



STATE OF WASHINGTON  
DEPARTMENT OF RETIREMENT SYSTEMS

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**DRS Advisory Committee  
Meeting Minutes  
May 13, 2011**

Vice Chair John Payne called the meeting to order at 9:30 a.m.

**Committee Members Present:** Pat Dull, Michael Heavey, Cheri Ingersoll, Rick Jensen, Mark Mears, John Payne, Eva Jean Shamley, Mary Sherman, Michael Turcott, Dick Warbrouck, Deirdre Walker and Kathy Whitlock

**DRS Staff and Resource Personnel Present:** Steve Hill, Marcie Frost, Dave Nelsen, Brian Berghoff and Wilma Eby

**Approval of Minutes**

Mark Mears made a motion, seconded by Kathy Whitlock, to approve the December 10, 2010 meeting minutes as submitted. The motion passed unanimously.

**Director's Report**

Director Steve Hill discussed two new topic areas he is bringing over from the prior Employee Retirement Benefits Board (ERBB) agenda. ICMA-RC is the record keeper for the Plan 3 programs and has been since the inception of the hybrid plans. Kris Heurich, Senior Vice President at ICMA-RC, attended ERBB meetings to provide updates on Plan 3 activities. Steve invited Kris to present the same information to the Advisory Committee. He also asked Theresa Whitmarsh, Washington State Investment Board (WSIB) Executive Director, to discuss administrative and management fees for Plan 3 and the Deferred Compensation Program (DCP).

DRS took eight temporary leave days to achieve the compensation reduction of \$548,000. The agency has reached that reduction and will be open on June 10, the next scheduled state temporary layoff day.

Steve discussed the LEAN initiative. At DRS the first LEAN team will look at the retirement estimate process. The team is formed and will hold a kick-off meeting on June 2, 2011. A part of the review will include a customer focus group. Advisory committee members were encouraged to contact Marcie Frost to participate on the focus group.

In October, DRS and WSIB will be implementing the new investment fund line-up for Plan 3 and DCP. Detailed communication will be sent to Plan 3 members and DCP participants in July. Steve noted that Phil Paroian would give more specific information in his presentation.



## **Focus Areas**

### **Investment Performance/Investment Menu**

Phil Paroian, WSIB Senior Investment Officer for Public Equity, presented information about investment returns and market values for the Plan 3 programs and DCP. He noted that for the quarter and the year, all returns are positive and most are meeting or exceeding their benchmark.

He also led a discussion about the change in investment options that will be implemented in October. In 2009 the ERBB asked the WSIB to review the investment option menus to make sure they meet the needs of the majority of Plan 3 members and DCP participants. When considering investment options, WSIB asks a set of questions aimed at determining if it would benefit the majority of plan members and achieve the goal of long-term financial and retirement security. He noted that investment behavior studies show that too many investment choices create confusion. The investment options are carefully chosen to provide the best results for the majority of plan participants while being as easy and straightforward as possible.

### **Assessment of State Pensions**

Matt Smith, State Actuary, provided information about policies for state retirement funding, investment and benefits, how those policies are set and a twenty-year look-back on how Washington has done with those policies. He noted that policies have not been well coordinated over the past twenty years. Short-term revenue and investment volatility contributed to short-term funding and benefits policies over the past twenty years. As a result, employers and Plan 2 members will pay higher contribution rates in the future. Opportunities for improvement include fully funding plans, avoiding large benefit improvements until risk and affordability measures improve and amending policies for better risk management.

### **ICMA-RC**

Kris Heurich, ICMA-RC Senior Vice President, gave an overview of the services they provide for Plan 3 members, including information on member contacts with ICMA-RC, contributions and distributions, allocation changes, fund transfers and processing accuracy. She noted that 12.2 percent of Plan 3 members receive their quarterly statements electronically compared to their client base of 18 percent electronic delivery.

### **Fee Discussion**

Theresa Whitmarsh, WSIB Executive Director, provided information about their administrative fee for operational and investment expenses. By statute, the WSIB is funded from the earnings of the funds they manage. All investment and operating costs associated with Plan 3 and DCP are paid by members. She provided information on how the fee is calculated and paid. She noted it is expected that their administrative fee for managing Plan 3 and DCP will decrease to 1.79 percent on July 1, 2011 due to the overall increase in total market values.

### **Pension Legislation**

Dave Nelsen, DRS Legal and Legislative Services Manager, summarized the four pension bills passed by the Legislature and signed or ready for signature by the Governor. Proposed changes to the retire/rehire laws and higher education retirement plan reforms are still under consideration by the Legislature.

### **Round Table**

Dick Warbrouck discussed an option he is proposing to create a plan for retirees to deposit a portion of their retirement benefit into a 401K-like plan that would be invested by the WSIB and administered by DRS. Brian Berghoff, DCP Plan Administrator, responded that DRS is studying the option of adding a Roth 457 IRA to the DCP plan. However, at this time Federal Regulations only support contributions to a Roth 457 (or 457) from salary. Retirement benefits are not considered salary.

### **Agenda Setting**

A request was made for a presentation by WSIB at the November 18<sup>th</sup> meeting about how they monitor fund managers.

The Vice Chair asked to have an update on the roll-out of the online retirement application. Marcie Frost also offered to show the results of the LEAN estimate process.

With no additional business, the meeting adjourned at 12:05 p.m.

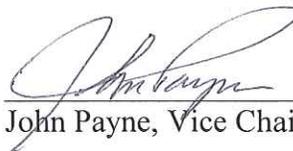
The next meeting is scheduled for November 18, 2011, at 9:30 a.m. in the DRS boardroom.

Approved:



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Steven R. Hill, Director



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John Payne, Vice Chair