



STATE OF WASHINGTON
DEPARTMENT OF RETIREMENT SYSTEMS

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**DRS Advisory Committee
Meeting Minutes
November 18, 2011**

Chair Nancy Baldwin called the meeting to order at 9:30 a.m.

Committee Members Present: Nancy Baldwin, Pat Dull, Michael Heavey, Darrell Heisler, Cheri Ingersoll, Judi Owens attending for Jonni Lissner, Rick Jensen, Pat McElligott, Mark Mears, John Payne, Michael Turcott, Dick Warbrouck, Deirdre Walker and Kathy Whitlock

Also Present: Steve Hill, Marcie Frost, Dave Nelsen, Brian Berghoff, Wilma Eby, Phil Paroian, Allyson Tucker, Charlie Nelsen, Brent Neese and Michele Williams

Approval of Minutes

Dick Warbrouck made a motion, seconded by Kathy Whitlock, to approve the May 13, 2011 meeting minutes as submitted. The motion passed unanimously.

Focus Areas

Investment Performance

Phil Paroian, Washington State Investment Board (WSIB) Senior Investment Officer for Public Equity, presented information about investment returns and market values for the Plan 3 programs and the Deferred Compensation Program (DCP). He noted the third quarter was very rocky with U.S. stocks down 15 percent for the year. However, in October the U.S. market was up 11.5 percent and the global market was up 11 percent. He noted October was the strongest single month in 20-30 years. In spite of the strong month, the expectation is for continued challenging investment performance.

Selecting and Monitoring Investment Managers

Phil Paroian, WSIB Senior Investment Officer for Public Equity, presented information about the Public Equity Team and how they select and monitor investment managers. He gave a detailed description of the WSIB key investment beliefs and the public equity team's process for recommending hiring and termination of investment managers to the State Investment Board. He provided an example of the process the team follows when conducting an investment search, including preliminary research and screening, evaluations, meetings and on-site due diligence. Mr. Parorian also described what the team watches for in ongoing investment manager monitoring.

WSIB Plan 3 and DCP Policies

Allyson Tucker, WSIB Assistant Senior Investment Officer, presented recommended changes to investment policies to align the policies with the new investment fund options.



DCP Record Keeper Report

Charlie Nelson, President, Great West Retirement Services, Brent Neese, Vice President, Government Markets, and Michelle Williams, Director, National Accounts, Government Markets, introduced themselves to the committee and provided information about their company and their record keeping services. They provided information about the plan assets, contributions, distributions and participant services. Great West has been the record keeper for DCP since July 2010.

Pension Legislation

Dave Nelsen, DRS Legal and Legislative Services Manager, provided an update on the pension issues discussed by the Select Committee on Pension Policy or the LEOFF 2 Board during the 2011 interim.

Higher Education Retirement Plan (HERP) Eligibility

The SCPP study of HERPs was mandated by the 2011 legislature. The SCPP focused on the eligibility of higher education employees to participate in these retirement plans. HERPs are not administered by DRS, and are defined contribution plans with employer matching contributions up to 10 percent based on age. The SCPP has decided not to recommend changes to the current eligibility standards in law.

LEOFF Plan 1/LEOFF Plan 2 Merger

The 2011 Legislature required the Office of the State Actuary (OSA) to study the issues related to merging these two retirement plans. A bill was introduced late in the 2011 session that would have merged the two plans. While it didn't pass, the bill did elicit many questions that the Legislators wanted answered with a study. OSA is required to provide that study to the Legislature by December 15, 2011. A discussion of the issue and study has been discussed by both the SCPP and the LEOFF 2 Retirement Board.

Pension Spiking

The SCPP will hold a work session on the topic of pension spiking or pension ballooning at their December meeting. This discussion will provide a background on the legislative history, as well as inform about the current laws and policies in place in the various systems and plans to address this issue.

Director and Deputy Director Report

Budget

Director Steve Hill reported on the state budget issues. The Governor submitted her version of the \$2 billion in cuts necessary to balance the budget. While the cuts are to the general fund, DRS continues to comply within the spirit of the impacts to other agencies, regardless of its funding source.

Pension Funding Council

The Pension Funding Council (PFC) met in October to hear recommendations from the State Actuary about the economic assumptions used to develop contribution rates. The PFC voted to adopt the Actuary's recommendations, including a phased-in approach over the next 10 years to

reduce the annual investment return assumption from 8.0% to 7.50%, with the first step being a reduction to 7.90%.

Investment Fund Transition

The changes to the investment fund lineup for DCP participants and Plan 3 members were finalized on October 28, 2011. Balances and future payroll deferrals for individuals invested in one of the discontinued funds after the markets closed at 1:00 pm PT on October 28 were transferred into a Retirement Strategy Fund based on the person's birth year and assumed retirement age. Director Hill commented on the extensive effort and collaboration of all the parties involved in the transition, and complimented the team work of the State Investment Board, Great West, ICMA Retirement Corporation and DRS.

Member Services

Deputy Director Marcie Frost reported that the online retirement application under development is on track for implementation in the spring. She requested assistance from Advisory Committee members to test the program in February. Ms. Frost also reported that Retirement Services Analysts are testing Skype for counseling services to members who are at a distance or not able to come to DRS for an in person meeting.

New Business

2012 Meeting Dates

Dick Warbrouck made a motion, seconded by Darrell Heisler to approve the proposed May 11 and November 2, 2012 meeting dates. The motion passed unanimously.

Round Table/Agenda Setting

Proposed agenda items for the May 2012 meeting include a presentation by another WSIB investment team, CEM Benchmarking, DRS Strategic Plan Initiatives, Online Retirement Application update and pension legislation report.

With no additional business, the meeting adjourned at 12:25 p.m.

The next meeting is scheduled for May 11, 2012, at 9:30 a.m. in the DRS boardroom.

Approved:

Steven R. Hill, Director

Nancy Baldwin, Chair