers. Fund managers must balance risk and reward when investing pension assets. A balanced investment strategy should allow pension funds to ride out downturns in the market and meet long-term objectives. Investments that perform below targeted benchmarks can create large unfunded liabilities for pension funds.

When Minnesota's pension plans are discussed, comparisons with the State Board of Investment (SBI) invariably arise. The SBI is highly respected, and by most objective measures, has done a good job of investing for the State beating its benchmark over 10 and 20 year periods. The two largest funds SBI manages are the "Basic" and "Post" Retirement Funds. Together they are referred to as the Combined Fund. The Basic Fund holds the active employees' assets, while the Post Fund holds the retired employees' assets. This report uses the rate of return for the individual pension funds to compare one to another, but also presents other benchmarks for comparison purposes.

Most of the large public pension plans examined in this report cannot not place funds with SBI for investment in the Post Retirement Fund. With the exception of the first class city teacher pension funds, most of these pension plans can invest in the supplemental funds managed by SBI. One of the supplemental funds is the Income Share Account.

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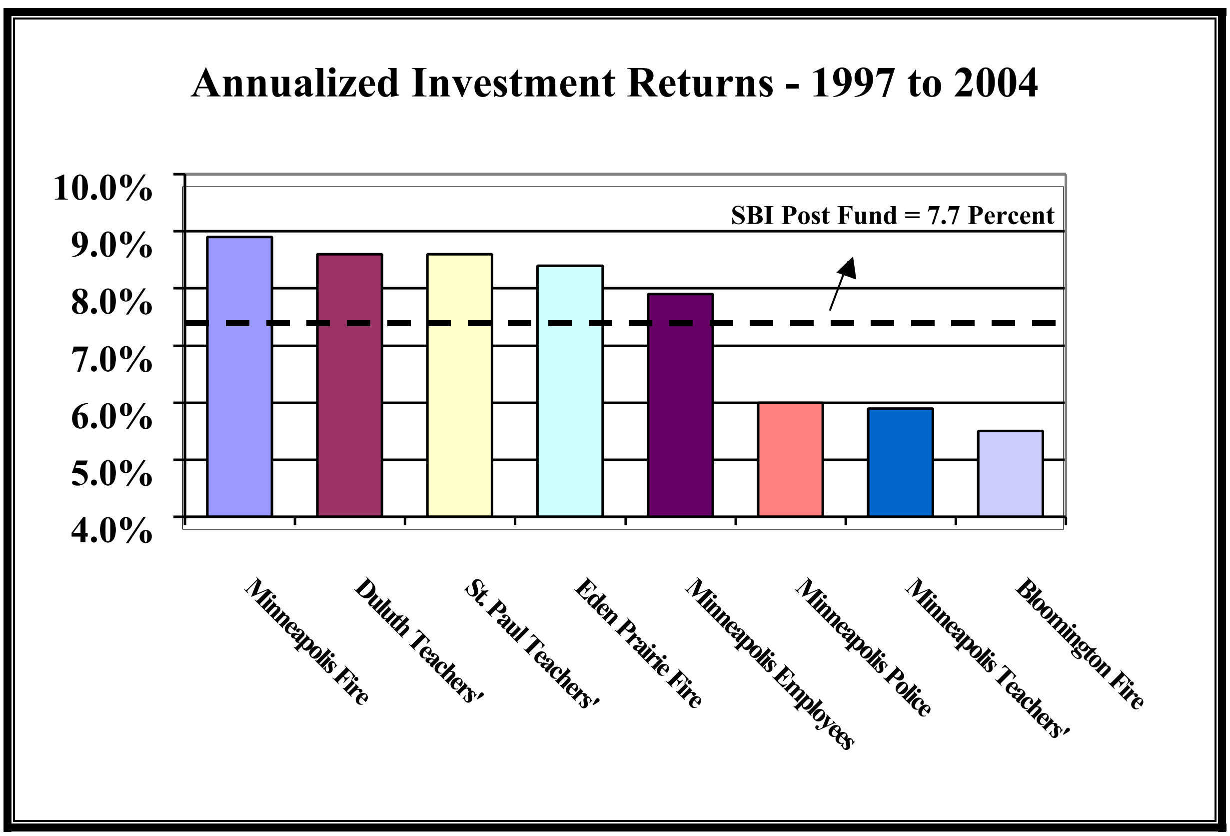
[4] "The Implications of Style Analysis for Mutual Fund Performance Evaluation," Journal of Portfolio Management, [Summer, 1998]. "An Index Fundamentalist Goes Back to the Drawing Board" by John C. Bogle, Journal of Portfolio Management, Spring 2002, Volume 28, Number 3.

Overall Rates of Return

During this eight-year period the overall stock market returned an average of 8.1 percent per year, the overall bond market returned an average of 7.0 percent per year, and international equities returned an average of 4.9 percent per year. During this same period, the State Board of Investment's Income Share Account and the SBI Post Retirement Fund returned 7.7 percent. This account's target allocation is 60 percent stocks (indexed to the overall U.S. market), 35 percent bonds, and 5 percent cash. The Income Share Account shows the type of return one could expect from a balanced portfolio that maintains a relatively high level of cash. One could argue that this type of return should be easy to replicate with a similar portfolio having less allocated to cash.

Using the SBI Income Share Account's 7.7 percent annualized rate of return as a benchmark for a balanced investment portfolio, one can see that three funds are underperforming. There are many factors that affect the performance of a fund and a deeper look into these three outliers is required.

The chart below shows the annualized investment returns for the large pension plans for the 8-year period of 1997 to 2004.



Analysis of Underperforming Funds

Minneapolis Teachers' Retirement Fund Association

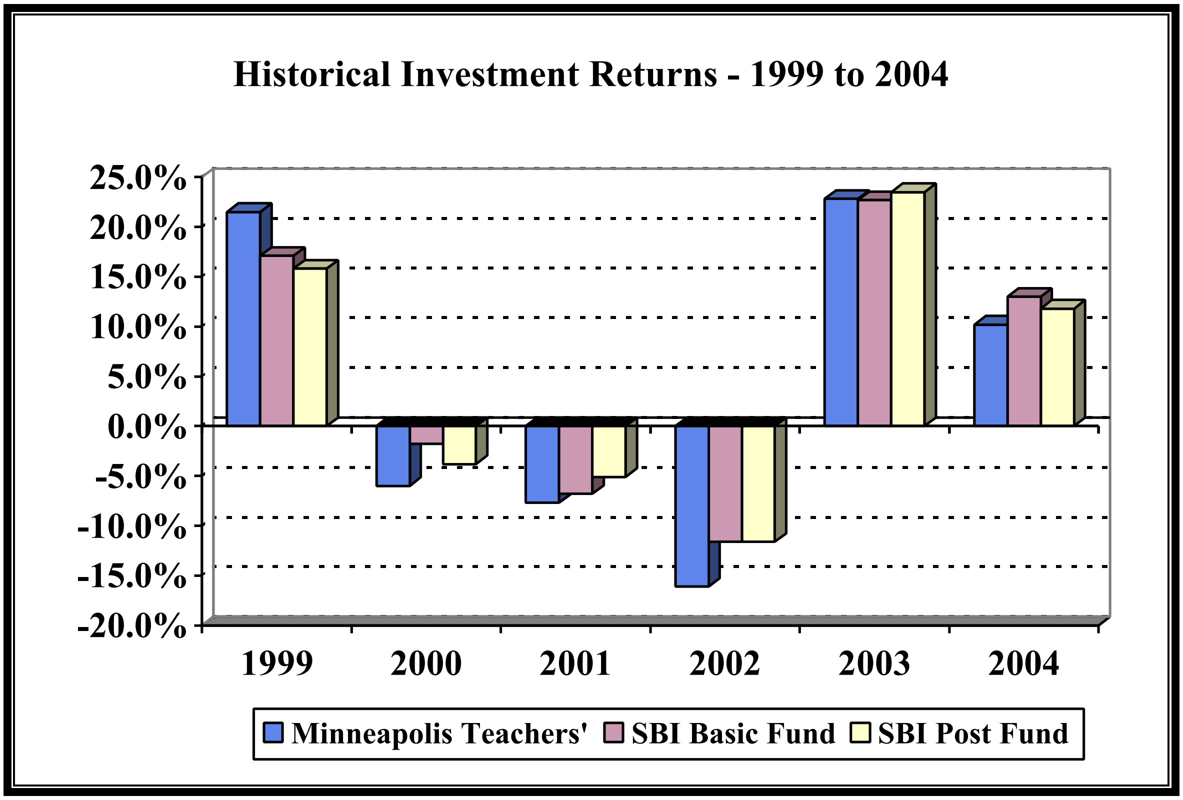
The Minneapolis Teachers' Retirement Fund Association is the worst funded large Minnesota public pension plan and has been so for decades. In fact, without reform, the fund faces a looming failure in the next five to ten years. While much of its current funding woes may be due to shortfalls in contributions throughout its existence, the role of its investment returns on funding deficits cannot be ignored. The eight-year return of 5.9 percent was well below market returns.

If Minneapolis Teachers' had been invested in the SBI Post Fund during this period, its assets would have grown by an additional $112 million. However, not all of the $112 million would have helped the funding situation because a benefit provision of MTRFA grants a benefit increase to retired members when investment earnings exceed 8.5 percent. The mechanics of the post-retirement increase calculation have a built-in bias to contribute a loss to the plan. When five-year annualized average investment returns exceed 8.5 percent, the excess gain is directed to increases for retirees rather than improving its funding ratio. The benefit increase granted to retirees when investment performance exceeds 8.5 percent compounds the funding crisis by increasing the long-term liability and diverting resources that should be used to improve the fund's financial condition.

Further, active domestic equity managers have not performed well for Minneapolis Teachers'. They have not been able to match the benchmarks they were hired to beat. Over the past eight years the Russell 3000 has returned 8.1 percent, while Minneapolis Teachers' domestic equities have only returned 5.9 percent. Interestingly, the selling point of active managers has often been that they show their true worth during market downturns. For Minneapolis Teachers', the opposite has been true. As the chart below shows, they have done worse than the SBI Basic and Post Funds during both tough times and good times.

Minneapolis Teachers' investment grade fixed income portfolio has performed adequately over the past eight years. Minneapolis Teachers' junk bond portfolio dragged the total return down over this period. Junk bonds are the debt of companies that are having financial troubles. They are riskier than investment grade bonds, which are the debt of healthier companies. From 1998-2002 investment grade bonds doubled the return of high yield bonds. Minneapolis Teachers' high yield bonds performed worse than their benchmark, exacerbating the problem. The plan completed the liquidation of its junk bond portfolio in early 2003.

The chart on the next page shows the investment returns of the Minneapolis Teachers' Retirement Fund Association as compared to the SBI Basic and Post Funds for the years 1999 to 2004.

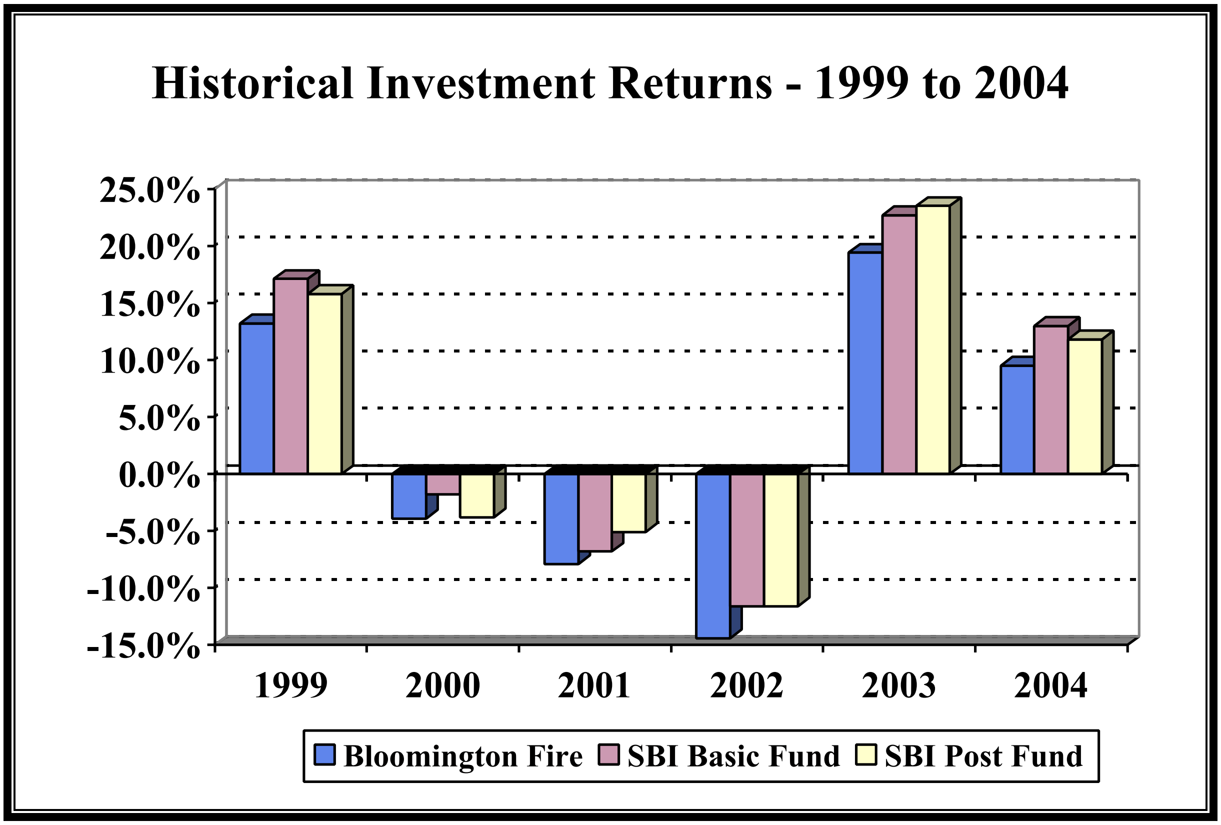


Bloomington Fire Department Relief Association

The Bloomington Fire Department Relief Association had the lowest return of any of the large pension funds over the eight-year period at only 5.5 percent. Their returns are the most difficult to analyze because most of their assets have been managed internally by the relief association and not by individual money managers. These assets were a mix of mutual funds, stocks, bonds and cash. Bloomington Fire has not been much more conservatively invested than other funds, and its expected return should not be much different. Obviously, an indexed portfolio would have done much better.

