

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

January 11, 2006

Board Members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2009

JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007- **via conference call**

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

Elizabeth Pearce, Deputy Treasurer

David Minot, Director of Finance and Investments

Jaye Johnson, Assistant Attorney General

Bill Griffin, Chief Assistant Attorney General

Angelo Dorta, VT-NEA

Nessim Watson

The Chairperson, Joe Mackey, called the meeting to order at 10:05 a.m. on Wednesday, January 11, 2006, which was held in the Treasurer's Conference Room, 109 State Street, 4th Floor, Montpelier, Vermont.

At Mr. Kaplan's request the Board discussed the lack of parking available for visitors and members at the 109 State Street location. Mr. Spaulding advised he has, and would continue to, lobby for customer parking spaces.

ITEM 1: Approve the Minutes of October 26, 2005 Meeting

On a motion by Mr. Candon seconded by Mr. Altemus, the Board unanimously voted to approve the minutes of October 26, 2005, as submitted.

ITEM 2: FY '07 Budget Review

- A. Cost Allocation
- B. VPIC Budget/Expense Accounting

Ms. Pearce reviewed the FY '07 budget, and explained it reflected the results of a cost allocation study applied to each of the three retirement systems. She explained, based on an average of staff time, plan assets, and number of clients for each plan, the allocations were adjusted from the current 41%(S), 47%(T), and 12%(M) to the more accurate 36.5%(S), 44.59%(T), and 18.92%(M) effective July 1, 2006. Ms. Pearce also advised the Board the allocation methodology would be reviewed annually during budget preparations.

Among other budget items the Board discussed rising health care costs, the GASB 45 FY'08 impact, and SS Part D reimbursements. Ms. Pearce also provided a brief update of the retirement re-engineering project, and reported the 5-year plan was meeting timeline milestones while at or under budget.

The Board discussed and agreed that VPIC expenses would be allocated by the percentages discussed, or by system and/or assets when appropriate.

ITEM 3: 90-day Disability Waiver Request

The Board agreed to defer this item until later in the meeting.

**ITEM 4: Possible Consolidation of Assets and Investment Functions
Into Some Larger, Well Managed, Retirement System**

Mr. Kaplan advised the Board of his opinion regarding the VPIC and that a greater savings could be realized by combining all or part of the plans' assets with another state's retirement plan. He reported his discussions with Trustees from other states, members of national organizations, and others about the plan, its feasibility, and likeliness.

Some members agreed in concept, while recognizing the potential need for legislation, and addressing other issues. Other members were opposed at this time and felt the full benefits of the VPIC were not yet realized and response to the recent under funding study were warranted before looking at other alternatives.

Mr. Griffin offered an "off-the-cuff" opinion agreeing some legislation would be required. Mr. Spaulding offered, for educational purposes only, that he talk with other state treasurers, and staff attorney Bill Rice look at the legalities.

Mr. Kaplan made a motion seconded by Mr. Mackey, to have the Attorney General's Office look into the feasibility of the VSTRS investing all or part of their assets with another system. *Motion failed*, Mr. Kaplan, Mr. Mackey, and Mr. Spaulding voted yes. Mr. Altemus and Mr. Candon voted no. Mr. Kaplan then changed his vote to no.

On a motion by Mr. Candon seconded by Mr. Altemus, the Board voted to direct the Treasurer's Office to query other states/sources on the concept. *Motion passed*. Mr. Candon, Mr. Altemus Mr. Mackey, and Mr. Spaulding voted yes. Mr. Kaplan abstained.

ITEM 5: Asst Allocation & Unitization of Investment Sleeves

The Board discussed the VPIC's asset allocation recommendation process, the Board's approval process, and process for asset investments and weighting within a sleeve.

Also discussed was where a Global Asset Allocation would fit in the target allocations, to which Mr. Minot provided a question and answer response from NEPC.

The Board was also advised it was determined the Single Deposit Investment Account (SDIA) should stay under the jurisdiction of the Teachers' and Employees' Boards

Mr. Harris joined the meeting via conference call.

ITEM 6: High Yield Bonds Discussion

The Board discussed the high yield asset class and whether to invest in the class. Mr. Minot provided a question and answer response from NEPC on this topic. The Board acknowledged they did not act timely upon the past high yield recommendation of the investment consultant and missed a positive opportunity.

By consensus the Board agreed they should have an allocation to high yield. The Board discussed the impact if a Global Asset Allocation were approved, and whether some of a 5%, or approximately \$30 million, HY investment would be used for that class funding.

On a motion by Mr. Spaulding seconded by Mr. Candon, the Board unanimously voted to support an asset allocation change and recommendation from the VPIC to add a High Yield allocation of up to 5%.

**ITEM 4: (CONTINUED) Possible Consolidation of Assets and Investment Functions
Into Some Larger, Well Managed, Retirement System**

Mr. Kaplan moved to reconsider his failed motion to have the Attorney General's Office look into the feasibility of the VSTRS investing all or part of their assets with another system.

Mr. Kaplan withdrew his motion to reconsider.

