

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

December 16, 2003

Board Members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005
JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007
JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2004
THOMAS CANDON, representing Commissioner of BISHCA
VAUGHN ALTEMUS, representing Commissioner of Education
JEB SPAULDING, VT State Treasurer

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
Elizabeth Pearce, Deputy State Treasurer
William Griffin, Chief Assistant Attorney General
Angelo Dorta, Joel Cook, Mark Hage, VT-NEA
Joe Zimmerman, VSBIT
Norris Holt, BC/BS
Rep. David Sharpe

The Chairperson, Joe Mackey, called the meeting to order at 8:40 a.m. on Tuesday, December 16, 2003 in the Ethan Allen Room at the VT State House, Montpelier, Vermont.

ITEM 1: Approval of minutes of November 19, 2003

On a motion by Mr. Kaplan seconded by Mr. Candon, the Board unanimously voted to approve the minutes of November 19, 2003, as submitted.

ITEM 2: Treasurer's Report

Mr. Spaulding reminded the Board that a travel reimbursement policy was adopted in July 2003. A per-diem for meals and expenses pursuant to the GSA chart would be paid for travel; therefore receipts are not necessary when submitting expense reports. The members shall directly pay for dinners with vendors or other parties governed by the Ethics Policy, from the per-diem with any balance due paid out-of-pocket. The member should keep records and have them available in the event there are any questions at a later date.

Mr. Spaulding advised the Board that the Vermont State Employees' Retirement Board discussed and agreed in concept to offer the 457 Deferred Compensation Plan to teachers throughout the state as an additional retirement savings plan option. He explained that an RFP was authorized to hire a consultant to review the 457 Plan and provide assistance in examining the fund options, among other issues. ~~He explained that it is the desire of the VSERS to have an award winning 457 Plan and one of the best throughout the United States.~~

The Board agreed to discuss the issue at a later date, once the consultant has completed the plan review.

Ms. Pearce distributed and reviewed the one-page synopsis of the proposed VSTRS FY'05 base budget. She directed the Board's attention to the "New Initiative" section and distributed a comprehensive outline of the Treasurer's Office proposal for a new Retirement Division computer system.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Board unanimously voted to approve the December 16, 2003 proposed VSTRS FY'05 base budget.

The Board thanked the Treasurer and Ms. Pearce for the information and presentation. The Treasurer agreed, moving forward, to provide a tracking of expenses.

ITEM 3: Discuss/Act on Charles Storrow's Request regarding 1981 Transfers

At 9:41 a.m. on a motion by Mr. Altemus seconded by Mr. Harris, the Board unanimously voted to enter into executive session to obtain legal counsel from the Chief Assistant Attorney General regarding pending claims against the system.

At 9:48 a.m. the Board moved out of executive session.

On a motion by Mr. Spaulding seconded by Mr. Harris, the Board authorized the Chairperson to sign, on behalf of the Board, the decision prepared by the AG's Office, as directed by the Board at a previous meeting.

ITEM 4: Discuss/Act on Request by Sharon Academy to Participate in the VSTRS

Ms. Webster distributed a memo prepared by her and Vaughn Altemus dated 12/15/03 regarding Independent Schools.

Upon discussion it was agreed, Ms. Webster would prepare a draft policy for the Board's review. It would then be forwarded to the AG's Office with a request to assist in the development of language and policy for the Board to use when asked to consider admission of independent school into the VSTRS.

The Board deferred action on the question of membership to Sharon Academy into the Vermont State Teachers' Retirement System until the next business meeting when they would review the draft policy.

ITEM 5: Update on Funding Status and Discussion of Strategy to Ensure State Funding

Mr. Spaulding reminded the Board of the proposal to the Administration to place the VSTRS at the top of the "waterfall" list. He explained that while he has not received a formal response to his written proposal, he is hopeful for the Administration's support and hopeful that revenue will come in ahead of projections and the VSTRS would benefit.

Ms. Pearce said she would be working with Ms. Webster in the near future to develop educational materials (charts, graphs, narratives, etc.) for the Board's review and to use in educating the legislature on the aspects of the VSTRS funding issues.

The Board will continue discussions and efforts to obtain full funding.