Bloomington Fire could have earned an additional $18 million over this period if invested in the SBI Post Fund. While Bloomington Fire is fully funded, the additional $18 million could have covered any required city contributions or paid for a benefit increase. On total assets of $102 million, $18 million is a large sum and represents almost 18 percent of the plan's assets. Bloomington Fire has moved much of its assets into the SBI Income Share Account over the past few years. This should make Bloomington Fire's returns more transparent and hopefully equal to market returns.

As the chart on the next page shows, Bloomington Fire's investments performed worse than SBI's Basic and Post Funds during every year. A clear case can be made that the relief association would be better off fully investing its assets in SBI funds.

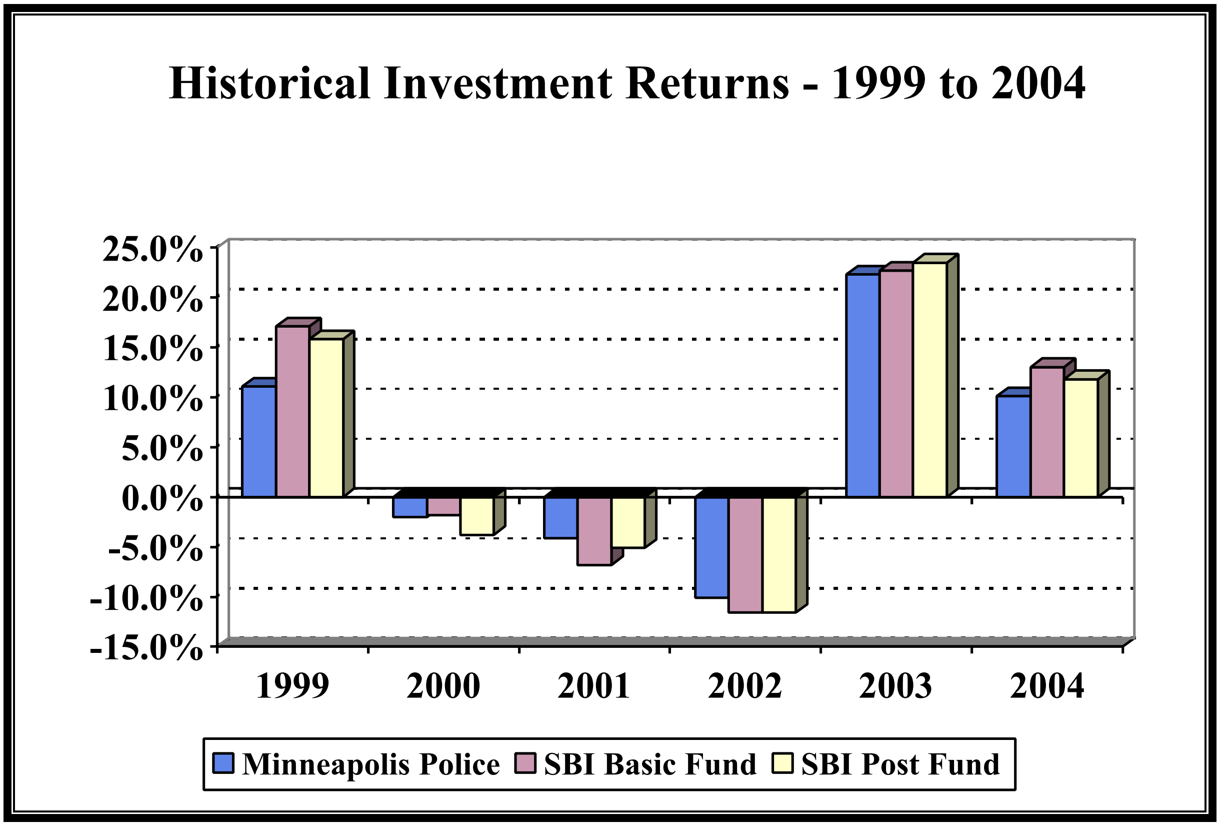


Minneapolis Police Relief Association

Minneapolis Police joins Bloomington Fire and Minneapolis Teachers' in the ranks of the poorly performing funds. The relief's association's eight-year return was only 6 percent. During this period, its funded ratio decreased from 91 percent to 71 percent. While it is difficult to pinpoint the reasons for the poor performance of the fund, a large turnover in managers and turmoil created by frequent board disputes certainly contributed to its problems.

Fortunately, Minneapolis Police has recently moved much of their domestic equities into indexed funds that should bring future returns more in line with market returns. If the SBI Post Fund had invested the funds during the past eight years, there would have been $61 million more in assets at the end of 2004. This would have gone a long way toward fixing its funding problem.

The chart on the next page shows the investment returns of the Minneapolis Police Relief Association as compared to the SBI Basic and Post Funds for the years 1999 to 2004.



Analysis of Top Performing Funds

The top three performing plans were Minneapolis Fire, St. Paul Teachers' and Duluth Teachers'.

Minneapolis Fire Relief Association

Minneapolis Fire was the top performer with a return of 8.9 percent. The biggest factor in their success is Alliance Capital, who managed at least half of Minneapolis Fire's assets until 2001. At the end of 2004 they held about one-fourth of Minneapolis Fire's assets. Returns on this account, which invested in stocks and bonds, have outpaced stock market returns significantly. Alliance returned 9.9 percent over the eight-year period, adding around 4 percent through active management. Their returns were especially high in the beginning of the eight-year period, and have trailed off. These high returns benefited Minneapolis Fire because so much of their assets were with Alliance in the earlier years.

A lesser influence on the high return was the lack of international equity investments. International equities returned lower than domestic stock or bond investments over the past eight years, and could have reduced Minneapolis Fire's overall return if they had invested in them.

Duluth Teachers' Retirement Fund Association

Duluth Teachers' returned 8.6 percent over the past eight years. Their success was mostly due to active managers exceeding market returns. In 1999 two of Duluth Teacher's equity managers hit "home runs," with both returning over 50 percent. This made up for Duluth Teachers' poorer performance in the two previous years. Duluth Teachers' has consistently been one of the higher performing funds since 1999. The fund's fixed income and equity managers have both outperformed what the broader market returned.

St. Paul Teachers' Retirement Fund Association

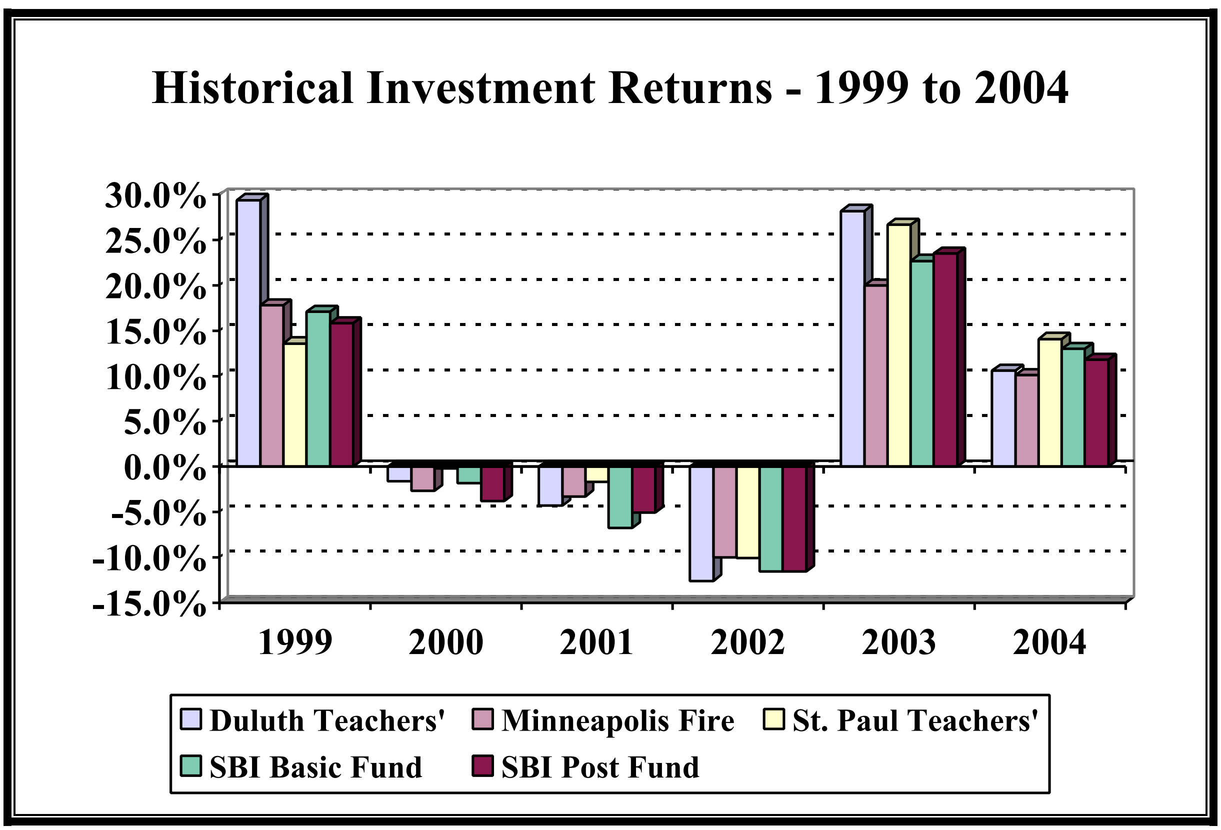
St. Paul Teachers' also had a rate of return of 8.6 percent over the past eight years and has also benefited from active management. The Association's international equity has done exceptionally well, and domestic equity has also had good returns.

Remaining Funds

The remaining funds all performed well and met or exceeded market returns. Eden Prairie Fire, being by far the smallest of the large plans, returned 8.4 percent. Without a full time staff, Eden Prairie Fire shows that size and sophistication do not necessarily equate with better performance. The SBI Basic and Post Funds and the Minneapolis Employees Retirement Fund (MERF) all performed well. The SBI Basic Fund's 8.0 percent return was 0.3 percent higher than the Post Fund's 7.7 percent, mainly due to a higher allocation to alternative investments, which had higher returns than the SBI's equity or bonds over these eight years. MERF's 7.9 percent return was boosted slightly by an allocation to real estate.

Some might say "luck" had more to do with who was a winner and who was a loser. However, what is certain is that total fund returns of over 7 percent were available with passive investing. Funds that have been unable to match this may want to reconsider their investment strategies.

