

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

August 12, 2010

VSEERS Members present:

Kevin Gaffney, Chairperson, VSEA Representative (term expiring September 1, 2011)
Paul White, Jr., VSEA Representative (term expiring September 1, 2010)
Jeff Briggs, VSEA Alternate (term expiring September 1, 2011)
Robert Hooper, VSEA Representative (term expiring September 1, 2010)
Roger Dumas, Vice-Chairperson, VRSEA Representative (term expiring September 1, 2010)
Caroline Earle, Commissioner of Human Resources (ex-officio)
James Reardon, Commissioner of Finance & Management (ex-officio)
Richard Johannesen, Governor's Delegate (ex-officio)
Jeb Spaulding, VT State Treasurer

Members absent:

None

Also attending:

Cynthia Webster, Director of Retirement Policy and Outreach & Secretary to the Board
Michael Clasen, Director of Retirement Operations
Dr. Russell Davignon, Chair of Medical Review Board
Elizabeth Pearce, VT State Deputy Treasurer
Stephen Wisloski, Director of Investment & Debt Management
Karl Kroner, Great West Retirement Services
Chip Sanville, Great West Retirement Services
Perry Christie, Great West Retirement Services
Monica Chiren, Assistant to Cynthia Webster

The Chairperson, Kevin Gaffney, called the Thursday, August 12, 2010 meeting to order at 9:04 a.m., which was held in the Treasurer's Conference Room, Fourth Floor, 109 State Street, Montpelier, VT.

On behalf of the Board Mr. Gaffney welcomed Dr. Davignon to the meeting.

ITEM 1: **Approve the Minutes of:**

- **July 8, 2010**
- **July 27, 2010 (Joint Meeting)**

On motion by Mr. Spaulding, seconded by Mr. Dumas, the Board voted unanimously to approve the minutes of July 8, 2010, as submitted.

Ms. Earle provided the Board with an update concerning the military pay differential and a member who was making an emergency withdrawal. Ms. Earle indicated the member was contacted and it was learned the member was not eligible for retroactive benefits and therefore the matter has been resolved.

On motion by Mr. Spaulding, seconded by Mr. Dumas, the Board voted to approve the minutes of July 27, 2010, as submitted. Mr. Reardon abstained from the vote. The motion passed.

ITEM 2: Discussion of disability processes with Dr. Davignon, Chair of Medical Review Board

(Mr. Briggs, Mr. Johannesen and Mr. Hooper entered the meeting during this Agenda Item.)

Dr. Davignon provided the Board with the background of the Medical Review Board and how it has evolved over the years to what it is currently. Dr. Davignon explained the perfect mix of members on the Medical Review Board and how they defer to each other's expertise. Dr. Davignon explained how sometimes cases are deferred for more information. Dr. Davignon answered the Board members' questions concerning how many cases are disallowed, how job descriptions are taken into account, the reasoning for one-year reviews, the need for additional information sometimes, and typical length of review of a case. The Board generally discussed morbid obesity and depression.

Dr. Davignon indicated the Medical Review Board has three options, allow, with or without a one-year review, disallow or defer for additional information. The Board discussed the one-year reviews. Ms. Webster indicated what happens on the pension side with a disability retirement and the one-year reviews. Dr. Davignon indicated the Medical Review Board cannot recommend treatment. Dr. Davignon indicated he must follow the statutes concerning disabilities.

(Dr. Davignon left the meeting at this time to attend the Medical Review Board conference call.)
(Mr. Clasen left the meeting at this time.)

The Board discussed Dr. Davignon's presentation. The Board discussed one-year reviews. The Board discussed reviewing the statutes. The Board discussed lifestyle disabilities and trends.

The Board decided to move to Item #4.

(A ten minute recess was taken from 10:25 a.m. to 10:35 a.m.)

(Mr. Kroner, Mr. Sanville and Mr. Perry entered the meeting at this time.)
(Mr. Spaulding and Mr. Hooper were not present at this time.)

