

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

December 16, 2004

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2006) – **arrived later**
ROBERT HOOPER, VSEA member (term expiring September 2006) – **arrived later**
WILLIAM HARKNESS, VSEA member (term expiring September 2005)
CATHERINE SIMPSON, VSEA Alternate (term expiring September 2005)
DICK JOHANNESSEN, Governor's Delegate
JEB SPAULDING, Vice-Chairperson, VT State Treasurer
ROB HOFMANN, Commissioner of Finance & Management – **arrived later**
JANICE ABAIR, Retired Vermont State Employees' Association – **arrived later**
CINDY LAWARE, Commissioner of Human Resources

Also attending:

Donna Holden, Board Coordinator
Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
Michael McShane, Assistant Attorney General
Karl Kroner, Great West Retirement Services
Michael Casey, VSEA Legal Counsel

The Vice-Chairperson, Jeb Spaulding, called the meeting to order at 8:17 a.m. on Thursday, December 9, 2004 in the Vermont State House Room 10, Montpelier, VT.

Mr. Spaulding advised the Board the Chair would be late in arriving, therefore with the Board's permission items on the agenda were taken out of order.

ITEM 1: Approval of minutes for November 16, 2004 Joint Meeting November 18, 2004 Investment Meeting December 9, 2004 Joint Meeting

Upon discussion it was determined there were not enough Board members present to proceed with the approval of the minutes. This item would be concluded later in the meeting.

Mr. Hofmann, Mr. Hooper and Ms. Abair arrived at the meeting during the next item.

ITEM 2: Discuss/Act on United of Omaha Contract Renewal

Ms. Webster reviewed the 12/18/04 memo provided regarding the background and history of the annuity provider contract for the deferred compensation plan. Ms. Webster advised the Board, based on the information provided, the recommendation not to renew the contract was supported by both her and Mr. Minot.

On a motion by Ms. Simpson seconded by Mr. Johannesen, the Board unanimously voted not to renew the United of Omaha annuity product contract associated with the 457 Plan.

**ITEM 3: Approval of minutes for November 16, 2004 Joint Meeting
November 18, 2004 Investment Meeting
December 9, 2004 Joint Meeting**

On a motion by Mr. Hooper seconded by Mr. Hofmann, the Board voted to approve the minutes of the November 16, 2004 Joint Meeting, as submitted. Mr. Spaulding, Mr. Hooper, Mr. Harkness, Ms. Abair, Ms. LaWare, and Mr. Hofmann voted yes. Mr. Johannesen and Ms. Simpson abstained.

On a motion by Mr. Hooper seconded by Mr. Harkness, the Board voted to approve the minutes of November 18, 2004 Investment Meeting, as submitted. Mr. Spaulding, Mr. Hooper, Mr. Harkness, Ms. Abair, Ms. LaWare, and Mr. Hofmann voted yes. Mr. Johannesen and Ms. Simpson abstained.

On a motion by Ms. Abair seconded by Ms. Simpson, the Board voted to approve the minutes of December 9, 2004 Joint Meeting, as submitted. Mr. Spaulding, Mr. Hooper, Ms. Abair, Ms. LaWare, Ms. Simpson voted yes. Mr. Harkness, Mr. Johannesen and Mr. Hofmann abstained.

Mr. Whitney arrived at the meeting during the next item.

ITEM 4: Discuss/Act on Attorney Reimbursement Request

The Board reviewed and discussed Mr. McShane's 12/7/04 memorandum explaining the request made by Ms. Lilly's attorney. Mr. McShane explained that Ms. Lilly's case was the first disability review to go through the denial process and that he erroneously advised referral to the Evidentiary Hearing Officer before the Certified Vocational Counselor.

Mr. McShane explained the member hired the attorney on her own, who was not required for the hearing process, and he felt the attorney could have called to discuss the scheduling error thereby avoiding the expense, however, he did not.

The Board discussed and verified that current procedures were in place to avoid similar errors from occurring in the future.

On a motion by Mr. Hooper seconded by Mr. Hofmann, the Board unanimously voted to reimburse Joanne Lilly for legal expenses of up to \$250.00 paid to her attorney in connection with the hearing held on August 25, 2004, subsequent to the clarification of procedures, and due to the unique circumstances of this case only.