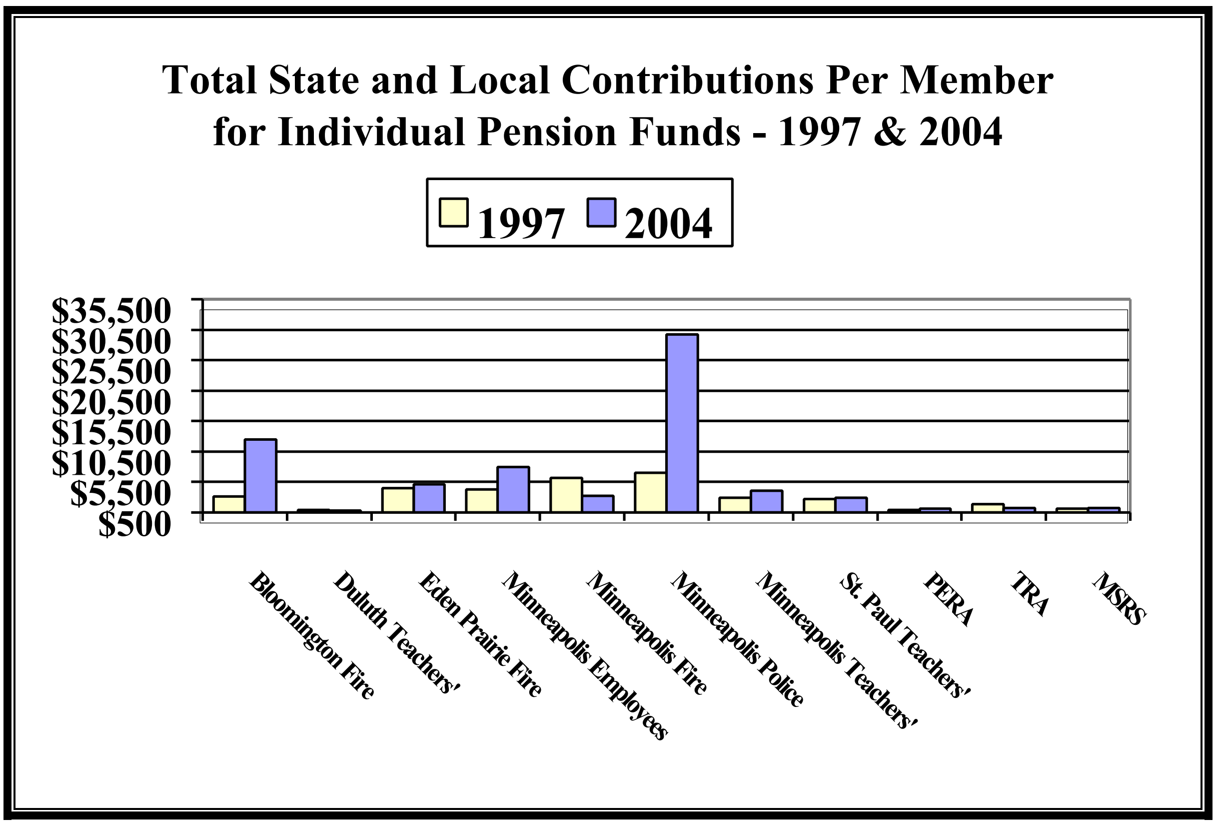
The chart below compares the investment returns of these funds to the SBI Basic and Post Funds.



Contribution Analysis

Contributions to these pension plans come from the state, cities, employers and the employees. The level of required contributions are based on a number of factors including but not limited to: actuarial projections, investment performance, promised benefits, and statutory requirements. If actuarial projections and investment performance stay aligned, required contribution levels should stay relatively flat as a percentage of payroll. However, if either of these components is off target, large remedial contributions by local entities or the state may be required. The cities of Bloomington and Minneapolis each were required to make large contributions to pension funds in 2004. In addition, underfunded pension plans may also require increased contributions from employees and employers.

From 1997 to 2004 every large plan except Minneapolis Fire saw their contributions per member increase. These increases are expected due to inflation and wage growth. However, as the chart below shows, there is significant variation in the level of aid provided to large public pension funds on a per member basis.



Bloomington Fire Relief Association

Bloomington received a very large city contribution in 2004 that was required because they dropped below 100 percent funded at the end of 2002. Bloomington has been well funded but the market conditions of 2000 through 2002 adversely affected its funded ratio. In addition, the reason for a sudden spike may be related to the actuarial assumptions used to calculate the contribution. Whereas Bloomington's actual year-end assets are used in the assumptions, other large plans use a method that smoothes the assets used in the calculations. Smoothing the assets over a certain period decreases the chance of sudden spikes in required contributions.

Bloomington also has a full funding date of 2010, leaving less time to make up shortfalls in funding.

Minneapolis Funds

You would expect the closed funds, or those funds that do not accept new members, to require greater contributions because they have less time to make up any shortfalls in funding. They need to be on track to be 100 percent funded as they will most likely be paying out every cent they have to retirees up until the last retiree passes away. The closed funds are MERF, Minneapolis Fire and Minneapolis Police.[5] Since 2002, the city of Minneapolis has issued $119.2 million in pension obligation bonds to shore up MERF, Minneapolis Police, and Minneapolis Fire. Of the $119 million, $61 million went to MERF, $53.5 million went to Minneapolis Police, and $4.7 million went to Minneapolis Fire.

Minneapolis Police Relief Association

In 2004, the Minneapolis Police Relief Association received contributions totaling $29,701 per member. This is a huge aberration from the other plans and is almost large enough to represent a pension itself. The contributions were actuarially determined and represent the amount needed to fully fund the plan by 2010 according to state law. Since the 2004 payment, a law was passed in the 2005 Special Legislative Session extending the date at which it needs to be fully funded to 2020. This will allow the city and other contributors to amortize the amount over a longer period of time. This should lower the city's payments per year, and potentially lower the city's total liability if investment returns are adequate. This case really shows the high price the city of Minneapolis and its taxpayers are paying due to years of poor investment returns and mismanagement of the pension fund.

Minneapolis Employees Retirement Fund

Minneapolis Employees Retirement Fund's (MERF) state contribution dropped by $4 million from 1997 to 2004 while its employer contribution has doubled to $38 million. The employer contributions are used to fund the active members as they move into the retired fund of MERF. Although the 2004 contributions are considerably higher than in the past, this is not unexpected. All the active members are expected to retire within the next few years, and the active fund will be terminated. No contributions went to the retired fund, which makes up the bulk of MERF's assets. MERF ended 2004 at a 92 percent funded ratio.

Minneapolis Fire Relief Association

Minneapolis Fire has not required large contributions, and at its current funding level it does not appear they will be required. Minneapolis Fire ended 2004 at 90.2 percent funded which leaves it adequately funded barring no significant downturns on investment returns.

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[5] All city of Minneapolis firefighters and police officers hired after June 15, 1980, and all other Minneapolis employees hired after 1978, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). Police and firefighters are covered by the Public Employees Police and Fire Fund (PEPFF) and other Minneapolis employees are covered by the Public Employees Retirement Fund (PERF).

Minneapolis Teachers' Retirement Fund Association

Minneapolis Teachers' is an open fund that accepts new members. The contributions it receives are higher than those of St. Paul and Duluth Teachers', but considering its current funding crisis (a funding ratio of 51 percent), the contributions are not nearly sufficient. It will take a significant increase in contributions from various sources to bring this fund into an acceptable funding ratio. Historically, insufficient contributions have been one of the fund's chief problems, and a resolution must be found to avert the fund's failure. Several legislative proposals were brought forth during the last regular and special sessions, but none passed.

Administrative Expense Analysis

Pension plans are allowed to pay for certain administrative expenses such as office expenses, professional fees, training and salaries. The members directly incur these administrative expenses because the money could have been used to fund their pensions. Some plans spend more on these expenses than others.

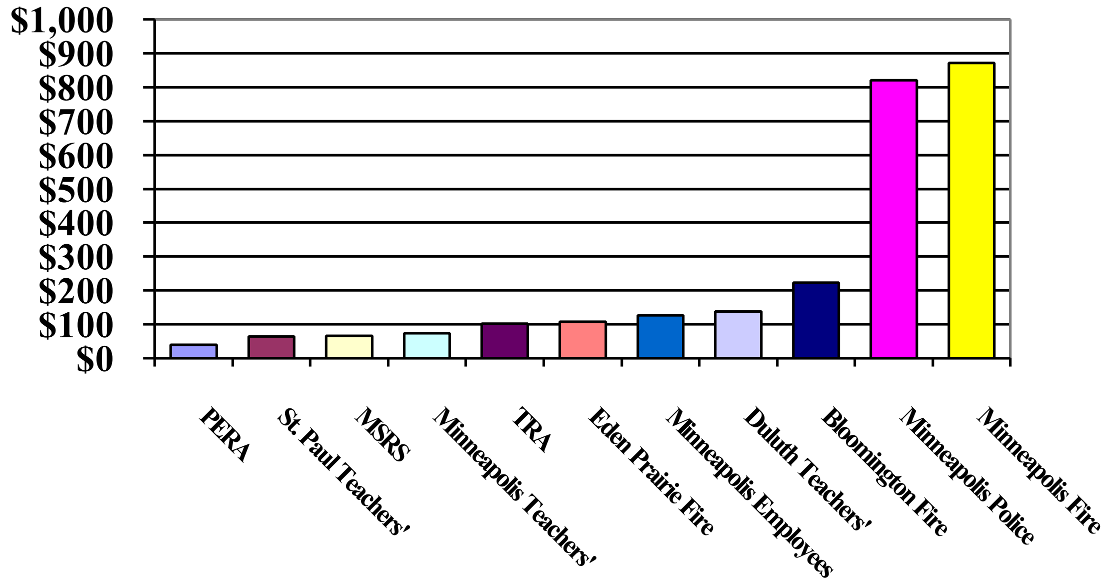
The largest plans have the opportunity to be the most efficient, since their costs are spread out over more members and assets. For example, a $1,000 computer would cost each Eden Prairie Fire member approximately $7, whereas the PERA member would be charged less than a penny. In absolute dollars PERA and TRA have by far the highest expenses, but they are also the largest plans with the most members, so they spend the least amount on administrative expenses per member.

With the exception of the Minneapolis Police and Minneapolis Fire funds, all plans are spending similar amounts when looked at as a percentage of assets and per member. The low end when measured as a percentage of assets is 0.06 percent for both Bloomington Fire and St. Paul Teachers'. When measured on a per member basis, PERA has the lowest expenses at $40 per member.

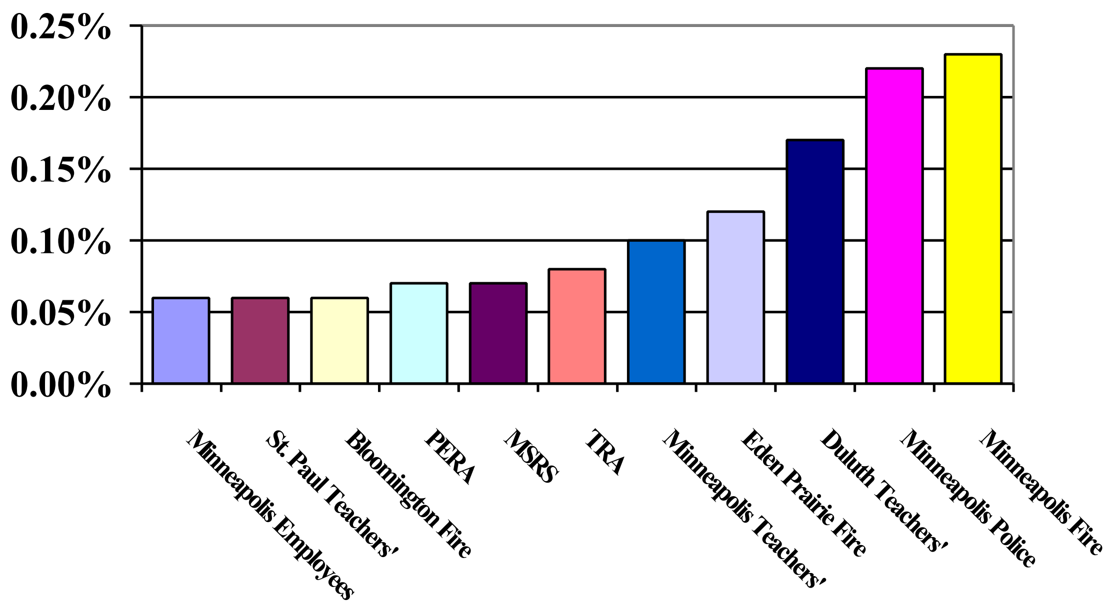
No matter what type of comparison one uses, the Minneapolis Police and Fire funds are considerably outside the norm for administrative expenses. The Minneapolis Fire plan had the highest administrative costs as measured by its per member and its percentage of assets costs. Minneapolis Fire spent $871 per member, or 0.23 percent of its assets on administrative expenses. The Minneapolis Police plan spent $820 per member, or 0.22 percent of its assets on administrative costs. The members of these pension funds would be much better served if the administrative expenses were significantly lowered.

The charts on the next page show the expenses for each of the largest public pension funds on a per member basis and as a percent of assets.

Administrative Expenses Per Member - 2004



Administrative Expenses as a Percent of Assets - 2004



Minneapolis Police and Minneapolis Fire – Excessively High Administrative Expenses

In 2004, Minneapolis Police and Minneapolis Fire had excessively high administrative expenses per member, much more than the other plans. In fact, these expenses have historically been excessively high. The members of these plans should look at the services they receive and consider if they are benefiting from the extra expense.

One example of excessive expenses is in the area of legal fees. In 2004, Minneapolis Fire spent a total of $127,700 on legal fees and Minneapolis Police spent $302,184 on legal fees. To put this in perspective, MERF spent $9,321 and Duluth Teachers' spent $10,146 on legal fees. Money that is spent on these activities lowers the funded ratio of the pension plans and lowers the level of resources available for investment.

Duluth's expenses as a percent of assets are high, but spending per member is similar to the other plans. Another consideration is that Minneapolis Police and Minneapolis Fire do not report having any terminated, non-vested members. Some of the other large plans have a high number of members who ended their employment without being vested in the pension plan. They still may be owed their personal contributions. There is some administrative cost associated with these members, and if they were included in the calculation, these plans' expenses per member would be even lower.

From 1997 to 2004 most of the large plans' expenses were similar as a percent of assets and per member. An increase in the absolute amount of expenses would be expected because of inflation and also increasing membership and assets for the open funds. TRA expenses tripled from 1997 to 2004, doubling the cost per member and as a percent of assets. Expenses in 2004 were still among the lower of the funds.

