

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

May 13, 2004

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)
ROBERT HOOPER, VSEA member (term expiring September 2004) – **via conference call**
CATHERINE SIMPSON, VSEA Alternate member (term expiring September, 2005)
ELIZABETH PEARCE, Deputy Treasurer Representing JEB SPAULDING, VT State Treasurer
DICK JOHANNESSEN, Governor's Delegate
CINDY LAWARE, Commissioner of Personnel – **arrived later in the meeting**
ROB HOFMANN, Commissioner of Finance & Administration – **arrived later in the meeting**

Members absent:

WILLIAM HARKNESS, VSEA member (term expiring September 2005)
GORDON MACARTHUR, Retired Vermont State Employees' Association

Also attending:

Cynthia Webster, Director of Retirement Operations
Michael Clasen, Deputy Director of Retirement Operations
David Minot, Director of Finance and Investments
William Griffin, Chief Assistant Attorney General
Mike McShane, Assistant Attorney General
Dr. Russell Davignon, Chairman, Medical Review Board
Marie Panciacco, Karl Kroner, Chip Sanville, Great-West Retirement Services
Rob Fishman, New England Pension Consultants
Steven Jeffrey, Vermont Municipal Employees' Retirement System

The Chairperson, Warren Whitney, called the meeting to order at 8:36 a.m. on Thursday, May 13, 2004 in the Department of Employment & Training Conference room at 5 Green Mountain Drive, Montpelier, VT.

ITEM 1: Approval of minutes for April 19, 2004

On a motion by Mr. Johannesen seconded by Ms. Pearce, the Board unanimously voted to approve the minutes of April 19, 2004, as submitted.

ITEM 2: Discuss/Act on the Disability Retirement for:

**Catherine M. Nelson
Douglas J. Relyea
Nelson D. Rickert**

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board unanimously voted to approve the Medical Review Board's recommendation for a disability retirement for Catherine M. Nelson.

The Board was advised of the untimely death of Mr. Relyea.

On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to approve the Medical Review Board's recommendation for a disability retirement for Douglas J. Relyea, with no further review.

On a motion by Mr. Johannesen seconded by Mr. Hooper, the Board unanimously voted to approve the Medical Review Board's recommendation for a disability retirement for Nelson D. Rickert, with a 1-year review.

ITEM 3: Discuss/Act on Emergency Withdrawal from 457 Plan

On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to approve the emergency withdrawal recommendation of Great-West Retirement Services for Michael Blacha.

Mr. Hofmann arrived at the meeting.

ITEM 4: Disability Retirement Review of Process & Procedure

Dr. Davignon, Medical Review Board Chairperson, and Michael McShane, Assistant Attorney General, appeared before the Board.

Extensive discussion ensued regarding the process, procedures and disability benefits available. Mr. McShane discussed the new evidentiary hearing process, which is almost ready to begin. He said that hearing officers would make the final decisions on appeals and that evidence would be limited to the date of application or termination, whichever came first. He said the State would object to the submission of medical information to the hearing officer after the date used by the Medical Review Board for their review.

The Board agreed that further discussion and adoption of a policy regarding disability retiree income verification would be considered at a meeting in the near future.

Mr. Hofmann left the meeting.

Ms. LaWare arrived at the meeting.

ITEM 5: Q1/04 Deferred Compensation (457) Plan Review – Great-West Life

Ms. Panciocco, Mr. Kroner, and Mr. Sanville appeared before the Board. They reported for the Q1/04 a total of 5,394 participants of which 5077 were state members and 317 were municipal members. The total plan assets were reported to be \$167 million as of March 31, 2004.

The Board discussed and Ms. LaWare agreed that the Department of Personnel would provide Great-West with specific demographic information in the fall to use for targeted marketing and education. Ms. Panciocco distributed a list of Great-West Financial Educational Seminars.

Ms. Panciocco suggested the Board consider capping the administration fees for accounts over a specific dollar amount as an incentive to participants to encourage terminated participants to leave their money in the plan.

Ms. Webster advised the Board of a large balance of excess funds that have accumulated in the deferred comp account, and said the suggestion to cap fees should be discussed soon, along with a possible rate holiday and/or participant rate (fee) reduction.


Mr. Hofmann returned to the meeting.

ITEM 6: 457 Plan Consultant Report - NEPC

The Board reviewed and discussed the April 2004 DRAFT #2 of the *457 Deferred Compensation Plan Investment & Funding Policy Statement*.

On a motion by Ms. Pearce seconded by Ms. Simpson, the Board unanimously voted to adopt Draft #2 of the *Investment & Funding Policy Statement* with the understanding that it would change depending on potential changes to fund options and/or asset classes, and with an amendment to page 14, paragraph six that shall read: If the Board decides to replace funds or add new funds, the selection process will include consideration of characteristics such as minimum years of experience, size, and fees, among others.

