

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

March 22, 2005

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, 2008

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

The Chairperson, Joe Mackey, called the meeting to order at 8:35 a.m. on Tuesday, March 21, 2005, held in the Suzanna's Restaurant Conference Room at the Hilltop Inn, Airport Road, Berlin, Montpelier, Vermont.

With the Board's permission, items on the agenda were taken out of order.

ITEM 1: Discuss/Act on Board's Position re: Social Security Privatization

Mr. Kaplan distributed a Resolution for the Board's adoption regarding the VSTRS's position opposing the privatization of Social Security. Among other statements the Resolution states the Board would attempt to select and retain firms that do not engage in privatization activities, while not breaching their fiduciary responsibilities.

Mr. Altemus said he didn't feel it was within the Board's scope or its best interest to take political positions on such issues. Mr. Candon agreed, and stated while he was not in support of the privatization of the Social Security program, he could not support a formal Resolution, either.

Mr. Spaulding said he felt that Retirement System Boards could influence important issues by asking questions such as about corporate governance, and manager affiliations with organization in support of privatization. He said some managers who previously support the issue have now changed their minds because of the pressure placed on them by Boards.

Mr. Kaplan stated he was in support of the Resolution and the protection of retirees and their pension systems.

On a motion by Mr. Kaplan seconded by Mr. Spaulding, the Board voted to adopt the Resolution regarding the opposition of Social Security privatization, as presented. Mr. Kaplan, Mr. Mackey, Mr. Harris and Mr. Spaulding voted yes. Mr. Candon and Mr. Altemus voted no.

WHEREAS, as Trustees of the Vermont State Teachers' Retirement System, our sole loyalty lies with the members and beneficiaries of this system; and

WHEREAS, our pension plan is designed to provide a benefit which in conjunction with Social Security and other savings will make possible a secure retirement for our members; and

WHEREAS, privatization, in part or whole, of Social Security poses a great risk to the retirement security of our members; and

BE IT RESOLVED: That the Vermont State Teachers' Retirement System Board of Trustees will carefully consider the activities and involvement of investment firms in efforts to promote privatization during the selection and retention process of such firms; and

BE IT FURTHER RESOLVED: That the Vermont State Teachers' Retirement System Board of Trustees will attempt to select and retain firms that do not engage in activities detrimental to our members, while not breaching our fiduciary responsibility to earn the highest return possible consistent with the safety of the funds.

Mr. Spaulding left the meeting.

ITEM 2: Act on the Disability Retirement Recommendations for:

Mr. Altemus advised the Board he would recuse himself on the matter of Pamela Spinney, as he was affiliated with her through employment at the Department of Education.

- Christopher Congdon
- Donna May
- Mark Skiffington
- Patricia O'Shea

On a motion by Mr. Kaplan seconded by Mr. Candon, the Board unanimously voted to approve the disability retirements for Christopher Congdon, Donna May, Mark Skiffington, and Patricia O'Shea, as recommended by the Medical Review Board.

- Pamela Spinney

On a motion by Mr. Kaplan seconded by Mr. Harris, the Board voted to approve the disability retirements for Pamela Spinney, as recommended by the Medical Review Board. Mr. Kaplan, Mr. Mackey, Mr. Candon, and Mr. Harris voted yes. Mr. Altemus recused himself.

ITEM 3: Approve the Minutes of February 16, 2005

On a motion by Mr. Kaplan seconded by Mr. Harris, the Board unanimously voted to approve the minutes of February 16, 2005, with amendments:

- Remove Mr. Candon's name from Members Present and move to Members Absent.
- Correct page 7 paragraph 2: NEPS's to NEPC's
- Correct page 7, paragraph 6 "Mr. Minor to Mr. Minot

ITEM 4: Ratify the Approval for GASB 25 Report on Actuarial Methods

On a motion by Mr. Kaplan seconded by Mr. Altemus, the Board unanimously voted to ratify approval of the expense for a GASB 25 report prepared by the actuary.

The Board agreed to resume discussions later in the day on the report results.

ITEM 5: Travel Request Approvals

On a motion by Mr. Kaplan seconded by Mr. Candon, the Board unanimously voted to encourage and support the attendance of any Board member at the Green Mountain Summit on Investor Responsibility in Stowe, VT, May 23-25.

On a motion by Mr. Candon seconded by Mr. Altemus, the Board unanimously voted to encourage and support the attendance of any Board member and/or staff at the annual NEPC Client Conference, held in Boston, MA, at the end of May.

Mr. Mackey advised the Board he and Mr. Spaulding were requested to testify before legislature at 9:00 a.m. regarding the Governor's veto of the unitization bill.

At 8:45 a.m. on a motion by Mr. Mackey seconded by Mr. Altemus, the Board unanimously voted to recess the meeting until 11:30 a.m.

At 11:45 a.m. the Chairperson, Joe Mackey, called the meeting back into order.

Mr. Spaulding returned to the meeting.

ITEM 6: Discuss/Act on International Equity Manager Finalist Presentations

The Board discussed their opinions regarding the asset allocations.