Funding Ratio Analysis

Funding ratios measure how well funded a pension plan is by showing the relationship between the plan's assets and liabilities. Funding ratios are an important indicator as to whether additional contributions to the plan may be needed or a benefit increase can be afforded.

The plans run the gamut from overfunded to significantly underfunded. Despite poor investment returns, Bloomington Fire is the healthiest of the funds showing a funded ratio of 115 percent. In contrast, the Minneapolis Teachers' fund is in the worst shape, having less than 51 cents in assets for every dollar it owes.

The table at the top of the next page shows the trend in funding ratios for the large pension funds and other public pension fund benchmarks.

Large Public Pension Plan Funding Levels 1997-2004

Pension Plan	1997	1998	1999	2000	2001	2002	2003	2004
Bloomington Fire (12/31)	148.1%	152.5%	164.8%	144.1%	123.6%	96.4%	110.2%	115.1%
Duluth Teachers' (6/30)	86.0%	95.1%	99.2%	103.8%	107.6%	100.4%	95.7%	91.8%
Eden Prairie Fire (12/31)	107.0%	96.0%	106.0%	104.0%	96.0%	74.0%	94.0%	101.9%
MERF (6/30)	84.2%	89.4%	92.6%	93.4%	93.3%	92.4%	92.3%	92.1%
Minneapolis Fire (12/31)	89.5%	105.4%	109.2%	107.5%	103.9%	87.2%	80.6%	90.2%
Minneapolis Police (12/31)	91.0%	93.4%	95.4%	87.5%	75.1%	66.8%	64.5%	70.7%
Minneapolis Teachers' (6/30)	57.4%	63.9%	67.4%	66.5%	66.0%	61.9%	56.9%	50.8%
St. Paul Teachers' (6/30)	69.1%	72.6%	75.0%	80.3%	81.9%	78.8%	75.6%	71.8%
PERF (6/30) [1]	82.7%	87.1%	89.9%	86.3%	87.0%	85.0%	81.3%	76.7%
TRA (6/30)	101.3%	105.7%	105.7%	105.2%	105.9%	105.3%	103.1%	100.0%
MSRS State Emp. (6/30)	103.2%	107.7%	109.2%	110.5%	112.1%	104.5%	99.1%	100.0%

[1] There are four funds managed by PERA, each with its own funding level. For the purposes of this comparison of funding ratios we have used the Public Employees Retirment Fund (PERF), the largest fund managed by PERA.

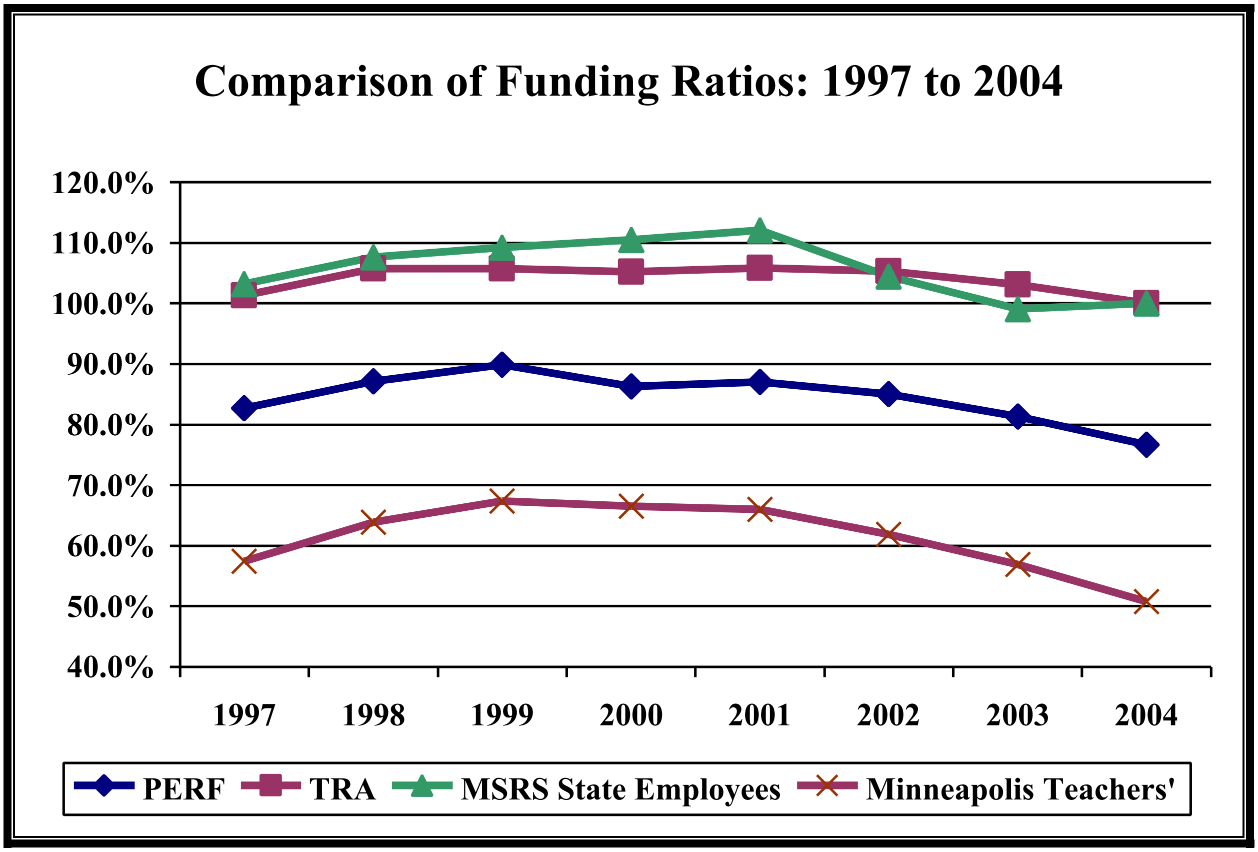
Minneapolis Teachers' Retirement Fund Association

A few reasons have already been given for Minneapolis Teachers' funding problems, including inadequate funding, poor investment returns, and post retirement increases. Funding needed to be increased years ago, but it wasn't. Further compounding the problem, recent investment returns have not matched those of the other large plans or market returns.

Even when the plan posts large investment gains, state statutes require that earnings in excess of 8.5 percent be directed to retirees in the form of post retirement benefit increases. This keeps the fund from building up its assets and also creates larger future liabilities. If the fund hopes to improve its financial condition, this governing statute must be changed.

Currently, the plan is only 51 percent funded. In addition, the funding ratio has been decreasing rather than increasing. Minneapolis Teachers' continues to take on new members and yet there is no long-term solution to its funding woes. The fund is not guaranteed by the state or other public entities and thus, should the fund fail, current and retired teachers could face a severely limited pension or none at all. Finding a solution to bring the Minneapolis Teachers' Retirement Fund Association into long-term solvency needs to be a top priority for policy makers at the local and state level.

The chart on the top of the next page shows the funding ratio trend for Minneapolis Teachers' compared to other public pension plans.



Minneapolis Police Relief Association

The Minneapolis Police Relief Association is another large plan in poor financial condition. Although its funding ratio of 70.7 percent is considerably higher than the Minneapolis Teachers' Retirement Fund Association, it may be in as poor a financial condition because it is a closed fund. Because it is a closed fund, there is a dwindling number of active employees contributing to the fund. This leaves the city to finance the gap between assets and liabilities. Another factor working against the fund is the relatively short time frame it has to become fully funded. This factor may be somewhat mitigated due to the passage of a law during the 2005 Special Legislative Session that moved the date at which it must be fully funded from 2010 to 2020. This will allow the city to amortize the costs over a longer period.

Between 2002 and 2004, the city of Minneapolis made large contributions totaling $53.5 million to shore up the fund. This has made a minor improvement in the plan's financial condition. However, if the fund does not improve its investment performance and lower its administrative costs, it will continue to experience funding difficulties. While contributions from the city have strengthened the fund, strong investment performance will be necessary for the fund to correct its financial woes. Just as poor investment performance and high administrative costs lowered the Association's funding ratio from 95 percent in 1999 to just 71 percent in 2004, strong earnings can help bring it back to previous levels.

St. Paul Teachers' Retirement Fund Association

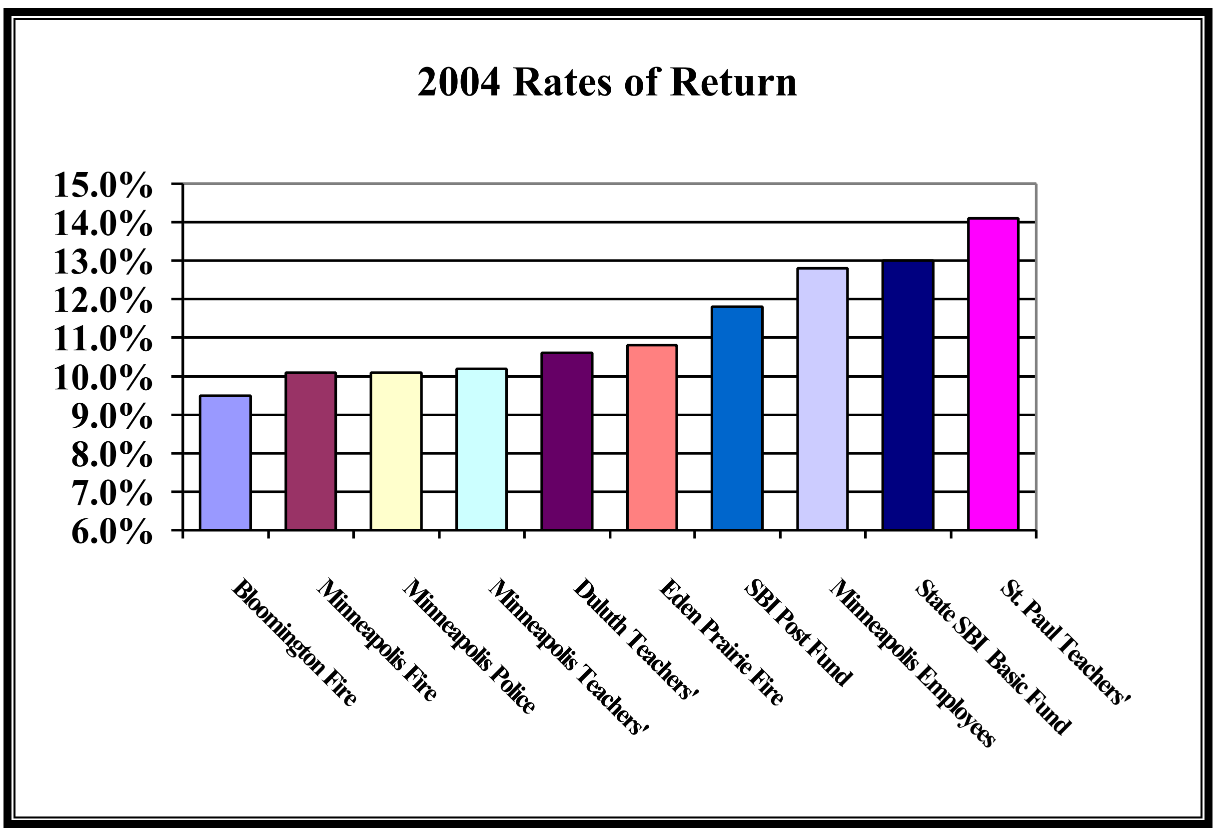
This is another fund that has been traditionally underfunded and has had its funded ratio decrease from 82 percent in 2001 to 72 percent in 2004. Interestingly, St. Paul Teachers' has had one of the highest annualized returns of the large public pension funds over the last 8 years and yet had a decreasing funding ratio. This apparent dichotomy is in part the result of a provision similar to that of the Minneapolis and Duluth Teachers' plans that directs five-year annualized earnings above 8.5 percent to retiree benefit increases rather than back into the fund. This provision increases the plan's liability while it also depletes assets.

Other Funds

Despite the fact that Minneapolis Fire met its actuarially assumed rate of return of 6.0 percent over the past eight years, the funding ratio level dropped from 109 percent in 1999 to 90 percent in 2004. The other large pension plans except the Public Employees Retirement Fund have funding ratios in excess of 90 percent.

2004 Investment Performance

The large public pension funds all performed above their statutory assumed rates of return in 2004. The gains were not as large as those in 2003, but well above the actuarial assumptions. The strong returns helped increase funding ratios for some of the funds. The table below shows the rates of return for 2004.



Bloomington Fire Relief Association

The Bloomington Fire Relief Association returned 9.5 percent in 2004. Although this was the lowest return of all the large plans, Bloomington did keep up with market returns. Their benchmark return of 8.6 percent is not exactly representative of what their portfolio holds, since about half of their assets are indexed to the Russell 3000 at the SBI. This includes small company stocks that are not included in Bloomington's benchmark. Historically, small company stocks have had higher returns than large company stocks.

A majority of assets are held in the SBI Income Share account. Its target allocation is 60 percent domestic equity indexed to the Russell 3000, 35 percent fixed income, and 5 percent cash. This fund performed well in 2004 with bonds adding value for a total return of 9.2 percent. The cash portion of the account may make it difficult for Bloomington to keep its cash holdings in line with their policy allocation of three percent. In the past Bloomington has held more cash than the other large plans. If Bloomington wished to reduce cash holdings they could invest in the SBI Common Stock and Bond Market accounts instead of the Income Share Account and still maintain liquidity.

