

Washington State Department of Retirement Systems

Employee Retirement Benefits Board

Regular Board Meeting May 27, 2008 Minutes

Chair Sandy Matheson called the meeting to order at 9:35 am. Board members present: Michael Coleman, Chet Griffith, Dorothy Kiest, Robert Lenigan, Sheila Marcy, Judi Owens, Al Symington, Brian Talbott, Staci Vesneske and Kathy Whitlock.

Staff/resource personnel present: Assistant Attorney General Anne Hall, Kris Heurich, Joe Dear, Gary Bruebaker, Jeff Wickman, Cathy Cale and Wilma Eby. (Names of other attendees are not included in the minutes but are listed in the permanent record.)

Chair Sandy Matheson announced that Bob Lenigan and Sheila Marcy are leaving the board at the end of their terms in June. She thanked them for their participation on the board and their service to the retirement system members they represented.

A-1 Approval of Meeting Minutes - February 19, 2008

Judi Owens made a motion, seconded by Bob Lenigan, to approve the February 19, 2008 meeting minutes as submitted. The motion passed unanimously.

Public Comment:

No public comment

Status Reports

B-1 Record Keeping Program Update

Kris Heurich, Senior Vice President, ICMA Retirement Corporation (ICMA-RC) provided a status report of the record keeping services for the Plan 3 programs. She reported a 6 percent increase in Plan 3 members from December 2007 through April 2008. For first quarter 2008, 47,000 statements were mailed to Plan 3 Self-Directed Program members with approximately 5 percent delivered electronically. In April 124,000 statements were mailed to Plan 3 members in the Total Allocation Program (TAP) with 2 percent of the statements delivered electronically. Ms. Heurich reported that in January the phone calls they received from members related mainly to questions about statements and market volatility. She noted that during this quarter the Department of Retirement Systems (DRS) was actively communicating with members about the value of investing over the long term during times of market volatility. In April, coupled with first quarter statements, the majority of calls were about gain sharing because of payments to individuals who had previously withdrawn funds.

Ms. Heurich reported a 94 percent increase over January 2007 in Self-Directed Program fund transfers; however, she noted that only 5.6 percent of the total membership initiated a fund transfer during this period. The majority of the money moved into the Bond Fund and Money Market Fund.

B-2 Defined Contribution Plans Investment Performance

Joe Dear, Executive Director, Washington State Investment Board (WSIB), provided an investment report for the Plan 3 and Deferred Compensation (DCP) programs for the quarter ended March 31, 2008. He reported that in the first quarter 2008, except for cash and fixed income, all equity categories had negative returns. Although the returns were negative, the funds closely matched their benchmarks. Three and five-year returns are still positive. Mr. Dear noted that none of the asset classes produced an 8 percent return over the 10-year period. The Total Allocation Portfolio (TAP) return for the quarter was -3.6 percent; however, it performed better than its benchmark, which was -6.0 percent. Real estate and private equity tend to hold the valuation of the TAP portfolio up. He stated that on a relative basis, compared to other large public pension funds, the TAP continues to do well.

The Bond Market Fund continues to outperform its benchmark, the product of a relatively conservative portfolio. Mr. Dear reiterated the need for a long-term, steady approach to investing.

In reviewing the market values of the Plan 3 programs, Mr. Dear noted that now over 6 percent of the TAP assets are from the Plan 3 participants. The Teachers' Retirement System Plan 3 market value is \$4.07 billion, School Employees' Retirement System Plan 3 total is \$1.12 billion, Public Employees' Retirement System Plan 3 total is \$1.40 billion and the DCP market value is at \$2.41 billion.

B-3 Defined Contribution Plans Activity Report

Jeff Wickman, Senior Assistant Director of Policy at the Department of Retirement Systems (DRS), provided information about the planning in progress to implement the Target Date Retirement Funds. A major focus of the implementation is the education campaign. The team is working on defining the key messages, themes and overall brand for the education program. The tentative date for the close of the Horizon Funds is October 3, 2008 with the new Target Date Funds available October 6, 2008. Plan 3 members and DCP participants with contributions going to Horizon Funds and balances in the Horizon Funds will be mapped into the appropriate Target Date Funds based on an assumed retirement age of 65. Individuals can move their investments out of the Horizon Funds before the implementation date or move their funds from the Target Date Fund after the implementation.

Mr. Wickman reported that in May DRS received notification that CitiStreet, the record keeper for the DCP, is being purchased by ING. ING is a global financial services company that also provides record keeping services to retirement plans. DRS received assurance that the new company will remain committed to maintaining the Department's customer service expectations.