On a motion by Mr. Kaplan seconded by Mr. Mackey, the Board voted to instruct NEPC to enter into contract negotiations with Acadian Asset Management, and after rebalancing allocate 50% of the SSgA balance to Mondrian Investment Partners, and 50% to Acadian Asset Management. Motion *failed*. Mr. Kaplan and Mr. Mackey voted yes. Mr. Spaulding, Mr. Altemus, and Mr. Candon, voted no. Mr. Harris abstained.

Mr. Spaulding made a motion seconded by Mr. Altemus, the Board voted to hire Acadian Asset Management to replace SSgA and fund them with 50% of the total international equity asset class allocation and 50% to the existing manager, Mondrian. Motion *failed*. Mr. Spaulding, Mr. Altemus, and Mr. Candon voted yes. Mr. Mackey, Mr. Harris, and Mr. Kaplan voted no.

On a motion by Mr. Spaulding seconded by Mr. Altemus, the Board voted to hire Acadian Asset Management to replace SSgA and fund them with 40% of the total asset class allocation, and fund Mondrian Investment Partners with 60% of the total asset class allocation. Motion *passed*. Mr. Spaulding, Mr. Altemus, Mr. Candon, and Mr. Harris, voted yes. Mr. Kaplan and Mr. Mackey voted no.

Mr. Spaulding left the meeting.

ITEM 4: Ratify the Approval for GASB 25 Report (CONTINUED)

The Board reviewed the March 21, 2005 report submitted by David Driscoll, of Mellon Consulting, showing the results of calculations computed for 2001-2004 under the system's current frozen initial liability (FIL) actuarial cost method, and information on the entry age normal (EAN) method.

The report revealed calculations computed under the EAN method more readily reflect the growing deviation, or under funding, of contributions from actuarially recommended levels vs. those seen under the FIL method. The report explained the FIL method for calculating the system's unfunded liability is amortized in a deterministic manner, where the under funding and liability in the EAN method is calculated directly from participants and assets.

For year end June 30	FIL % Method	EAN % Method	Recommended Contribution	Actual Contribution
2001	89.0%	91.5%	\$20,970,278	\$19,143,827
2002	89.5%	88.9%	22,146,880	20,446,282
2003	89.6%	86.0%	28,279,810	20,446,282
2004	90.2%	84.1%	41,658,946	20,446,282

The Board agreed the entire funding issues of the plan should be on the table for discussion, including funding methods, smoothing, reimbursements, health care costs, etc. The Board will create a list of questions and concerns for the actuary to address at a meeting, to be scheduled at a later date.

Ms. Webster advised the Board an actuary RFP would be issued soon. In addition the actuarial services of Mellon Consulting will be purchased by Affiliated Computer Services (ACS) in the near future, and be returning to the name Buck Consulting.

ITEM 7: Discuss Status of Legislative Initiatives

Ms. Webster reviewed the composition of the Summer Study Committee. She explained the Committee had met approximately ten times to date and identified three key issues; disability retirement statutes, healthcare, and plan design for the State System.

A. Health Care – Summer Study Committee Update

Ms. Webster explained two key issues continuously arise each year, which are subsidized surviving spousal health care coverage, and subsidy for active retiree dependent coverage. Ms. Webster detailed several other proposals that have also been discussed.

The current informal Summer Study Committee will conclude soon, however, discussions regarding a proposal to develop a new Summer Study Committee have arisen.

B. Disability Retirement – Summer Study Committee Update

The Committee chose to postpone discussions on this issue.

C. Tax Change Implications – H.64

Ms. Webster advised the Board she had not been asked to testify on H.0064. Ms. Webster will provide information to the Board on 16 V.S.A. §1946 and §1946a, taxation statutes. Also requested was information on the Board's authority to administer the system, and delegate authority.

D. Unitization – H0117

Mr. Mackey reported action is being pursued to acquire an override of the Governor's veto.

E. Funding

The Board previously discussed and decided to meet with the actuary.

F. Minimum Pensions

A bill to increase the minimum retiree pensions may still be discussed.

ITEM 8: Review "To Do" List

The Board reviewed the current To Do list.

ITEM 9: Investment Policy Guideline Review

- A. Asset Allocation
- B. Opportunistic Investments vs. Market Timing

The Board agreed to take up these issues at the May investment meeting.

ITEM 10: Role and Cost of Proxy Voting in the World of Indexing

The Board agreed to take up these issues at the May investment meeting.

ITEM 11: Retirement Office Re-Engineering Project Update

Ms. Webster updated the Board on the status of the imaging and line of business RFPs. Mr. Kaplan asked for a Board member to be appointed to the RFP reviews.

Mr. Mackey asked whether any other reorganization and business process recommendations from Maximus have been implemented. Ms. Webster described the role of Michael Clasen, Deputy Director of Retirement Operations, and division of duties (units) created within the Retirement Office. The Board also was advised of the planned move to the Pavilion Building in the late fall.

ITEM 12: Any Other Business to Come Before the Board

None

Adjournment:

On a motion by Mr. Kaplan seconded by Mr. Harris, the Board unanimously voted to adjourn at 1:45 p.m.

Next Meeting Date:

May 18, 2005 – Quarterly Investment Meeting

Respectfully submitted,

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