The small allocation to the SBI Common Stock account performed as expected. Bloomington's other manager, WCM, returned 7.3 percent in a balanced account. We do not have information on the market segments WCM invested in, but their performance was poor compared to the overall market.

Bloomington manages $15 million in-house. It is allocated mostly to equity mutual funds, with a small allocation to bonds and $2.5 million in a money market account. The total return was 11.6 percent. The performance of the mutual funds held was mixed but the overall performance was good. They were invested in some of the higher returning market sectors, such as small and mid-capitalization value stocks.

Duluth Teachers' Retirement Fund Association

Duluth Teachers' missed its benchmark return of 11.3 percent in 2004, returning 10.6 percent. The fund's domestic equities returned less than its benchmarks but its bond portfolio performed better than its benchmark.

The total domestic equity return was 10.4 percent, below the S&P 500 (10.9 percent) and Russell 3000 (11.9 percent). If they had been invested passively, their portfolio could have returned 13.8 percent. Over longer time periods their domestic equities have returned better than the overall market.

A little over half of Duluth Teachers' domestic equity is held in an enhanced S&P 500 index fund, which returned 0.7 percent higher than the S&P 500. Disciplined Growth Investors (DGI) manages a small cap growth fund for Duluth Teachers', and performed terribly compared to small cap and small cap growth indices, returning 3.8 percent. DGI has done well in the long term. Another manager, Wellington, performed poorly compared to its benchmarks, the Russell 2000 and Russell 2500 Value indices. Over the past five years, the market sectors tracked by these indices performed well and have helped Duluth Teachers' returns.

Julius Baer was hired as Duluth Teachers' international equity manager in 2004. Putnam had been fired in 2003 and Wells Fargo was the interim manager while a manager search was conducted. Julius Baer did well during its three months of management. Wells Fargo had been passively invested in the MSCI EAFE I-Shares, which historically have returned just below the index, as expected.

Western Asset manages Duluth Teachers' fixed income portfolio. They did well in 2004, beating the Lehman Aggregate's return of 4.3 percent with a return of 6.2 percent. Western has been successful in the long term as well.

Duluth Teachers' real estate consists of two retirement homes and two office buildings. Duluth Teachers' is housed in one of the office buildings. Duluth Teachers' receives principal and interest payments on the retirement homes and rental income on the office buildings. The owners of one of the retirement homes paid off their mortgage with Duluth Teachers' in 2004, and the plan reported a large return because of this payoff. Duluth Teachers' return on its real estate for 2004 was 22 percent.

Eden Prairie Fire Relief Association

Eden Prairie Fire Relief Association returned 10.8 percent in 2004, significantly below their benchmark return of 13.3 percent. Eden Prairie Fire has the highest allocation to equity of all the large plans, with a policy allocation of 61 percent to domestic and 18 percent to international equities. The significant asset allocation to equities and the strong returns posted by the market sectors in which the fund was invested resulted in a relatively high benchmark.

Eden Prairie Fire has four domestic equity managers, each actively investing in different market sectors. Unfortunately none of the four were close to matching market returns. Passively invested, Eden Prairie Fire could have returned almost 15 percent. Eden Prairie Fire's domestic equities return was 10.9 percent.

Three of these managers started in December 1999 and one in February 2002. Since their inceptions only small cap manager Awad & Associates exceeded its benchmark. Eden Prairie Fire's use of active stock managers has hurt their returns. The sectors they invested in have returned slightly higher than the overall market.

Eden Prairie Fire's fixed income portfolio was transferred from Voyageur to Madison during 2004. Results were disappointing, with a return of 1.9 percent compared to the benchmark LBIGC return of 3.0 percent. Since December 1999, Eden Prairie Fire's fixed income has returned right around its benchmark.

Invesco manages Eden Prairie Fire's international equity portfolio. It slightly underperformed the MSCI EAFE, but since inception in December 1999 it has exceeded the benchmark by 1 percent.

Eden Prairie was in the middle of the large plans for 2004 returns. If passive management would have been used, they could have been near the top. Active equity managers did not take advantage of the returns available in the respective sectors they invest in.

Minneapolis Employees Retirement Fund

Minneapolis Employees Retirement Fund's 2004 return on what it considers its investable assets was 12.8 percent. MERF also separately held $61 million in what they call the Deposit Accumulation Fund (DAF), which is a short-term bond fund. Including the DAF in MERF's total fund performance drops the return to 12.2 percent. The DAF holds the remaining active members assets, and is invested conservatively to protect the employers from having to make larger contributions because of a decline in assets. The DAF is expected to be completely transferred to the retired fund by June 2006.

MERF fell short of its 13.3 percent benchmark return in 2004. This was mostly due to poor performance by two international equity managers and a global equity manager. The international equity managers were terminated during 2004, while Capital Guardian came on board as a global equity manager during 2004. The global equity fund, which holds both domestic and international stock, will hopefully improve its performance over longer time periods

Fixed income performed well in 2004. The total return was 7.8 percent, compared to the benchmark of 7.1 percent. Performance was above the Lehman Aggregate return of 4.3 percent mainly because of MERF's investments in inflation-protected securities that had higher returns in 2004. PIMCO and Western both outperformed, with small allocations to higher returning foreign bonds aiding returns. Deutsche performed strongly, beating its benchmark Lehman Aggregate by 1 percent.

Domestic equity returned 12.5 percent, above the Russell 3000 return of 11.9 percent. More than half of the portfolio is invested in a Russell 3000 index fund. This fund is managed by State Street, and performed as expected in 2004. Around a quarter of the portfolio is invested in an enhanced S&P 500 index fund. The rest of MERF's domestic equity is invested with Private Capital. Private Capital actively invests in mid and small cap stocks. They take large ownership positions in fewer companies. Private Capital exceeded the Russell 2500 by 0.6 percent while MERF was invested with them.

MERF terminated international equity managers Wellington and Bank of Ireland during 2004. Both failed to meet expectations during their tenures. At the end of 2004 all of MERF's international equity was invested in the State Street International Equity Index Fund. The total return on MERF's international equity, including the terminated managers, was 18.3 percent, below the MSCI ACW ex. US index return of 20.9 percent.

MERF allocates 5 percent of assets to a REIT portfolio managed by Adelante Capital. The return of 35.4 percent was very high compared to equity and fixed income returns, and relative to the Wilshire REIT index return of 33.2 percent, its performance was excellent as well.

Minneapolis Fire Relief Association

The Minneapolis Fire Relief Association returned 10.1 percent in 2004. This return beat their benchmark of 8.9 percent. This benchmark measures Minneapolis Fire against the general market as measured by the S&P 500 and Lehman Brothers Aggregate Bond Index. Minneapolis Fire does invest in small stocks and other market sectors, so the expected return on their equities does not match up with the S&P 500, which only includes large stocks. Minneapolis Fire's investment policy is not as sophisticated as other large plans. It includes a range for domestic equities and bonds, but not a target.

Minneapolis Fire's investments in small cap and large cap value stocks returned higher than the S&P 500, contributing to the total return above the benchmark.

Of Minneapolis Fire's bond managers, only the SBI was able to beat the Lehman Aggregate Index return of 4.3 percent. The SBI and American Express manage bonds exclusively, while Alliance, Voyageur, US Bancorp and Alliance Bernstein all manage funds that hold bonds and equity. All of these managers bond portfolios (besides the SBI) returned lower than the Lehman Aggregate, with Voyageur the lowest at 3.6 percent. As a whole, Minneapolis Fire's bond portfolio would have been better off indexed, as its 4.1 percent return did not match the index.

Minneapolis Fire has four managers that exclusively manage equity. The SBI and White Pine equaled their benchmarks. Marque Millennium slightly under performed the Russell 1000 value. Kayne Anderson Rudnick was a bright spot, returning 22.4 percent, exceeding its benchmark of 18.3 percent. Two bond and equity managers, Alliance and Voyaguer, were very close to their benchmarks, while US Bancorp's return of 14.0 percent was 2.5 percent below its benchmark of 16.5 percent. Alliance Bernstein performed exceptionally with a 21.1 percent return compared to the benchmark 10.9 percent. Equity managers did add some value through active management.

Minneapolis Fire is not invested in international equity. With returns around 20 percent in 2004 and 39 percent in 2003, an allocation to international equity would have been beneficial.

Minneapolis Police Relief Association

Minneapolis Police Relief Association reported a return of 9.7 percent for 2004, while the State Auditor's Office calculated a return 10.1 percent from the data submitted by the Pension Plan. The return of 10.1 percent was below their benchmark return of 11.0 percent. The underperformance was mostly due to poor relative returns on domestic equity. There was significant turnover in investment managers, as there has been in the past.

Minneapolis Police's domestic equities returned 10.2 percent for the year. This is well below the benchmark Wilshire 5000 which returned 12.5 percent. Alliance and State Street were terminated during the year. State Street had performed well in 2003, while Alliance had done poorly in 2003. Grantham, Mayo, Van Otterloo (GMO) was retained in 2004 for an account that attempts to beat market returns by investing in other GMO funds when it determines that the time is right. Initial results were disappointing as its fourth quarter returns were 7.0 percent compared to the Wilshire 5000 fourth quarter return of 10.2 percent.

At the end of 2004 about 71 percent of domestic equities were indexed, $47 million with the SBI, and $92 million with Wells Fargo. The Wells Fargo S&P 500 Index was opened at the end of September. Indexing was a good decision, since past performance with active managers has been poor. Brandywine and Wasatch manage the remaining domestic equities. Both are actively managed. Brandywine returned above the Russell 2000 Value, adding value for Minneapolis Police. Unfortunately, Wasatch was not as successful. The Wasatch Small Cap Growth Portfolio had a horrible return of only 0.1 percent, compared to the benchmark of 14.3 percent. Wasatch was the source of much of the underperformance in the total domestic equity portfolio for 2004. Past performance for Wasatch has been better; it is ahead of its benchmark since being retained by Minneapolis Police in 2002.

The International Equity return of 19.2 percent trailed the benchmark MSCI ACWI ex US by 1.7 percent. The SBI, which manages two thirds of the Minneapolis Police portfolio, returned 19.7 percent, underperforming by just over 1 percent. Since starting with the SBI in 2000 returns have exceeded the benchmark by just under 1 percent. Putnam, whose tenure was less than one year, was terminated and replaced by Mercator. Mercator trailed the benchmark EAFE during its eleven months of management during 2004.

Total fixed income returns were just below the Lehman Aggregate Index. Galliard managed $43 million at the end of 2004, while the SBI and Alliance each had about $20 million. The SBI and Galliard both added value, while Alliance underperformed. Over longer periods all three have successfully beaten the Lehman Brothers Aggregate Index.

Minneapolis Teachers' Retirement Fund Association

Minneapolis Teachers' Retirement Fund Association returned 10.2 percent, below the benchmark of 10.9 percent. Poor performance in international equities and alternative assets caused them to miss their benchmark return.

Minneapolis Teachers' domestic equity managers performed as expected in 2004. The one star performer was Alliance. Their large cap growth portfolio returned 9.2 percent exceeding its benchmark return of 6.3 percent. This sector was one of the poorer performing in the market during 2004. Small cap managers Wasatch and Sterling had higher absolute returns, but were not spectacular compared to their benchmarks. Minneapolis Teachers' passive equity performed as expected. They have two S&P 500 index funds. The Clifton fund is an enhanced index, which is expected to return 0.5 to 1 percent over the S&P 500. About 65 percent of Minneapolis Teachers' domestic equity or 37 percent of the total portfolio is indexed to the S&P 500.

Minneapolis Teachers' fixed income portfolio returned slightly above the Lehman Brothers Aggregate. During 2004 BlackRock was hired as a fixed income manager. Their tenure has been too short to evaluate performance.

Minneapolis Teachers has one passive international equity manager and two active managers. Mellon, the passive manager, slightly exceeded the MSCI EAFE. Templeton matched the EAFE, while Capital Guardian significantly underperformed, returning 14.3 percent compared to the EAFE's 20.2 percent return. Capital Guardian brought Minneapolis Teachers' total international equity return down to 18.5 percent. Active management hurt returns.

Venture capital returned <u>negative</u> 28.03 percent. Minneapolis Teachers' considers this an equity alternative, and benchmarks it to the Russell 3000. Venture capital is often a very long term investment, with results not known until the investments mature, but 2004 returns did cost the fund around $1.8 million in a portfolio of only $6 million.

St. Paul Teachers' Retirement Fund Association

St. Paul Teachers' Retirement Fund Association returned 14.1 percent in 2004. This beat their benchmark return of 12.7 percent

Domestic equities returned 15.9 percent. This was a strong performance compared to an overall market return of 11.9 percent. Active management added around 1 percent of value to St. Paul Teachers' domestic equity portfolio. Just under half of St. Paul Teachers' domestic equity is indexed in three funds, which all performed as expected. Six managers actively manage the remainder of domestic equity assets. Four managers exceeded their benchmark with Fifth Third Bank's large cap growth fund performing the best relative to its benchmark, and Dimensional Fund Advisors small cap value fund having the highest return. Only Boston Company significantly underperformed.