On a motion by Mr. Spaulding seconded by Mr. Kaplan, the Board voted to request the Attorney General's Office to research and report to the Board the legal feasibility and issues of investing some or all of its assets with another well managed system. Motion passed. Mr. Spaulding, Mr. Kaplan, Mr. Mackey, and Mr. Harris voted yes. Mr. Altemus and Mr. Candon voted no.

ITEM 7: Travel Policy Proposal

Mrs. Webster distributed a travel budget breakdown for the FY '07 budget. Mr. Spaulding reminded the Board of its July 2003 vote to use the General Services Administration (GSA) rates for reimbursements.

Among other items, the Board discussed the Standard of Conduct requirements for pre-approved travel, and whether a \$2,000 per person allotment for travel, excluding the cost of travel to meetings, was practical.

On a motion by Mr. Candon seconded by Mr. Spaulding, the Board unanimously voted to allot \$2,000 per member from the FY '07 travel budget, for a one year trial, to reimburse meals and incidentals consistent with GSA maximums, and adherence to the Standards of Conduct Policy.

ITEM 8: Under Funding Report

Mr. Spaulding said he was very pleased with the process, report, and recommendations resulting from the study. He said he felt there was a high level of interest and support from the Administration and Legislators. The Board recognized and thanked the members of the Commission.

The entire report could be viewed on the Treasurer's Web site at:

<http://www.vermonttreasurer.gov/documents/retireTeacher/reports/teacherCommissionFinalReport200511.pdf>.

ITEM 9: Director of Retirement Operations: Status Report

- SS Part D

Mrs. Webster advised the Board all required filings were completed timely with a data filing expected again within the next two weeks. However, as a result of the serious difficulties experienced with the Part D implementation, she advised the Plan's refund would certainly be delayed for an unknown amount of time.

The Board also discussed the pending expiration of the VEHI health care provider contract on June 30, 2006.

On a motion by Mr. Kaplan seconded by Mr. Harris, the Board unanimously voted to apply for a sole source waiver of Bulletin 3.5, to continue contracting with VEHI.

- 414(h) Pick-Up – Actuary Report

Mrs. Webster advised the Board the actuary's study was not yet completed to recalculate the pick-up. She will keep the Board informed.

ITEM 3: (CONTINUED) 90-day Disability Waiver Request

Mr. Watson, husband of the applicant, joined the meeting via conference call. The Board discussed the waiver request matters.

On a motion by Mr. Harris seconded by Mr. Candon, the Board unanimously voted to grant a waiver of the 90-day disability retirement filing deadline, and allow Nancy Rice to apply for a disability retirement.

ITEM 9: Director of Retirement Operations: Status Report (CONTINUED)

- ROTC, PT/OT, etc. Options

Mrs. Webster distributed the results of a payroll officer survey, which revealed evidence of two members who were erroneously enrolled in the system. She said both members were vested; one member with 10 years membership and the other slightly over five.

The Board reviewed and discussed the recommendations and alternative available.

Mr. Kaplan made a motion to support the recommendations 1, 2, and 3, as outlined. *Motion failed due to lack of a second.*

Mr. Spaulding made a motion seconded by Mr. Altemus, to support the alternative to #1 of the recommendation grandfathering erroneously enrolled PT/OT vested members, and adopt #2 and #3 of the recommendation.

Mr. Kaplan made an amendment to the motion to require verification of teacher or administrator contracts before grandfathering vested members. *Motion failed* due to a lack of a second.

The original motion made by Mr. Spaulding seconded by Mr. Altemus, to support the alternative to #1 of the recommendation grandfathering erroneously enrolled PT/OT vested members, and adopt #2 and #3 of the recommendation passed. Mr. Spaulding, Mr. Mackey, Mr. Altemus, Mr. Candon, and Mr. Harris voted yes. Mr. Kaplan voted no.

The Board discussed enrollment of nurses and possible statute housekeeping. Mrs. Webster explained pursuant to Board policy, school nurses have been allowed to enroll for the past 30 years, but was not clearly defined in the definition of teacher, §1931(20).

Mr. Kaplan made a motion seconded by Mr. Mackey to allow school nurses to remain in the system and continue to be enrolled in the system.

Mr. Spaulding made a motion seconded by Mr. Candon to table the matter until the next business meeting.

Mr. Kaplan withdrew his motion.

- Legislative Update

Mrs. Webster briefed the Board on the only two bills she was aware of at this time, H238 and H547.

ITEM 9: Any Other Business to Come Before the Board

Pursuant to the Standards of Conduct Policy, Mr. Altemus reported on his attendance at the Super Bowl of Indexing Conference.

Mr. Spaulding said as a follow-up to the SDIA jurisdiction decision, he felt it would be prudent to have a joint meeting with the State Employees' Board to review and discuss the structure and investment management of the Plan.

Mr. Harris left the meeting.

Next Meeting Dates:

The next Vermont Investment Committee meeting is scheduled for February 15, 2006.

Adjournment:

On a motion by Mr. Candon seconded by Mr. Spaulding, the Board unanimously voted to adjourn at 3:58 p.m.

Respectfully submitted,

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