

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

January 8, 2004

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)
ROBERT HOOPER, VSEA member (term expiring September 2004)
WILLIAM HARKNESS, VSEA member (term expiring September 2005) –**later in the meeting**
JEB SPAULDING, Vice-Chairperson, VT State Treasurer
CINDY LAWARE, Commissioner of Personnel
ROB HOFMANN, Commissioner of Finance & Administration – **later in the meeting**
GORDON MACARTHUR, Retired Vermont State Employees' Association

Members absent:

DICK JOHANNESSEN, Governor's Delegate

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Finance & Investments
William Rice, Assistant Attorney General
Ellen Griggs, NEPC
Joe Mackey, Chairman Vermont State Teacher's Retirement System

The Chairperson, Warren Whitney, called the **conference call** board meeting to order at 8:05 a.m. on Thursday, January 8, 2004 in the Treasurer's Office, 133 State Street, Montpelier, VT.

ITEM 1: Approval of minutes for December 11, 2003

On a motion by Mr. Hooper seconded by Mr. Spaulding, the Board unanimously voted to approve the minutes of December 11, 2003, as submitted.

ITEM 2: Act on the Medical Review Board Disability Retirement Recommendations for:

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|---------------------------------|----------------------|
| ○ <i>Susanna H. Clark</i> | <i>New</i> |
| ○ <i>Charles V. Rogers, Sr.</i> | <i>New</i> |
| ○ <i>Linda L. Works</i> | <i>Annual Review</i> |

On a motion by Mr. Hooper seconded by Ms. LaWare, the Board unanimously voted to approve the Medical Review Board recommendation for a disability retirement for Susanna H. Clark and Charles V. Rogers, Sr.

Mr. Harkness joined the meeting.

On a motion by Mr. MacArthur seconded by Ms. LaWare, the Board unanimously voted to approve the Medical Review Board recommendation for a continued disability retirement for Linda L. Works.

Mr. Hofmann joined the meeting.

ITEM 3: Discuss/Act on Rosalie Nason Retirement Option

The Board reviewed the January 8, 2004 memo from Assistant Attorney Michael McShane regarding the request of the Board to reexamine the issue of whether the Board had the authority to alter the election of retirement option made by a retiree.

On a motion by Mr. Hooper seconded by Mr. MacArthur, the Board unanimously voted to direct Ms. Webster to sent a letter to the family of Rosalie Nason (dec.), regarding Mr. McShane's opinion that the Board has no authority to change options.

ITEM 4: Discuss/Act on Possible Legislative Action Items

Mr. Spaulding advised the Board that he and Ms. Webster attended a House Government Operations meeting on January 7th where they discussed three subjects. The first discussion was with respect to a follow-up of the existing fire fighters language added to statute effective July 1, 2003, mandating that existing fire fighters be provided a one-year election timeframe (July 1, 2004 – June 30, 2005) to transfer to the Group C plan, or remain in Group F. This language was an amendment to the July 1, 2000 provisions for new hires of specific law-enforcement personnel to be automatically enrolled in the Group C plan.

Mr. Spaulding reiterated to the Gov Ops members that neither the Treasurer's Office nor the Administration were in support of the 2003 legislation and requested that the election amendment be repealed in favor of development of a macro approach and plan rather than the micro fix for the firefighter group, and to consider the long-term financial burden this amendment places on the system. Mr. Spaulding felt one prior suggestion to reconsider was development of a 25-year plan to encompass the "fringe" law enforcement groups, i.e. department of corrections, fire fighters, investigators, liquor inspectors, etc. and other law enforcement type personnel that might not belong in the Group C. He said he and others are not necessarily in favor of expanding the system by making special groups, however, they also do not want to dilute the Group C plan or open it up for possible challenges and/or litigation in the future.

The other items discussed at the meeting were the housekeeping items previously approved by the Board and the unitization proposal.

Mr. Spaulding and Ms. Webster reported that the House Gov Ops members were responsive to their comments and would be willing to support a committee bill to cover all of the items discussed.

Mr. Spaulding will distribute a copy of the memo prepared in response to the fire fighter issue. He recommended that the Board wait to see what legislation develops and believed that input from other parties such as VSEA and the Administration will be in support of his position.

ITEM 5: Discuss Status of 457 RFP

Mr. Minot advised the Board that he was drafting the RFP and requested the Board consider whether it would be appropriate to include an examination of the Vermont State (Exempt) Employees' Defined Contribution (DC)) Plan and Vermont Municipal Employees' Defined Contribution Plan in the RFP, representing a cost savings by each entity sharing in the consultant expense.