International equity returned 22.2 percent, slightly above an indexed portfolio. Morgan Stanley returned near its benchmark and Capital International's emerging market fund did not meet its benchmark. An international equity small cap account managed by Capital International was closed during the year.

The return calculated by the State Auditor's Office for St. Paul Teachers' fixed income account was 3.7 percent while the reported return was around 4 percent. A government/credit index fund returned as expected while Voyageur returned below the Lehman Brothers Aggregate.

A real estate account was funded during 2004 at UBS. The return on this account was close to its benchmark for the period it was open.

State Board of Investment

The State Board of Investment Basic Fund (active members) returned 13.0 percent and the Post Fund (retired members) 11.8 percent. The primary difference in returns was the Basic Fund's greater allocation to alternative investments and lower allocation to cash and bonds. Alternative investments were the highest returning asset class for the SBI in 2004. The Basic Fund's benchmark was 12.7 percent and the Post Fund was 11.4 percent. These benchmarks are calculated monthly and then linked for an annual benchmark, which is slightly different than how the other funds' overall benchmarks are calculated.

The SBI's equity portfolio returned 12.2 percent, above the benchmark Russell 3000 return of 11.9 percent. About one-third of the portfolio is indexed to the Russell 3000, one-third actively managed, and one-third semi-passively managed. The semi-passive portion is invested by three managers that each use their own stock valuation models to determine the portfolio makeup. These managers combined to return 0.3 percent over their combined benchmark. The passive portion is invested by Barclays Global Investors, and performed as expected. The active managers returned 0.2 percent over their benchmark. Over the past few years the results of active management have been mixed.

SBI's fixed income portfolio performed well in 2004, returning .7 percent over the Lehman Aggregate return of 4.3 percent. Seven of eight fixed income managers generated returns greater than their benchmarks. In the longer term SBI's fixed income portfolio has performed well.

SBI's international equity portfolio achieved a return of 20 percent compared to its MSCI ACWI ex US benchmark return of 20.9 percent. Around 60 percent of the portfolio was actively managed in 2004. The passively managed portion performed as expected while active management hurt returns. Three of nine managers beat their target while some of the others significantly underperformed. The worst performer was T. Rowe Price which returned only 11.6 percent compared to the benchmark of 20.4 percent. In the longer term SBI's international equity portfolio has performed well, with active management adding value. Hopefully, 2004 was an anomaly.

SBI has allocated a significant portion of assets to alternative investments. At the end of 2004, the Basic and Post Funds had 9.4 and 7.6 percent of assets in alternative investments, respectively. These investments include real estate, private equity, resources and yield-oriented investments. These investments have done well over all time periods going back 10 years, with the 2004 return being 22.7 percent. The SBI has not defined a benchmark for their alternative assets, but some would consider them an alternative to equity investments, therefore comparing them to returns available in equity markets. They have outperformed equity markets over the last 10 years. The SBI does have real expectations of a return of inflation plus a set percentage. Each category of alternative investments has exceeded its goal.

Conclusion and Recommendations

The large public pension funds examined in this report held assets totaling almost $44 billion at the end of 2004. This is nearly equivalent to the biennial budget of the state. Ensuring that these assets are properly managed is important to public employees both current and retired, and state and local officials. One aspect of the oversight role of the State Auditor regarding public pensions is to alert stakeholders to concerns regarding the management, policies, and investment strategies of these funds.

Our examination of these eight large public pension funds shows that there is considerable variance in terms of investment performance, funding ratios, and administrative costs. It is clear that political infighting and questionable investment strategies have contributed to the on-going funding problems of some of these pension funds. Funds that fail to generate adequate rates of returns put taxpayers, retirees, and public employees at risk. Policymakers need to address funding concerns now – waiting will only compound the problems.

Based on our analysis of these funds, the State Auditor makes the following recommendations:

- The present investment-based component of post-retirement benefit adjustments for the Duluth, Minneapolis, and St. Paul Teachers' Retirement Funds are hampering efforts to move these funds toward full funding. Currently, when funds achieve five-year annualized returns greater than 8.5 percent, the excess is used to provide retirees with a pension increase over the rate of inflation. These policies increase the long-term liabilities of the funds while decreasing current assets. We recommend that the Legislature amend the governing statutes of these funds so that the post-retirement benefit adjustments are in accordance with those of the Minnesota Teachers' Retirement Fund Association. The primary change would be to require that investment losses from prior periods be recovered before the investment-based portion of the increase could be triggered.

- The Legislature should adopt the SBI proposal made last legislative session that benefit increases based on investment returns be limited to a five percent increase per annum. This limitation on annual benefit increases should apply to all public pension plans including, PERA, TRA, MSRS, Minneapolis Fire, Minneapolis Police, Minneapolis

Teachers', Duluth Teachers', and St. Paul Teachers'. This recommendation would help reduce the adverse effects on funding ratios caused by large investment-based benefit increases.

- The Minneapolis Teachers' Retirement Fund Association is only 51 percent funded. Without prompt intervention to put this fund on the right track, it is at serious risk of failing. This has grave implications for all stakeholders in the fund. We recommend that the Legislature decide on a funding solution for the plan during the 2006 Legislative Session. Delaying a response will only increase the long-term costs.

- The State Board of Investment offers investment opportunities at a low cost. We recommend that plans that have high investment fees or have failed to meet their benchmarks consider using SBI to invest their assets.

- When measured on a per member or percentage of assets basis, the administrative expenses of the Minneapolis Police and Fire Associations are too high. We recommend that a number of options are considered including:

  1. Moving assets to the State Board of Investment.

  2. Consolidating the boards and/or management of the funds with MERF or PERA.

  3. Contracting with lower cost investment managers.

  4. Capping administrative expenses by enacting legislative language similar to Minn. Stat. § 354A.12, subd. 3d, that regulates the supplemental administrative expenses of local teacher plans.

2004 Plan Summaries

Data Tables

Bloomington Fire Department Relief Association

Year Ending December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	9.5 %
Plan One-Year ROR	9.5 %
Benchmark ROR	8.6 %
Actuarial Assumed ROR - Active	5.0 %
Actuarial Assumed ROR - Retired	5.0 %
OSA Three-Year ROR	3.8 %
OSA Five-Year ROR	(0.2)%

Benchmark Components and Rates of Return	
S&P 500	10.9 %
Lehman Bros. Aggregate	4.3 %

Policy Asset Allocation	
Domestic Equities	65.0 %
Fixed Income	35.0 %

Actual Asset Allocation	
Domestic Equities	66.4 %
Fixed Income	28.8 %
Cash	4.8 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 1,625	$ -	$ 195	$ 1,820	12.0 %
Cash	Cash	7	2	0	9	0.0 %
Internally Managed	Balanced	14,212	(256)	1,517	15,473	11.6 %
SBI Income Share	Balanced	70,635	0	6,498	77,133	9.2 %
WCM Investment Management	Balanced	5,662	997	494	7,153	7.3 %
	Total	**$ 92,141**	**$ 743**	**$ 8,704**	**$ 101,588**	

Duluth Teachers' Retirement Fund Association

Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)	
OSA One-Year ROR	10.6 %
Plan One-Year ROR	10.6 %
Benchmark ROR	11.3 %
Actuarial Assumed ROR - Active	8.5 %
Actuarial Assumed ROR - Retired	8.5 %
OSA Three-Year ROR	7.4 %
OSA Five-Year ROR	3.1 %

Benchmark Components and Rates of Return	
S&P 500	10.9 %
Russell 2500 Value	21.6 %
Russell 2000	18.3 %
Lehman Bros. Aggregate	4.3 %
MSCI ACWI	15.2 %
90-Day U.S. Treasury Bill	1.3 %
NCREIF	14.5 %

Policy Asset Allocation	
Equities: Large Cap	30.0 %
Equities: Small/Mid Cap Value	10.0 %
Equities: Small Cap Growth	13.0 %
Fixed Income	30.0 %
International Equities	12.0 %
Cash	3.0 %
Real Estate	2.0 %

Actual Asset Allocation	
Equities: Large Cap	30.7 %
Equities: Small/Mid Cap Value	11.7 %
Equities: Small Cap Growth	14.0 %
Fixed Income	28.2 %
International Equities	12.8 %
Cash	1.7 %
Real Estate	0.9 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 145,464	$ (7,789)	14,647	$ 152,322	10.4 %
Fixed Income	Fixed Income	70,461	1,229	4,563	76,253	6.2 %
International Equities	International Equities	32,438	(4,000)	6,046	34,484	20.2 %
Cash	Cash	4,028	594	37	4,659	0.8 %
Real Estate	Real Estate	4,162	(2,406)	617	2,373	22.0 %
	Total	**$ 256,553**	**$ (12,372)**	**$ 25,910**	**$ 270,091**	

Eden Prairie Fire Relief Association

Year Ending December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)	
OSA One-Year ROR	10.8 %
Plan One-Year ROR	10.6 %
Benchmark ROR	13.3 %
Actuarial Assumed ROR - Active	5.0 %
Actuarial Assumed ROR - Retired	5.0 %
OSA Three-Year ROR	7.2 %
OSA Five-Year ROR	3.6 %

Benchmark Components and Rates of Return	
90-Day U.S. Treasury Bill	1.3 %
LBIGC	3.0 %
MSCI EAFE	20.2 %
Russell 1000 Growth	6.3 %
Russell 1000 Value	16.5 %
Russell Midcap	20.2 %
Russell 2000	18.3 %

Policy Asset Allocation		
Cash		1.0 %
Fixed Income		20.0 %
International Equities		18.0 %
Domestic Equities		61.0 %
Large Cap Growth	15.0 %	
Large Cap Value	22.0 %	
Mid Cap	7.0 %	
Small Cap	17.0 %	

Actual Asset Allocation	
Cash	0.4 %
Fixed Income	17.1 %
International Equities	19.6 %
Domestic Equities	62.9 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Cash	Cash	26	20	1	47	1.4 %
Fixed Income	Fixed Income	1,903	265	35	2,203	1.9 %
Domestic Equities	Domestic Equities	7,224	83	793	8,100	10.9 %
International Equities	International Equities	2,156	(45)	414	2,525	19.2 %
	Total	**$ 11,309**	**$ 324**	**$ 1,243**	**$ 12,876**	

Minneapolis Employees Retirement Fund

Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)	
OSA One-Year ROR	12.8 %
Plan One-Year ROR	12.8 %
Benchmark ROR	13.3 %
Actuarial Assumed ROR - Active	6.0 %
Actuarial Assumed ROR - Retired	5.0 %
OSA Three-Year ROR	7.7 %
OSA Five-Year ROR	3.0 %

Benchmark Components and Rates of Return	
Russell 3000	11.9 %
Custom Fixed Income [1]	7.1 %
MSCI ACWI Ex. U.S.	20.9 %
Wilshire REIT	33.2 %

Policy Asset Allocation	
Domestic Equities	40.0 %
Fixed Income	30.0 %
International Equities	15.0 %
Global Equities	10.0 %
Real Estate	5.0 %
Cash	0.0 %

Actual Asset Allocation	
Domestic Equities	40.4 %
Fixed Income	26.8 %
International Equities	16.0 %
Global Equities	10.1 %
Real Estate	5.5 %
Cash	1.2 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 541,083	$ (88,546)	$ 58,553	$ 511,090	12.5 %
Fixed Income	Fixed Income	314,136	562	$ 24,458	339,156	7.8 %
International Equities	International Equities	252,188	(84,121)	$ 34,806	202,873	18.3 %
Global Equities	Global Equities	0	120,379	$ 7,654	128,033	7.9 %
Real Estate	Real Estate	59,706	(10,649)	$ 20,086	69,143	35.4 %
Cash	Cash	18,618	(3,154)	$ 130	15,594	1.5 %
Deposit Accumulation Fund [2]	Low Duration Fixed Income	91,619	(32,731)	$ 1,755	60,643	2.4 %
	Total	**$ 1,277,350**	**$ (98,260)**	**$ 147,442**	**$ 1,326,532**	

[1] The Custom Fixed Income benchmark is weighted 66.7% Lehman Brothers TIPS Index and 33.3% Lehman Brothers Aggregate Index.

[2] The Deposit Accumulation Fund holds the remaining active member dollars in a short term bond fund. MERF does not consider this account part of their asset allocation, therefore it is not included in the total rate of return or asset allocation. Including this account would decrease MERF's 2004 total fund return to 12.2%.

