

# VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 31, 2007

## **Members present:**

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2008)  
ELIZABETH PEARCE Representing JEB SPAULDING, Vice-Chairperson, VT State Treasurer  
ROBERT HOOPER, VSEA member (term expiring September 2008)  
MICHELLE BLACK, VSEA Alternate member (term expiring September 2008)  
LINDA McINTIRE, Commissioner of Human Resources  
JAMES REARDON, Commissioner of Finance & Management  
JOE HEALY, Retired Vermont State Employees' Association  
DICK JOHANNESSEN, Governor's Delegate

## **Members absent:**

TOM GIFFIN, VSEA member (term expiring September 2007)

## **Also attending:**

Donna Holden, Board Coordinator  
David Minot, Director of Finance and Investments  
William Rice, Law and Policy Director  
William Griffin, Chief Assistant Attorney General

The Chairperson, Warren Whitney, called the Thursday, May 31, 2007, meeting to order at 1:09 p.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

## **ITEM 1: Approval of the minutes for the meeting of May 17, 2007**

**On a motion by Mr. Reardon seconded by Mr. Healy, the Board unanimously voted to approve the minutes of May 17, 2007, as discussed.**

## **ITEM 2: Discuss Investment Management Expenses Reimbursement**

Mr. Reardon advised the Board of the 2007 session law change that altered the method of reimbursements for investment management expenses. He stated, as a result of budgetary concerns, there was a change in the traditional process of including investment expenses in the formula for determining the state budgeted reimbursement for retirement expenses, which is an appropriation within each state agency/department. He said, therefore the approximate \$4 million anticipated FY 2008 expenditure for investment management fees will be absorbed in the investment rate of return.

Ms. Pearce explained that upon discussion with Mr. Reardon of the Administration's proposal, the Treasurer's Office did investigate how this was handled in other states. As a result, our actuaries reported that they did not know of any states that reimburse their retirement systems on an ongoing basis for incurred investment expenses. The general practice seems to be to treat such expenses as an offset to investment income. Mr. Whitney confirmed that he was made aware of this proposal during the legislative session and discussed this with the chairs of the Appropriation Committees and had no objections to the proposal.

Mr. Hooper pointed out this was an expensive way to “borrow” money and there could be a loss of interest to the fund, and could have long term consequences.

As noted by Mr. Reardon, the expense is included in the fund’s accounting and factored into the resulting actuarial liability for future valuations and actuarial recommended contributions.

He assured the Board that if the positive returns, in excess of the actuarial assumption, changed, the issue and funding method would be revisited, and that since this is “session law” and not a statute change, the matter would be revisited in FY ’09.

**ITEM 3:      Discuss GASB 45 Requirements and Reporting Impact**

Ms. Pearce explained that accounting and/or “booking” of the liability in the State’s balance sheet for other post employment benefits (OPEB), primarily health care benefits, would be required beginning in FY ’08. She said that other states are also dealing with this issue and most are in the preliminary stages of addressing this liability and associated funding.

Ms. Pearce advised the Board that funding the liability was not required by GASB; but that the liability will be disclosed in a number of places in the State’s financial statements. In addition, if you do not prefund, GASB requires the use of a lower interest rate in the actuarial calculation, increasing the size of the liability. While the rating agencies are not expecting immediate results, they are assessing the management approach and that failure to fund the liability over time could create long term issues for the fund and the State’s credit rating. She explained that initial steps to address the funding of OPEB included the completion of actuarial studies to measure the liability, completion of a benefits study by Buck Consultants and the depositing of federal Medicare D reimbursements into a fund created by the legislature to fund OPEB liabilities. While the Medicare D levels are only a small part of the long-term solution, approximately \$1.7 million of 2006 reimbursements have been deposited into a separate Trust Fund for the purpose of funding the future OPEB liability. She explained that future reimbursements would be deposited into the OPEB Trust.

**ITEM4:      Update and Discussion of 457 Fee Structure**

**At 2:10 p.m. on a motion by Mr. Hooper seconded by Mr. Healy, the Board unanimously voted to enter into executive session pursuant to Title 1 § 313, to discuss contractual matters.**

*Ms. Black left the meeting during the executive session.*

**At 3:05 p.m. the Board exited executive session.**

**ITEM 5:      Any Other Retirement Business to Come Before the Board**

**A.      Asset Allocation Change Approval**

**On a motion by Mr. Healy seconded by Mr. Reardon, the Board unanimously voted to accept the VPIC recommendation to implement an asset allocation change to include a dedicated asset allocation of 4% to emerging markets funded with 2% from international equities and 2% from large cap domestic equities, that a manager search be initiated, and if a manager is selected the dedicated allocation be funded at 25% every six months until the full 4% is reached.**

**B. Disability Retirement for Ronald Rubin**

**On a motion by Mr. Hooper seconded by Mr. Healy, the Board unanimously voted to approve the disability retirement for Ronald Rubin, as recommended by the Medical Review Board.**

**C. GWRS Managed Account Legal Opinion**

Mr. Griffin advised the Board if they consider offering a managed account option for members of the deferred compensation plan, that an RFP process should be initiated.

**On a motion by Mr. Hooper seconded by Mr. Healy, the Board unanimously voted to table any further action on this matter.**

**ITEM 6: Adjournment**

**On a motion by Mr. Healy seconded by Ms. Pearce, the Board unanimously voted to adjourn at 3:17 p.m.**

**Next Meeting Dates:**

The June 14, 2007, meeting was CANCELLED.

The July monthly meeting is scheduled for July 12, 2007, at 8:30 a.m., and will be in-house.

The next scheduled VPIC meeting is scheduled for August 15, 2007

Respectfully submitted,

Donna Holden, Board Coordinator  
for Cynthia Webster, Secretary to the Board