The Board discussed the possibility of a legislative amendment to move the administration of the state DC Plan to the Vermont State Employees' Retirement System Board of Trustees. Mr. Spaulding said he would take the suggestion under consideration.

On a motion by Mr. Spaulding seconded by Mr. Hofmann, the Board unanimously voted to include the review of the State DC Plan and Municipal DC Plan in the 457 RFP, and to share the expense with the Treasurer's Office and VMERS, pending approval by the VMERS Board.

ITEM 6: Discuss/Act on 457 Plan Emergency Withdrawal Request

Ms. Webster advised the Board that the member withdrew her request for appeal upon further discussion with Chip Sandville, Plan Coordinator for Great-west.

ITEM 7: 2003 Travel Report and Anticipated 2004 Travel

Ms. Webster distributed a list of 2004 National Conferences. Members of the Board were advised to contact the Retirement Office as soon as possible, once travel approval was obtained, if they needed assistance in travel arrangements.

Ms. Webster reminded Board members to submit their travel expense reports on the Board forms provided for vendor system payment, rather than through the payroll expense reimbursement system.

Ms. Webster will provide the rest of the information requested, regarding who traveled where and when during prior fiscal years.

ITEM 8: Any other business to come before the Board

Mr. Spaulding advised the Board that Maximus, a management consultant firm was on-site and has begun the Retirement Office review. The firm is in the first stage of fact-finding, and would

return in a couple of weeks to begin the internal study and individual interviews with employees. The final report is due April 1, 2004.

Mr. Minot reported that the fund manager ethics questioner discussed at the December meeting has not yet been distributed to managers.

Ms. Webster reported that a draft of the Disability Hearing Officer RFP was completed and being reviewed. She expected to have it available for Board review soon, and public distribution within the month. Mr. Spaulding explained that Ms. Pearce had questions that are now answered regarding the qualification of the hearing officer.

Mr. Minot reported that he initiated the \$6 million request for a March 31, 2004 distribution from Henderson Investments timely and that all of the previous \$4 million request has been received.

Ellen Griggs of New England Pension Consultants joined the meeting.

ITEM 9: Discuss/Act on Addition of High Yield Language in Investment Guidelines

Mr. Minot distributed amended draft language and an interim target fund balance spreadsheet to members present and via e-mail to those calling in.

The Board reviewed the DRAFT language prepared by Ellen Griggs of New England Pension Consultants. She explained this language was included in the initial draft of the Policy Guidelines, but the Board opted to remove it during the review process. The inclusion of the language is required now as a result of the high yield allocation and contract with Post Advisory Group. She advised that Post Advisory added some of the minor language amendments for clarification.

Ms. Griggs and Mr. Minot recommended the funding for the 5% allocation come from equities by doing an interim re-balancing. The figures presented were based on the Q3/03 returns; however, the Q4/03 figures would be available after January 12, 2004.

Some members of the Board felt that since they had not received the information prior to the meeting, they were not prepared to act on approval for the language. They requested that information be provided to Board members in a timely manner.

It was agreed to hold a conference call meeting on January 15, 2004 at 8:00 a.m. to act on the addition of High Yield language in Investment Guidelines.

On a motion by Mr. Spaulding seconded by Ms. LaWare, the Board unanimously voted to adjourn at 9:30 a.m.

Respectfully submitted,

Cynthia L. Webster, Executive Secretary to the Board

GOALS

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

- Form a *Policy Development* sub-committee

TO DO's

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

CLW & Joan	Complete all backlogged minutes (10/9 item 2)	ASAP	11/21
PD Sub	Complete Proxy voting policy (10/9 item 3)	ASAP	
CLW	Work w/DOP regarding old LOA's (10/9 item 4)	ASAP	
CLW	Obtain AG's opinion re: old LOA's (10/9 item 4)	ASAP	
PD Sub	Prepare mailing request policy (10/9 item 6)	11/20/03	12/11
All	Review Deferred Comp plan document (10/9 item 10)	12/11/03	
CLW	457 modified language for members to Board (10/9 item 11)	12/11/03	
CLW	Prepare travel report (10/9 item 12)	11/20/03	
WW & DM	Prepare letter for 457 participants (mkt tmng) (10/29 item 3)	ASAP	11/21
CLW	Advise BenefitsCorp of newsletter info request (10/29 item 2)	ASAP	
CLW	Obtain legal opinion re: real estate assets (11/21 item 7)	12/11/03	