Minneapolis Firefighters' Relief Association

For the Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	10.1 %
Plan One-Year ROR	10.2 %
Benchmark ROR	8.9%[1]
Actuarial Assumed ROR - Active	6.0 %
Actuarial Assumed ROR - Retired	6.0 %
OSA Three-Year ROR	5.9 %
OSA Five-Year ROR	2.3 %

Benchmark Components and Rates of Return	
S&P 500	10.9 %
Lehman Bros. Aggregate	4.3 %

Policy Asset Allocation	
Domestic Equities	40-70%
Domestic Bonds	20-40%
Real Estate and Other	0-5%

Actual Asset Allocation	
Domestic Equities	72.4 %
Bonds	24.9 %
Real Estate and Other	2.7 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 78,835	$ 11,715	13,418	$ 103,968	15.4 %
Bonds	Bonds	47,208	(17,281)	1,771	31,698	4.9 %
Cash	Cash	1,220	(438)	8	790	1.2 %
Misc. Real Estate	Misc. Real Estate	2	1,593	5	1,600	2.0 %
Alliance Bernstein	Balanced	10,937	4,971	2,005	17,913	13.9 %
Alliance Capital Management	Balanced	75,304	(13,044)	3,598	65,858	5.3 %
SBI Income Share - Health Escrow	Balanced	2,430	(400)	190	2,220	9.2 %
US Bancorp Asset Management	Balanced	26,499	(6,515)	2,251	22,235	10.4 %
Voyageur Asset Management	Balanced	10,504	(11)	858	11,351	8.2 %
	Total	**$ 252,939**	**$ (19,410)**	**$ 24,104**	**$ 257,633**	

[1] 69.6% allocated to S&P 500 and 30.4% to Lehman Bros. Aggregate

Minneapolis Police Relief Association

Year Ending December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	10.1 %
Plan One-Year ROR	9.7 %
Benchmark ROR	11.0 %
Actuarial Assumed ROR - Active	6.0 %
Actuarial Assumed ROR - Retired	6.0 %
OSA Three-Year ROR	6.6 %
OSA Five-Year ROR	2.6 %

Benchmark Components and Rates of Return

Wilshire 5000	12.5 %
Lehman Bros. Aggregate	4.3 %
MSCI ACWI ex. U.S.	20.9 %

Policy Asset Allocation

Domestic Equities	55.0 %
Fixed Income	32.0 %
International Equities	13.0 %
Other	0.0 %

Actual Asset Allocation

Domestic Equities		55.7 %
Fixed Income		29.7 %
International Equities		13.6 %
Other		1.0 %
Cash	0.8 %	
Venture Capital	0.2 %	

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 177,984	$ (2,338)	$ 20,094	$ 195,740	11.4 %
Fixed Income	Fixed Income	98,063	2,320	4,105	104,488	4.2 %
International Equities	International Equities	43,157	(3,400)	7,967	47,724	19.8 %
Cash	Cash	3,190	(3,100)	18	108	2.4 %
Venture Capital	Venture Capital	1,045	(48)	(219)	778	(22.0)%
Healthcare Defined Contribution	Cash	3,181	(387)	85	2,879	3.0 %
	Total	**$ 326,620**	**$ (6,953)**	**$ 32,050**	**$ 351,717**	

Minneapolis Teachers' Retirement Fund Association

For the Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	10.2 %
Plan One-Year ROR	10.2 %
Benchmark ROR	10.9 %
Actuarial Assumed ROR - Active	8.5 %
Actuarial Assumed ROR - Retired	8.5 %
OSA Three-Year ROR	4.3 %
OSA Five-Year ROR	(0.3)%

Benchmark Components and Rates of Return	
Dom. Equities Custom [1]	11.6 %
Lehman Bros. Aggregate	4.3 %
MSCI EAFE	20.2 %
90-Day U.S. Treasury Bill	1.3 %
Russell 3000	11.9 %

Policy Asset Allocation	
Domestic Equities	57.0 %
Fixed Income	25.0 %
International Equities	15.0 %
Cash	2.0 %
Alternative Investments	1.0 %

Actual Asset Allocation	
Domestic Equities	57.9 %
Fixed Income	23.0 %
International Equities	16.8 %
Cash	1.6 %
Alternative Investments	0.7 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 430,086	$ (23,006)	48,034	$ 455,114	11.8 %
Fixed Income	Fixed Income	183,854	(10,000)	6,607	180,461	4.3 %
International Equities	International Equities	139,115	(28,002)	21,125	132,238	18.4 %
Cash	Cash	17,019	(4,508)	56	12,567	(0.5)%
Alternative Investments	Venture Capital	6,416	1,100	(1,836)	5,680	(28.0)%
	Total	**$ 776,490**	**$ (64,416)**	**$ 73,986**	**$ 786,060**	

[1] The Domestic Equities Custom benchmark is weighted 76.7% S&P 500, 8.9% Russell 1000 Growth, 7.4% Russell 2000 Value and 7.0% Russell 2000 Growth.

St. Paul Teachers' Retirement Fund Association

For the Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	14.1 %
Plan One-Year ROR	14.1 %
Benchmark ROR	12.7 %
Actuarial Assumed ROR - Active	8.5 %
Actuarial Assumed ROR - Retired	8.5 %
OSA Three-Year ROR	9.1 %
OSA Five-Year ROR	5.0 %

Benchmark Components and Rates of Return	
S&P 500	10.9 %
Russell 2000	18.3 %
Lehman Bros. Govt/Corp	4.2 %
NCREIF Property Index	14.5 %
MSCI EAFE	20.2 %
MSCI Emerging Markets	25.6 %
Alternative Assets	(4.9)%
90-Day U.S. Treasury Bill	1.3 %

Policy Asset Allocation	
Equities: Large Cap	36.0 %
Equities: Small Cap	9.0 %
Fixed Income: Domestic	19.0 %
Real Estate	8.0 %
Int'l Equities: Large Cap	21.0 %
Int'l Equities: Small Cap	4.0 %
Alternative Assets	2.0 %
Cash	1.0 %

Actual Asset Allocation	
Domestic Equities	51.8 %
Domestic Fixed Income	18.4 %
Real Estate	6.1 %
International Equities	22.6 %
Alternative Assets	0.4 %
Cash	0.7 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 440,877	$ (25,214)	$ 67,051	$ 482,714	15.9 %
Domestic Fixed Income	Domestic Fixed Income	226,997	(63,915)	8,166	171,248	3.7 %
International Equities	International Equities	174,179	(1,467)	38,534	211,246	22.2 %
Real Estate	Real Estate	0	55,000	2,292	57,292	4.2 %
Alternative Investments	Alternative	1,724	2,034	(176)	3,582	(4.9)%
Cash[1]	Cash	7,298	(815)	(103)	6,380	0.9 %
	Total	**$ 851,075**	**$ (34,377)**	**$ 115,764**	**$ 932,462**	

[1] St. Paul Teachers' Retirement Fund Association restated its cash balance as of 1/1/04. As a result, cash increased by $13,000 as of 1/1/04.

State Board of Investment Basic Fund

For the Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)

OSA One-Year ROR	13.0 %
Plan One-Year ROR	13.0 %
Benchmark ROR	12.7 %
Actuarial Assumed ROR - Active	8.5 %
OSA Three-Year ROR	7.0 %
OSA Five-Year ROR	2.3 %

Benchmark Components and Rates of Return	
Russell 3000	11.9 %
Lehman Bros. Aggregate	4.3 %
MSCI ACWI ex. U.S	20.9 %
Alternative Assets [1]	22.7 %
90-Day U.S. Treasury Bill	1.3 %

Policy Asset Allocation	
Domestic Equities	45.0 %
Bonds	24.0 %
International Equities	15.0 %
Alternative Assets	15.0 %
Cash	1.0 %

Actual Asset Allocation	
Domestic Equities	50.9 %
Bonds	21.8 %
International Equities	16.6 %
Alternative Assets	9.4 %
Cash	1.3 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 8,938,371	$ 255,630	$ 1,085,503	$ 10,279,504	12.1 %
Bonds	Bonds	3,918,362	285,692	197,564	4,401,618	5.0 %
International Equities	International Equities	3,058,894	(271,051)	569,468	3,357,311	19.9 %
Alternatives	Alternative Assets	2,453,819	(1,036,176)	483,436	1,901,079	22.7 %
Cash & Disbursement Account	Cash	65,489	189,462	6,399	261,350	1.6 %
Miscellaneous Expense Account		0	309	(309)	0	0.0 %
	Total	**$ 18,434,935**	**$ (576,134)**	**$ 2,342,061**	**$ 20,200,862**	

[1] Actual rate of return is used as the benchmark for Alternative Assets.

State Board of Investment Post Fund

For the Year Ended December 31, 2004

(Dollars in Thousands)

Rates of Return (ROR)	
OSA One-Year ROR	11.8 %
Plan One-Year ROR	11.8 %
Benchmark ROR	11.4 %
Actuarial Assumed ROR - Retired [1]	8.5 %
OSA Three-Year ROR	6.9 %
OSA Five-Year ROR	2.2 %

Benchmark Components and Rates of Return	
Russell 3000	11.9 %
Lehman Bros. Aggregate	4.3 %
MSCI ACWI ex. U.S.	20.9 %
Alternative Assets [2]	22.7 %
90-Day U.S. Treasury Bill	1.3 %

Policy Asset Allocation	
Domestic Equities	45.0 %
Bonds	25.0 %
International Equities	15.0 %
Alternative Assets	12.0 %
Cash	3.0 %

Actual Asset Allocation	
Domestic Equities	50.2 %
Bonds	22.9 %
International Equities	16.8 %
Alternative Assets	7.6 %
Cash	2.5 %

Asset Class	Investment Type	Beginning Market Value	Net Cash Flow (Net of Fees)	Investment Return	Ending Market Value	Rate of Return
Domestic Equities	Domestic Equities	$ 9,571,891	$ (892,222)	$ 1,100,407	$ 9,780,076	12.2 %
Bonds	Bonds	4,461,685	(220,473)	223,522	4,464,734	5.0 %
International Equities	International Equities	3,028,969	(320,219)	558,170	3,266,920	20.1 %
Alternatives	Alternative Assets	802,402	502,982	170,516	1,475,900	22.7 %
Cash & Disbursement Account	Cash	297,071	185,422	9,311	491,804	1.6 %
Miscellaneous Expense Account		0	1,191	(1,191)	0	0.0 %
	Total	**$ 18,162,018**	**$ (743,319)**	**$ 2,060,735**	**$ 19,479,434**	

[1] The Actuarial Assumed Rate of Return is comprised of a statutory 6.0% plus a guaranteed CPI-based COLA capped at 2.5%.

[2] Actual rate of return is used as the benchmark for Alternative Assets.

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Summary Data Tables

Table 1
Financial and Investment Summary
For the Year Ended December 31, 2004

(Dollars in Thousands)

Public Pension Plans	Assets 1/1/2004	Assets 12/31/2004	OSA ROR	Plan ROR	Statutory Assumed ROR	Benchmark ROR
Bloomington Fire	$ 92,141	$ 101,588	9.5 %	9.5 %	5.0%	8.6 %
Duluth Teachers'	256,553	270,091	10.6 %	10.6 %	8.5%	11.3 %
Eden Prairie Fire	11,309	12,876	10.8 %	10.6 %	5.0%	13.3 %
Minneapolis Employees	1,277,350	1,326,532	12.8 %	12.8 %	5.0% [1]	13.3 %
Minneapolis Fire	252,939	257,633	10.1 %	10.2 %	6.0%	8.9 %
Minneapolis Police	326,620	351,717	10.1 %	9.7 %	6.0%	11.0 %
Minneapolis Teachers'	776,490	786,060	10.2 %	10.2 %	8.5%	10.9 %
St. Paul Teachers'	851,075	932,462	14.1 %	14.1 %	8.5%	12.7 %
State Board of Investment - Basic Fund	18,434,935	20,200,862	13.0 %	13.0 %	8.5%	12.7 %
State Board of Investment - Post Fund	18,162,018	19,479,434	11.8 %	11.8 %	8.5%	11.4 %
Total [2]	**$ 40,441,430**	**$ 43,719,255**	**12.4 %**	**12.4 %**	**N/A**	**12.0 %**

[1] The Minneapolis Employees Retirement Fund has a different statutory assumed rate of return for its active and retired funds that are 6% and 5%, respectively. The lower rate is used.

[2] Total rate of return percentages are calculated using the individual plan rate of return weighted according to 1/1/04 plan assets.

Table 2
Broad Market Index Returns
For the Year Ended December 31, 2004

Domestic Equities	One-Year	Three-Year	Five-Year
Wilshire 5000 Stock Index *- Total U.S. Stock Market Index*	12.6 %	5.5%	(1.4)%
S&P 500 *- Large company U.S. stocks*	10.9 %	3.6 %	(2.3) %
Russell 2000 *- Small company U.S. stocks*	18.3 %	11.5 %	6.6 %
Fixed Income			
Lehman Bros. Aggregate *- All High Quality U.S. bond types*	4.3 %	6.2 %	7.7 %
Lehman Bros. Government/Corporate *- U.S. government and corporate bonds*	4.2 %	6.6 %	8.0 %
Lehman Bros. Corporate Bonds	5.2 %	7.8 %	8.6 %
Lehman Bros. Government Bonds	3.5 %	5.7 %	7.5 %
International Securities			
Morgan Stanley Capital International Index of Europe, Australia and the Far East (EAFE) *- International Stock*	20.2 %	11.9 %	(1.1) %
Salomon Non-U.S. Government Bonds *- International bonds*	12.1 %	17.5 %	8.8 %
Short-Term & Cash			
90-Day U.S. Treasury Bills	1.3 %	1.3 %	2.8 %
General Price Level			
Change in Consumer Price Index (CPI-Urban)	3.3 %	2.5 %	2.5 %

Table 3
8-Year Annualized Rate of Return
For the Year Ended December 31, 2004

Public Pension Plans	**Annualized Rate of Return 1997 - 2004**
Minneapolis Fire	8.9 %
Duluth Teachers'	8.6 %
St. Paul Teachers'	8.6 %
Eden Prairie Fire [1]	8.4 %
Russell 3000 (overall stock market)	**8.1 %**
State Board of Investment - Basic Fund	8.0 %
S&P 500 (Large Stocks)	**8.0 %**
Minneapolis Employees	7.9 %
State Board of Investment - Post Fund	7.7 %
State Board of Investment Income Share	**7.7 %**
Lehman Brothers Aggregate (Bonds)	**7.0 %**
Minneapolis Police	6.0 %
Minneapolis Teachers'	5.9 %
Bloomington Fire	5.5 %

[1] The rate of return for Eden Prairie Fire was calculated using a different methodology than the other plans.