ITEM 6: Discuss/Act on Proxy Voting Contract approval

Mr. Minot distributed a summary of the negotiations resulting from the proxy voting services RFP. Mr. Minot said the hope is to develop a unified proxy policy among the parties participating. The target date for implementing the final policy is March 1, 2004 and agreed that the contract would be re-visited, post unitization.

On a motion by Mr. Candon seconded by Mr. Mackey, the Board unanimously voted to enter into a contract with Institutional Shareholder Services (ISS) to provide proxy management services subject to cost sharing, based in established asset allocation percentages with the State Employees' Retirement System and Common Trust Fund. It is further moved that these services and corresponding charges be revised to incorporate the inclusion of the Municipal Retirement System should it take action to participate.

ITEM 7: Discuss/Act on Unitization Proposal

Mr. Spaulding distributed the 12/10/03 version of the unitization proposal. The Board discussed the section related to composition of the Vermont Pension Investment Committee (VPIC). Mr. Altemus asked that the fiduciary responsibilities of the Boards and VPIC be crystal clear.

On a motion by Mr. Mackey seconded by Mr. Altemus, the Board unanimously voted to endorse in concept the State Treasurer's proposal dated 12/10/2003, to unitize the assets, for purposes of investment, of the VSTRS, VSERS and VMERS.

ITEM 8: Review TO-DO List

The Board reviewed the list of To-Do's.

Mr. Kaplan asked for follow-up on the potential securities litigation being pursued by the AG's Office and Securities Division of BISHCA be reported on at the next investment meeting, February 18, 2004. The AG's Office and BISHCA will be invited to that meeting.

ITEM 9: Discuss Possible Consequences in Health Care Changes

Joe Zimmerman, Vermont Educational Health Initiative, Mark Hage, VT-NEA, and Norris Holt, Blue Cross/Blue Shield appeared before the Board.

Mr. Hage advised the Board that he and his colleagues are all trying to gather and understand the content and ramifications of the 2003 Medicare Reform bill. To the best of their collective assessment, they agree there will be no immediate negative impact to what is being offered to the Vermont retired teachers.

He advised that the bill narrowly passed in both the House and Senate, therefore, political and other forces are already moving to repeal and/or revise the content. However, the federal government is preparing for two mailings to seniors over the next few months to help explain the bill.

VEHI will be working on educational materials and having personnel available to explain the Medicare bill. Mr. Hage will contact Ms. Webster to coordinate details for the next *Retiring Times* newsletter.

Mr. Zimmerman distributed the Committee on Ways and Means *Summary of Medicare Conference Agreement* for the Board's review.

The Board invited Mr. Zimmerman, Mr. Hage and Mr. Holt back to discuss the matter further at their next business meeting in March.

ITEM 10: Discuss Teachers Being Able to Earn Greater Than 50% AFC in Retirement

Mr. Mackey distributed a draft proposal for increasing group C member benefits above the 50% cap.

The Board agreed to send a request to Dave Driscoll at Mellon Human Resources & Investor Solutions to cost the proposal with a 60% cap and with no cap, with continued contributions, and factor in the health insurance savings.

ITEM 11: Discuss Adoption of Policy to Address Inappropriate Money Manager Behavior

Mr. Spaulding distributed a draft policy for inclusion in the Investment Guidelines.

The Board discussed the draft and agreed to development of a policy.

Mr. Spaulding was requested to modify the policy and re-distribute a draft to the Board for comments.

ITEM 12: Act on the Disability Retirement for: Virgene M. Zabarsky

On a motion by Mr. Candon seconded by Mr. Mackey, the Board unanimously voted to approve the disability retirement for Virgene M. Zabarsky, as recommended by the Medical Review Board.

ITEM 13: Discuss/Act on Legislative Housekeeping Bill Language

Ms. Webster distributed her recommendations for possible Legislation for the 2004 session.

The Board agreed to add a definition for "Separation from Service" to 16 VSA, § 1931. Ms. Webster will modify the definition and re-distribute for the Board's comments.

The Board agreed to add language to §1944 (c)(12) to reinforce the Board's policy to require a minimum of 10 years of service to be eligible for the system's share of health insurance premium. Ms. Webster will modify the definition and re-distribute for the Board's comments.