Mr. Fishman of NEPC and the Board reviewed the Consultant's recommended changes and options for the Vermont 457 asset class line up and fund options. Mr. Whitney suggested expanding the Small Cap asset class to include options for Small Cap Growth, and Small Cap Value, similar to the Large Cap options. The Board reviewed the following:

CURRENT FUND LINE-UP		PROPOSED FUND LINE-UP	
Stable Value/Money/Money Market		Stable Value/Money/Money Market	
Vermont Stable Value Fund		Vermont Stable Value Fund	

Core Bonds		Core Bonds
FPA New Income Fund	→	PIMCO Total Return
Large Cap Growth		Large Cap Growth
AIM Constellation Institutional	→	New Large Cap Growth Option
Large Cap Core/Index		Large Cap Core/Index
Domini Social Equity Index	→	Domini Social Equity Index
Fidelity Magellan Fund	→	Vanguard 500 Index Fund
Vanguard 500 Index Fund	→	Vanguard 500 Index Fund
Large Cap Value		Large Cap Value
T.Rowe Price Equity Income Fund	→	T.Rowe Price Equity Income Fund
Mid Cap Growth		Mid Cap Core
Janus Enterprise Fund		New Mid Cap Core Option
Small Cap Growth		Small Cap Core
Morgan Stanley Small Company Growth	→	T. Rowe Price Small Cap Stock Fund
Seligman Frontier Fund	→	T. Rowe Price Small Cap Stock Fund
Small Cap Core		Small Cap Core
T. Rowe Price Small Cap Stock Fund	→	T. Rowe Price Small Cap Stock Fund
International Stock Funds		International Stock Funds
T.Rowe Price International Stock Fund	→	Templeton Foreign A Fund
Templeton Foreign A Fund	→	Templeton Foreign A Fund
Emerging Markets		International Stock Funds
Templeton Developing Markets A	→	Templeton Foreign A Fund
Balanced Fund		Balanced Fund
Dodge & Cox Balanced Fund	→	Dodge & Cox Balanced Fund
Asset Allocation Funds		Lifecycle Funds
Aggressive Profile Portfolio		
Moderate Profile Portfolio	→	New lifecycle fund options
Conservative Profile Portfolio		

The Chair conducted a straw poll of each of the option recommendations. Mr. Whitney was opposed to restricting the Small Cap category to a core or indexed option only. Mr. Hooper agreed with Mr. Whitney and also reflected on the advisability of removing funds based on performance when, because of the current market, some funds seemed to be doing better than others.

On a motion by Ms. Pearce seconded by Mr. Hofmann, the Board unanimously voted to adopt the NEPC recommendation for the asset class options with the exception to keep the Emerging Market asset class.

On a motion by Mr. Hofmann seconded by Ms. Pearce, the Board unanimously voted to adopt the NEPC recommendation for the fund selection options with the exception to keep the FPA New Income Fund in the Core Bonds asset class and keep the Templeton Developing Market Fund in the Emerging Market asset class.

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board unanimously voted to authorize NEPC to conduct manager searches for the Large Cap Growth, Mid Cap Core/Index, and Lifecycle Funds asset classes.

Great-West will also begin preparations for amendments to printed and educational materials.

On a motion by Mr. Johannesen seconded by Ms. Simpson, the Board unanimously voted to instruct NEPC to update the *457 Deferred Compensation Plan Investment & Funding Policy Statement*, pursuant to the changes adopted.

ITEM 7: Any other business to come before the Board

None

On a motion by Mr. Hooper seconded by Ms. Simpson, the Board unanimously voted to adjourn at 2:50 p.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 legislative changes

CLW	Work w/DOP regarding old LOA's (10/9 #4)	ASAP	
CLW	Obtain AG's opinion re: old LOA's (10/9 #4)	ASAP	
CLW	Prepare travel report (10/9 #12)	11/20/03	
CLW	Advise BenefitsCorp of newsletter info request (10/29 #2)	ASAP	
Dave M	Obtain legal opinion re: real estate assets (11/21 #7)	12/11/03	
Staff	Prepare a comprehensive review of Disability Retirement		
	Process and components (3/11 #3)	5/13/04	5/13/04
Beth	Contact GWRS re address on cks (4/8 #3)	ASAP	
Sub-Com	Develop 457 Investment Policy (4/19 #2)	ASAP	5/13/04
Sub-Com	Work with TPA & NEPC re plan (4/19 #2)		
All	Discuss/created income verification process of disability retirees (5/13 #4)	TBD	
ALL	Discuss 457 accumulated funds & rates (5/13 #5)	ASAP	