Mr. Spaulding surrendered the role as Acting Chair to Mr. Whitney.

ITEM 5: Discuss AG's Opinion Regarding 3 V.S.A §462

The Board reviewed the opinion rendered by Assistant Attorney General Mike McShane, regarding whether the review of disability retirement recipients applies to both retirees granted under §460 and §461, and whether the Board has the authority to override the Medical Review Board's and Certified Vocational Councilor's opinions regarding a retiree's ability to return to work.

Mr. McShane advised the Board the provision of §462 applies to both ordinary and occupational disabilities granted under §460 and §461. He acknowledged there were differences in the provisions within the statutes by which the *initial* determination of disability is granted, however §462 implies the author's intent to review both within the words "...require any disability beneficiary..."

Mr. McShane further advised the Board they have the discretion to reject the Medical Review Board and Certified Vocational Councilor's recommendations to reduce a benefit, provided the Board "reasonably concludes" the evidence does not support the recommendations. He said the Board's decision must be consistent with the evidence.

Mr. Spaulding advised the Board that a Retirement Summer Study Committee has been working very hard to reach conclusions regarding the features and potential changes to the disability statutes of the three systems. He said much discussion, many suggestions, and a lot of compromising had been a part of the process so far.

Mr. Casey agreed and reiterated aspects of the Summer Study Committee's work

ITEM 6: Discuss/Act on the Disability Retirement for:

Francis Drake	Michele Guyette
Judy LaVanway	Dorothy Sprague
Kelly Wright	Gale Emerson
Terry Hill	Patricia Pickett
Abigail Whitaker	Ruth Gemperlein
Joanne Lilly	

On a motion by Ms. LaWare seconded by Mr. Hooper, the Board unanimously voted to approve the disability retirement for Francis Drake, Dorothy Sprague, and Kelly Wright, as recommended by the Medical Review Board, and the continued disability retirement for Gale Emerson, Terry Hill, Patricia Pickett, and Abigail Whitaker, as recommended by the Medical Review Board.

Ms. LaWare made a motion seconded by Mr. Hofmann, to approve the disability retirement for Judy LaVanway, and Michele Guyette, as recommended by the Medical Review Board.

At 9:30 a.m. on a motion by Mr. Hofmann seconded by Ms. LaWare, the Board unanimously voted to enter into executive session pursuant to Title 1 §313 to discuss medical information.

At 9:34 a.m. the Board moved out of executive session.

Ms. LaWare withdrew her motion, and Mr. Hofmann withdrew his second to approve the disability retirements for Judy LaVanway, and Michele Guyette.

Mr. Hooper made a motion seconded by Ms. Abair, to approve the disability retirement for Judy LaVanway, and Michele Guyette, as recommended by the Medical Review Board.

Discussion ensued with agreement that several members of the Board required additional information regarding the disability application for Judy LaVanway before they could act. **Mr. Hooper withdrew his motion, and Ms. Abair withdrew her second to approve the disability retirements for Judy LaVanway, and Michele Guyette.**

On a motion by Mr. Hooper seconded by Mr. Hofmann, the Board unanimously voted to approve the disability retirement for Michele Guyette.

Mr. Spaulding made a motion seconded by Mr. Johannesen, to defer action on the disability application for Judy LaVanway until the January 16, 2005 meeting, pending additional information from the Retirement Office.

After discussion of the motion, **Mr. Hooper made a motion seconded by Ms. Abair, to approve the application by Judy LaVanway at the January 13, 2005 meeting, with Board members to seek or be provided additional information by the Retirement Office prior to the meeting.**

After discussion of the motion, **on a motion by Mr. Spaulding seconded by Mr. Hofmann, the Board unanimously voted to defer action on the disability application for Judy LaVanway until the January 16, 2005 meeting, pending additional information from the Retirement Office.**

At 9:40 a.m. on a motion by Ms. LaWare seconded by Mr. Hooper, the Board unanimously voted to enter into executive session pursuant to Title 1 §313 to discuss medical information.

At 9:52 a.m. the Board moved out of executive session.

On a motion by Mr. Hooper seconded by Ms. LaWare, the Board unanimously voted to accept the "no longer disabled" recommendations made by the Medical Review Board and Certified Vocational Counselor, and authorize the Director of Retirement Operations to reduce and adjust the disability retirement benefits of Ruth Gemperlein and Joanne Lilly, consistent with the statute.