ITEM 3: State of Vermont 457 Deferred Compensation Plan

- **Quarterly review for period ending June 30, 2010**
- **Review and discuss new *Secure Foundation* "annuity" product**
- **Discuss option of allowing in-service withdrawals of inactive accounts under \$5,000**

Mr. Kroner appeared before the Board and provided the Quarterly Report for June 30, 2010 for the 457 Deferred Compensation Plan. Mr. Kroner provided a plan overview, including asset growth and breakdown of distributions.

(Mr. Wisloski entered the meeting at this time.)

The Board discussed the contribution history and the amount of payrolls in the quarter. Ms. Earle indicated there is a mature work force reaching retirement age within the next 5 to 10 years. Ms. Earle indicated she will discuss this issue with Mr. Sanville in order to see if more can be done to prepare participants.

(Mr. Hooper entered the meeting at this time.)

Mr. Kroner responded to the Board's questions concerning when funds can be withdrawn from the 457 Plan. The Board discussed the recent reduction in salary and whether that has affected the contributions. Mr. Reardon explained an email that had been sent to State employees and the reasoning behind it, indicating some employees might have a net pay of zero and not be able to cover their obligations without making an adjustment to some area.

Mr. Sanville provided the Administrative Overview of the 457 Plan. Mr. Sanville provided the Field Activity for the 457 Plan.

(Mr. Spaulding entered the meeting at this time.)

The Board discussed auto enrollment in the 457 Plan and having something drafted for the next meeting. Ms. Webster indicated it would only affect new employees and not existing employees. The Board discussed the PAX World Balance Fund. Mr. Wisloski handed out a sheet for the Board to review concerning the PAX World Balance Fund. The Board discussed the Teachers' Board not having an SRI Fund. Mr. Kroner indicated he will provide the Board with more information concerning SRI funds

(Mr. Spaulding left the meeting at this time.)

Mr. Sanville provided the Board with the SDIA Plan quarterly report for June 30, 2010. Mr. Sanville reviewed the total withdrawals, partial withdrawals, periodic payments, and minimum distribution withdrawals.

Mr. Wisloski indicated to the Board an RFP went out in July and was posted on the website. The RFP reached out to stable value investment management service providers. Mr. Wisloski indicated 11 different companies provided 41 questions, which were in the process of being answered and would be posted on the website. Mr. Wisloski indicated the deadline for submission was Wednesday, August 25, 2010. Mr. Wisloski indicated he would then have a recommendation for the Board so they could have the new company in place by October. Mr. Wisloski indicated in early September he would provide to the board the top three, and their recommendations.

Mr. Kroner provided the Board with the Secure Foundation presentation. Mr. Kroner indicated the reasons why this product was created. Mr. Kroner discussed the withdrawal options. Mr. Kroner discussed the difference between the Benefit Base and the Account Balance. Mr. Kroner discussed survivor options. Mr. Kroner discussed the investment options.

(Mr. Dumas and Ms. Earle left the meeting at this time.)

Ms. Webster had a question about QDRO's and this product. Mr. Christie agreed to look into that further.

(Mr. Dumas returned to the meeting at this time.)

The Board further discussed the Benefit Base and the Account Balance and how withdrawals would affect it. The Board discussed withdrawals from the Secure Foundation account. Mr. Kroner discussed the fees associated with this product. Mr. Kroner provided the Board with a hand-out concerning the hedging for which Milliman, Inc. was hired.

Ms. Webster indicated the Teachers Board is going to receive more education on this product and check with the AG's Office and if it is something they are interested in they would do an RFP. Ms. Webster indicated there could be a joint education if the State Board was interested. The Board discussed providing education to the members if this product was to be offered to them. The Board discussed the well-being of Great West and how that would be monitored, along with the hedging.

(Mr. Spaulding returned to the meeting at this time.)

Mr. Christie indicated this may not be a product for a 25 year old, but possibly for someone ten years away from retirement. Mr. Christie provided his reasons for his belief. The Board discussed what this product would replace in their line-up of investment options. The Board discussed how they would proceed in regard to this product, whether to have the education first or the RFP first, or simultaneously. The consensus of the Board was to move ahead with the education, find out what information BISHCA has to provide and if they had no information to provide, to find someone who does have information about this product, and then look into having an RFP.