B-4 Plan 3 Pension Legislation Report

Jeff Wickman also provided an update on Plan 3 pension legislation that was passed in the 2008 legislative session and signed by the Governor.

- House Bill 3019: TRS/SERS Half Year Contracts - This bill grants six months of service credit to members of Teachers' Retirement System (TRS) and School Employees' Retirement System (SERS) Plan 2 and 3 who work for at least five months of a six-month period, from September through August, and earn 630 hours or more within that six-month period.
- House Bill 3024: TRS Educational Service Credit Purchase Waiting Period - A Teachers' Retirement System (TRS) Plan 2 or Plan 3 member can currently purchase up to seven years of service credit for public education experience earned outside of TRS. To be eligible to make the purchase a member must currently have five service credit years in TRS. This bill reduces the number of service credit years from five to two years in order to qualify for the out of state service purchase.
- Senate Bill 6657: Inclusion of National Board of Professional Teaching Standards Payments as Earnable Compensation - This bill amends the definition of "earnable compensation" in the Teachers' Retirement System (TRS) to include bonuses paid to teachers certified by the National Board for Professional Teaching Standards.

Presentation

C-1 Target Date Funds

Gary Bruebaker, WSIB Chief Investment Officer, reported that the search for a fund manager for the new Target Date Funds began with responses from 31 firms. After reviewing the submittals, WSIB conducted onsite due diligence with two companies. In February the WSIB Public Markets Committee recommended and the full Board approved AllianceBernstein as the fund manager.

Raymond Decker, AllianceBernstein Director of Defined Contribution Services and Chris Nikolich, Senior Portfolio Manager, provided information about the company, the reasoning behind Target Date Funds and the framework for determining the glide path or asset allocation of the funds. AllianceBernstein has 40 years of experience as an asset allocation manager.

Target Date Funds allow a member to choose a fund based on the individual's age and assumed retirement age. The asset allocation changes automatically as the fund approaches the targeted retirement date, gradually taking on a more conservative mix. Mr. Decker responded to a question from Staci Vesneske about how the funds change over time. Funds are offered in five year increments or "vintages" and members are guided to choose the fund closest to their expected retirement date. Each fund's asset allocation is adjusted quarterly according to the glide path, increasing its exposure in bonds as the member grows closer to retirement. Bob Lenigan requested information about how the cost of the Target Date Funds compares to the Horizon Funds. Gary Bruebaker responded that the cost is higher; however, the funds are actively managed and the expectation is that the return will be higher.

Sandy Matheson and Jeff Wickman discussed the education program planned for Plan 3 members and DCP participants. AllianceBernstein is a resource to DRS in developing the member education and communication. The new funds will replace the three Horizon Funds, which means that approximately 20,000 Horizon fund members need to be remapped into a Target Date Fund. The plan is to create a unique program identity for the Target Date Funds and develop an education program and communications that will help members choose the best fund and plan appropriately for their retirement. Initially DRS will focus on education for members who are currently invested in the Horizon Funds.

Action Items

D-1 Ratification of Investment Management Fees and WSIB Operating and Expense Charges

Joe Dear discussed the proposed WSIB administrative expense charged to Plan 3 members and DCP participants. The fee is up slightly due to increased funding levels the agency received for the 2008 supplemental budget. The .0154 percent administrative expense takes effect July 1, 2008.

Judi Owens made a motion, seconded by Michael Coleman, to ratify the .0154 percent WSIB administrative expense fee. The motion passed unanimously.

D-2 Plan 3 Self-Directed Program Default Option

Chair Matheson opened discussion on the Department's proposal to change the Self-Directed Program default option from the Money Market to the Target Date Fund age 65 option. Staci Vesneske questioned why the default into the age 65 fund. Chair Matheson responded that DRS is proposing the age 65 fund because of high turnover in the first five years of employment. DRS believes that defaulting new employees into a more moderate fund, with the member's ability to move to their appropriate age fund, is the best option for new hires. Only a small percentage of members who choose the Self-Directed Program fail to also choose an investment option. DRS will follow up with these members to make them aware of the default option and the other investment choices.

Judi Owens made a motion, seconded by Bob Lenigan, to recommend the Target Date age 65 Fund as the default option for the Plan 3 Self-Directed Program. The motion passed unanimously.

Board Report

E-1 September 23, 2008 – Tentative Agenda

Chair Matheson reviewed the proposed agenda for the September 23, 2008 meeting. DRS will provide more specific information about the Target Date Fund education program at the September meeting.

With no further business, the meeting adjourned at 11:30 am

Approved:

Sandra J. Matheson