Ms. LaWare left the meeting.

During the next item, Mr. Whitney, Mr. Hooper, and Mr. Hofmann left the meeting. Mr. Spaulding assumed the role of Acting Chairperson, and then stepped down when Mr. Whitney returned.

ITEM 7: Great-West Retirement Services Q3/04 Report

Mr. Kroner appeared before the Board. He reported for the Q3/04 a total of 5,556 participants of which 5,216 were state members and 340 were municipal members. Plan assets were reported at \$171.96 million as of September 30, 2004.

Mr. Kroner was asked to provide the Board in future reports, information regarding the following items:

- Statistics on how many people are using the profile funds only,
- A list, at least annually, of all participating municipalities,
- A quarterly list of the hardship cases broken down with quarterly, annual, and year-to-date numbers.

Mr. Spaulding said he would like to send a letter, on behalf of the Board, to all non-participating entities advising them of the Plan and inviting them to become participants. The Board also discussed other potential educational/recruitment events, i.e. caucus for Representatives, VLCT contacts, Secretary of State's Annual Town Clerk meeting, etc.

Mr. Kroner reviewed the list of meetings and educational activities participated in by the GW staff. He informed the Board a modest number of participants, who had very little negative feedback, attended the numerous fund transition meetings held. He said the transition happened on November 29th as planned with no problems.

Ms. Webster advised the Board she had only received 5 or 6 comments. She said these participants would have liked being involved in the decision process and informed in the beginning, rather than when the changes were decided. The Board discussed that meetings are warned and open to the public.

*Mr. Whitney deferred the role of Chair to Mr. Spaulding for the following item.
Mr Hofmann returned.*

ITEM 8: Discuss Funding Strategy for Potential Index Managers and Review of Investment Manager Choices

Mr. Minot distributed an NEPC report dated December 2004, which included the correlations, management fees, and proposed large cap mixes, requested by the Boards at the 12/9/04 Joint Meeting. The Board was directed specifically to the information on pages 2,3,and 8.

Mr. Spaulding informed the Board of a conference call held on December 15th with NEPC and the Board Chairs. He said for work reasons, Mr. Whitney was not able to attend the meeting. He explained NEPC's recommendation to adopt *Mix K*, which included allocation of 40% PIMCO, 40% T. Rowe, and 20% SSGA Equal. He said the under weighting to the equal weighted product was the result of NEPC's theory, which was supported by market changes. He explained the industry belief was that historical returns of the last five-years, as represented in the report before

the members, were largely the result of equal weighted products, however, were expected to change prospectively as the market shifts towards growth vs. value.

Discussion ensued regarding which mix was best suited for the desired sustained return of the fund, and which index fund mix provided the better returns with less risk. Mr. Johannesen expressed his concern of the apparent attempt by the Board to "over-lay" active management on an index fund.

On a motion by Mr. Hooper seconded by Mr. Hofmann, the Board voted to adopt "Mix K" as recommended by NEPC in the December 2004 report, contingent upon final negotiations. Mr. Whitney, Mr. Spaulding, Mr. Hooper, Mr. Harkness, Mr. Hofmann, Mr. Johannesen, and Ms. Simpson voted yes. Ms. Abair abstained.

The Board requested a further analysis on the Bridgewater product, to determine returns if the mandate were further enhanced.

ITEM 9: Any other business to come before the Board

Mr. Minot informed the Board of a request by their Global Bond Manager, Deutsche Asset Management. He explained the manager was approved for a 10% emerging market component within their mandate, and had been using Scudder Fund, however, was now asking to use Pyramid Fund, a subsidiary of Deutsche Bank.

The Board agreed with Mr. Minot that a contract amendment was not necessary, as the fee schedule is unchanged, and the manager's discretion for the component is covered by the investment policy.

Next Meeting Dates:

The next scheduled business meeting is January 13, 2005.

The next scheduled quarterly investment meeting is February 18, 2005.

On a motion by Mr. Hofmann seconded by Mr. Johannesen, the Board unanimously voted to adjourn at 12:02 p.m.

Respectfully submitted,

Cynthia Webster
Secretary to the Board