Table 4
Historical Rates of Return

Public Pension Plans	1999	2000	2001	2002	2003	2004
Bloomington Fire	13.2 %	(3.9)%	(7.9)%	(14.4)%	19.4 %	9.5 %
Duluth Teachers'	29.4 %	(1.6)%	(4.3)%	(12.6)%	28.2 %	10.6 %
Eden Prairie Fire [1]	14.0 %	2.8 %	(5.6)%	(13.4)%	28.2 %	10.8 %
Minneapolis Employees	15.5 %	(1.3)%	(6.1)%	(11.4)%	23.8 %	12.8 %
Minneapolis Fire	17.8 %	(2.7)%	(3.3)%	(10.0)%	20.0 %	10.1 %
Minneapolis Police	11.1 %	(2.0)%	(4.1)%	(10.1)%	22.3 %	10.1 %
Minneapolis Teachers'	21.5 %	(6.0)%	(7.7)%	(16.1)%	22.8 %	10.2 %
St. Paul Teachers'	13.6 %	(0.2)%	(1.7)%	(10.1)%	26.7 %	14.1 %
State Board of Investment - Basic Fund	17.1 %	(1.8)%	(6.8)%	(11.6)%	22.7 %	13.0 %
State Board of Investment - Post Fund	15.8 %	(3.8)%	(5.1)%	(11.6)%	23.5 %	11.8 %
Total [2]	**16.5 %**	**(2.7)%**	**(5.9)%**	**(11.7)%**	**23.2 %**	**12.4 %**

[1] The rate of return for Eden Prairie Fire was calculated using a different methodology than the other plans.

[2] Total rate of return percentages are calculated using the individual plan rate of return weighted according to beginning of year plan assets.

Table 5
Large Public Pension Plan Funding Levels - 1997 to 2004

Pension Plan	1997	1998	1999	2000	2001	2002	2003	2004
Bloomington Fire (12/31)	148.1%	152.5%	164.8%	144.1%	123.6%	96.4%	110.2%	115.1%
Duluth Teachers' (6/30)	86.0%	95.1%	99.2%	103.8%	107.6%	100.4%	95.7%	91.8%
Eden Prairie Fire (12/31)	107.0%	96.0%	106.0%	104.0%	96.0%	74.0%	94.0%	101.9%
MERF (6/30)	84.2%	89.4%	92.6%	93.4%	93.3%	92.4%	92.3%	92.1%
Minneapolis Fire (12/31)	89.5%	105.4%	109.2%	107.5%	103.9%	87.2%	80.6%	90.2%
Minneapolis Police (12/31)	91.0%	93.4%	95.4%	87.5%	75.1%	66.8%	64.5%	70.7%
Minneapolis Teachers' (6/30)	57.4%	63.9%	67.4%	66.5%	66.0%	61.9%	56.9%	50.8%
St. Paul Teachers' (6/30)	69.1%	72.6%	75.0%	80.3%	81.9%	78.8%	75.6%	71.8%
PERF (6/30)	82.7%	87.1%	89.9%	86.3%	87.0%	85.0%	81.3%	76.7%
TRA (6/30)	101.3%	105.7%	105.7%	105.2%	105.9%	105.3%	103.1%	100.0%
MSRS State Emp. (6/30)	103.2%	107.7%	109.2%	110.5%	112.1%	104.5%	99.1%	100.0%

Table 6
Contributions
For Fiscal Year 1997

Public Pension Plans	State of Minnesota Contributions	City Contributions	Employer Contributions	Total Members at Fiscal Year End[1]	Aid Per Member
Bloomington Fire	$ 340,683	$ 480,900		265	$ 3,100
Duluth Teachers'			$ 2,708,473	3,034	$ 893
Eden Prairie Fire	$ 188,773	$ 311,227		110	$ 4,545
Minneapolis Employees	$ 11,056,266		$ 18,586,141	6,870	$ 4,315
Minneapolis Fire	$ 1,219,587	$ 3,725,237		804	$ 6,150
Minneapolis Police	$ 3,630,557	$ 3,907,944		1,078	$ 6,993
Minneapolis Teachers'	$ 3,572,588	$ 1,231,959	$ 19,216,860	8,272	$ 2,904
St. Paul Teachers'	$ 1,023,327		$ 15,019,989	5,889	$ 2,724
PERA			$ 189,703,000	196,362	$ 966
TRA			$ 191,670,080	100,591	$ 1,905
MSRS			$ 91,534,000	79,158	$ 1,156
Total	$ 21,031,781	$ 9,657,267	$ 528,438,543	402,433	$ 1,389

[1] Does not include terminated, non-vested members

Table 7
Contributions
For Fiscal Year 2004

Public Pension Plans	State of Minnesota Contributions	City Contributions	Employer Contributions	Total Members at Fiscal Year End[1]	Aid Per Member
Bloomington Fire	$ 625,566	$ 2,986,280		289	$ 12,498
Duluth Teachers'	$ -	$ -	$ 2,826,730	3,277	$ 863
Eden Prairie Fire	$ 457,038	$ 260,000		141	$ 5,085
Minneapolis Employees	$ 7,093,000		$ 38,366,010	5,714	$ 7,956
Minneapolis Fire	$ 2,146,934	$ 2,670		663	$ 3,242
Minneapolis Police	$ 7,089,022	$ 20,800,530		939	$ 29,701
Minneapolis Teachers'	$ 16,771,302	$ 2,180,146	$ 22,051,636	10,081	$ 4,067
St. Paul Teachers'	$ 3,392,761		$ 20,378,315	8,190	$ 2,902
PERA			$ 289,780,000	248,211	$ 1,167
TRA			$ 151,028,911	120,424	$ 1,254
MSRS			$ 108,740,000	91,292	$ 1,191
Total	$ 37,575,623	$ 26,229,626	$ 633,171,602	489,221	$ 1,425

[1] Does not include terminated, non-vested members

Table 8
Administrative Expenses
For Fiscal Year 1997

Public Pension Plans		Reported Administrative Expenses		Total Assets	Administrative Expenses as a Percent of Assets		Administrative Expenses Per Member[1]
Bloomington Fire	$	50,392	$	88,415,033	0.06 %	$	190
Duluth Teachers'	$	311,379	$	199,442,263	0.16 %	$	103
Eden Prairie Fire[1]	$	13,679	$	6,705,177	0.20 %	$	124
Minneapolis Employees	$	1,016,740	$	1,323,749,756	0.08 %	$	148
Minneapolis Fire	$	513,812	$	264,720,900	0.19 %	$	639
Minneapolis Police	$	546,854	$	372,895,470	0.15 %	$	507
Minneapolis Teachers'	$	519,638	$	796,275,892	0.07 %	$	63
St. Paul Teachers'	$	407,004	$	647,249,634	0.06 %	$	69
PERA	$	6,252,000	$	11,138,837,000	0.06 %	$	32
TRA	$	4,552,372	$	12,921,310,349	0.04 %	$	45
MSRS	$	4,333,000	$	6,354,251,000	0.07 %	$	55
Total	$	18,516,870	$	34,113,852,474	0.05 %	$	46

[1] Does not include terminated, non-vested members

Table 9
Administrative Expenses
For Fiscal Year 2004

Public Pension Plans	Reported Administrative Expenses	Total Assets	Administrative Expenses as a Percent of Assets	Administrative Expenses Per Member[1]
Bloomington Fire	$ 64,224	$ 101,341,890	0.06 %	$ 222
Duluth Teachers'	$ 448,704	$ 258,831,515	0.17 %	$ 137
Eden Prairie Fire [1]	$ 15,140	$ 12,875,538	0.12 %	$ 107
Minneapolis Employees	$ 717,952	$ 1,282,717,353	0.06 %	$ 126
Minneapolis Fire	$ 577,336	$ 254,086,792	0.23 %	$ 871
Minneapolis Police	$ 769,566	$ 348,910,983	0.22 %	$ 820
Minneapolis Teachers'	$ 730,892	$ 763,089,276	0.10 %	$ 73
St. Paul Teachers'	$ 515,715	$ 871,902,589	0.06 %	$ 63
PERA	$ 9,805,000	$ 14,229,972,000	0.07 %	$ 40
TRA	$ 12,179,212	$ 15,095,803,651	0.08 %	$ 101
MSRS	$ 6,057,000	$ 8,379,829,000	0.07 %	$ 66
Total	$ 31,880,741	$ 41,599,360,587	0.08 %	$ 65

[1] Does not include terminated, non-vested members

Table 10
Investment Expense
For Fiscal Year 2004

Public Pension Plans	Investment Expense	Net Assets	Investment Fees as a Percent of Assets
Bloomington Fire	$ 78,689	$ 101,449,970	0.08 %
Duluth Teachers'	$ 1,203,295	$ 258,831,515	0.46 %
Eden Prairie Fire[1]	$ 112,497	$ 12,875,538	0.87 %
Minneapolis Employees	$ 3,885,872	$ 1,282,717,353	0.30 %
Minneapolis Fire	$ 1,042,816	$ 254,990,605	0.41 %
Minneapolis Police	$ 922,855	$ 349,456,470	0.26 %
Minneapolis Teachers'	$ 2,406,830	$ 763,089,276	0.32 %
St. Paul Teachers'	$ 3,059,912	$ 871,902,589	0.35 %
SBI Basic	$ 23,831,000	$ 18,800,000,000	0.13 %
SBI Post	$ 24,950,000	$ 18,400,000,000	0.14 %
TRA	$ 20,450,572	$ 15,095,803,651	0.14 %
PERA	$ 18,340,000	$ 14,229,972,000	0.13 %
MSRS	$ 10,382,000	$ 8,379,829,000	0.12 %
Total	$ 110,666,338	$ 78,800,917,967	0.14 %

RECENT ANNUAL REPORTS, SPECIAL STUDIES, AND BEST PRACTICES REVIEWS FROM THE OFFICE OF THE STATE AUDITOR

Best Practice Review: *Contracting and Procurement in the Public Sector*
The best practices review provides detailed steps that can help increase accountability, reduce liability, and encourage savings when contracting and procuring in the public sector. November 2005

Minnesota Township Finances
This annual report lists the sources and amounts of revenues, expenditures and outstanding debt for Minnesota towns for the most recent fiscal year (2004). October 2005

Annual Summary of Local Government Finances
This new annual report provides a summary of all local government finances: counties, cities, school districts, townships and special districts for the most recently audited fiscal year. August 2005

Special District Finances
This annual report, issued for the first time in 20 years, lists the sources and amounts of revenues, expenditures and outstanding debt for all special districts in Minnesota for the most recent audited fiscal year. July 2005

Financial Trends of Minnesota School Districts and Charter Schools: 2000 to 2004
This annual report provides five years of data and rankings based on the per pupil revenues, expenditures, and debt for all regular Minnesota school districts and charter schools. The report also provides rankings on student demographics, average teacher salaries, fund balances, and other statistics. June 2005

2004 Local Government Lobbying Expenditures
This annual report lists what local government and associations of local governments spend to lobby the Legislature and agencies of the state administration. March 2005 [NOTE: Supplemental report issued July 2005.]

Minnesota County Finances
This annual report lists the sources and audited amounts of revenues, expenditures and debt for Minnesota counties during the most recent fiscal year (year-ended 2003). It includes analysis of counties' enterprise operations and the fund balances for the general and special revenue funds. The report also includes summary budget data for 2004 and 2005. March 2005

2004 Criminal Forfeitures in the State of Minnesota
This annual report describes the amount of property and cash seized by law enforcement agents in criminal forfeitures and what happens to the forfeited items. March 2005

An Analysis of Minnesota's Municipal Liquor Store Operations in 2003
This annual report details the sales and profits of Minnesota's municipally-owned and operated liquor stores. January 2005

Best Practices Review: *Cooperative Efforts in Public Service Delivery*
The best practices review highlights examples of successful local government cooperation and offers guidance to those local governments pursuing cooperative efforts. December 2004

Special Study: Municipal Enterprise Activity
This study, requested by a bipartisan group of legislators, examines the financial information of enterprise fund operations of Minnesota cities from 1998 to 2002. March 2004

Special Study: School Superintendent Compensation
This special study examined the compensation (salary, benefits, severance, etc.) of Minnesota School Superintendents from 1997 to 2002. September 2003

Special Study: Local Government Aid and its Effect on Expenditures
This special study examined the effect the state program known as Local Government Aid has on expenditures for cities over 2,500 in population. February 2003

If you are interested in one of these recent reports, they are available on our web site at www.auditor.state.mn.us. You can also call our office at (651) 297-3688 or email us at gid@auditor.state.mn.us to request a copy of the report.