The Board discussed the option of allowing in-service withdrawals for inactive accounts under \$5,000. The Board discussed the de minimus accounts. The Board discussed the Distribution Form and their section on de minimus distributions. The Board discussed how what is in place now is consistent with the IRS rules. Ms. Webster indicated this was an educational piece for the Board.

Ms. Webster indicated to the Board Dr. Davignon had to leave, but that he did indicate he would attend another meeting.

ITEM 4: Discuss/Act on emergency withdrawal application for:

Kristin Prior

On motion by Mr. Reardon, seconded by Mr. White the Board voted unanimously to approve the emergency withdrawal request for Kristin Prior as recommended by Great West.

Mr. Sanville indicated he will make sure Ms. Prior understands the process of having the option for a future withdrawal.

(Mr. Kroner, Mr. Sanville and Mr. Christie left the meeting at this time.)
(A luncheon recess was taken from 12:50 p.m. to 1:30 p.m.)

ITEM 5: Continue discussion on change to assumed rate of return

Mr. Spaulding reviewed the emails he had provided to the Board concerning the change to the assumed rate of return. Mr. Spaulding summarized the Teachers' Board was in agreement to adopt the "select and ultimate" approach, move up and consolidate the experience studies to 2011, and the majority favored Option D as outlined in the email.

Mr. Spaulding summarized all were in agreement the rate needed to be adjusted down, but the question was how much and how. Mr. Spaulding reviewed the different approaches to achieve this. The Board discussed why the incremental approach was not a viable approach. The Board discussed the "select and ultimate" approach and the scenarios available under that approach. The Board discussed the rates in the "select and ultimate" approach. The Board discussed the rates as they related to the three systems. The Board discussed the experience studies of the three systems. The Board discussed moving all the experience studies up to 2011 and doing them at the same time. The Board discussed whether the reduction in salary is being considered. Ms. Pearce indicated that was being considered in addition to changes in the mix of the population, as well as the economic conditions.

The Board discussed the reasons for being proactive. The Board discussed the rolling range and the scale of the interest rates. The Board discussed moving the experience study up would be considered that they are doing something proactive. Mr. Reardon discussed the consensus budget gap analysis and that he would be indicating to legislature that State retirement and Teacher retirement are issues that need to be addressed. The Board discussed the funding of the retirement systems and how legislature now understands the importance of funding the funds.

The Board discussed they were in consensus to have the experience study moved up and consolidated between the three Boards and not to make a change at this point. Mr. Hooper indicated he would like information from Mr. Driscoll who uses the "select and ultimate" approach and if it has been successful. The Board discussed the need for Mr. Driscoll at the August 24th meeting. Mr. Spaulding indicated he will send an email out to the Board members that the State has discussed this issue and the consensus of the Board is to move up and consolidate the experience study for all three systems and not to take any action this year.

(Ms. Pearce left the meeting at this time.)

ITEM 6: Discuss/Act on disability retirement recommendation for:

Brian Bilodeau

On motion by Mr. Reardon, seconded by Mr. Hooper, the Board voted unanimously to accept the recommendation of the MRB to allow the disability retirement for Brian Bilodeau, with a one-year review.

ITEM 7: Any other business to be brought before the Board

Ms. Webster provided the Board with a hand-out concerning police contribution rates. The Board indicated they would like to know what benefits they receive for these contributions.

Mr. Hooper indicated he would like to attend the NAGDCA conference in September. The Board discussed the pros and cons of attending this conference.

On motion by Mr. Hooper, seconded by Mr. Reardon, the Board voted to allow Mr. Hooper to attend the NAGDCA conference in September in Philadelphia. Mr. Hooper, Mr. Reardon, Mr. Briggs, Mr. White and Mr. Dumas voted aye. Mr. Spaulding and Mr. Johannesen vote nay. The motion passed.

ITEM 8: Adjournment

On motion by Mr. Reardon, seconded by Mr. Dumas the Board voted unanimously to adjourn at 2:55 p.m.

Next Meeting Date:

The next scheduled VSERS meeting is a conference call meeting on September 12, 2010 at 9:00 a.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board