The Board agreed to add language to §1937(a) to require a VSTRS member to have a minimum of 5 years of service to qualify for a retirement benefit. Ms. Webster will request a cost/savings estimate from the actuary for this proposal and re-distribute for the Board's comments.

The Board discussed the potential impact to the VSTRS as a result of the No Child Left Behind mandates and the Department of Education rule changes to the licensing and license waiver process. The Board further discussed modification to the §1931 definition of "license" for membership in the VSTRS. The Board agreed they wanted membership qualification to remain as close to the status quo that existed prior to the DOE rule change as possible and request that Mr. Altemus and Mr. Spaulding clarify the language to allow VSTRS membership to the teachers that have a qualifying teaching certificate. ~~The Board does not want to add members or costs to the system to cover people that are not licensed teachers, have a provisional licenses or types of waivers.~~

ITEM 14: Any Other business to be brought before the Board

Mr. Kaplan advised the board of a copy of a letter received from a member regarding withdrawn service credit. Ms. Webster will provide the other members with a copy of the letter and the Board will discuss the item at the March business meeting.

Mr. Spaulding advised the Board of an invitation by Opal Financial Group to attend their 5th Annual Public Funds Summit to serve as a guest speaker. Mr. Spaulding explained, in consideration of the adopted Ethics Policy, the sponsor couldn't pay for his travel and participation. He said the VSERS had agreed to share the expense and he requested the Board also share in the expense for his attendance at the conference.

On a motion by Mr. Kaplan seconded by Mr. Mackey, the Board unanimously voted to approve the shared expense for Mr. Spaulding to attend the 5th Annual Public Funds Summit sponsored by Opal Financial to be held in Scottsdale, Arizona January 14-16, 2004, and for the Board to share in the cost with the VSERS and the State Treasurer. ~~to attend.~~

Ms. Webster indicated her desire to attend the annual Legislative Conference during the first week in February, sponsored by NASRA.

On a motion by Mr. Harris seconded by Mr. Altemus, the board unanimously voted to approve the travel expenses for Ms. Webster to attend the NASRA Legislative Conference during the first week in February 2004, pending approval by the State treasurer.

Next Meeting Dates:

The Board agreed to hold a conference call during the month of January if needed.

The next scheduled quarterly investment meeting is February 18, 2004.

The next scheduled business meeting is March 15, 2004.

On a motion by Mr. Harris seconded by Mr. Candon, the Board unanimously voted to adjourn at 3:34 p.m.

Respectfully submitted,

Cynthia L. Webster
Secretary to the Board

GOALS: **The Board established the following list of goals to be addressed in the future:**

Support full appropriation
 Increased staff for counseling & continued training

TO DO's

Who	What	When	Done
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** = for possible 2004 legislative changes

CLW	Conclude RFP for evidentiary hearing officer	ASAP	
CLW	Reportable wages (7/21 item 9)	ASAP	
NEPC	Comsn Recapture negotiations w/State Street Bank (8/20 item 3)	ASAP	
David	Appropriate timing of semi-annual rebalancing (8/20 item 4)	11/19/03	
NEPC	Enhanced Index manager options (9/23 item 2)	11/19/03	
CLW	Follow up on developing policy for independent/private school membership (9/23 item 4)	ASAP	
CLW	Evaluate magnitude/impact to system of potential 700 wavered teachers (9/23 item 11)	ASAP	
All	Consider formal Int'l Equity manager search (11/19 item 2)	TBD	
CLW	Prepare draft policy for Board & AG re: Independent Schools (12/16 # 4)	ASAP	
Beth/CLW	Develop funding status presentation materials (12/16 #5)	ASAP	
David	Follow-up on securities litigation (12/16 item 8)	2-18-04	
CLW	Actuary cost: increasing Group C bens above 50% (12/16 # 9)	ASAP	
Jeb	Modify Manager Behavior Policy and re-distribute for Board comments (12/16 #11)	ASAP	
CLW	Modify legislative recommendations get actuary estimate and re-distribute for Board comments (12/16 #13)	ASAP	