

Washington State Department of Retirement Systems

Employee Retirement Benefits Board

Regular Board Meeting September 23, 2008 Minutes

Chair Sandy Matheson called the meeting to order at 9:35 am. Board members present: Claude Burfect, Michael Coleman, Chet Griffith, Carol Jensen, Judi Owens, Al Symington and Kathy Whitlock.

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

Chair Sandy Matheson introduced new board member, Carol Jensen, representing retired School Employees' Retirement System Plan 3 members and Brian Berghoff, Manager of the Deferred Compensation Program.

A-1 Approval of Meeting Minutes - May 27, 2008

Judi Owens made a motion, seconded by Kathy Whitlock, to approve the May 27, 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 6.7 percent increase in member contacts to ICMA-RC compared to the same time period in 2007. Quarterly statements for the Self Directed program were mailed in July and Washington State Investment Board statements were mailed in August; however, they did not experience the usual spike in member contacts.

Ms. Heurich reported that ICMA-RC is receiving some calls about the implementation of the new Retirement Strategy Funds. ICMA-RC normally receives approximately 176 calls per day from Plan 3 members. With the current market fluctuations, out of a total of 170,000 members, they are averaging approximately 212 calls per day. She noted that very few calls are related to Lehman and AIG.

Ms. Heurich reported a continuing trend in money being moved from the International Fund and stock index funds into the money market and bond fund. Members calling ICMA-RC say they want to move to what they believe is a safer investment.

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 June 30, 2008. He reported that returns for the quarter were negative with the exception of the growth stock and value funds. One year returns for the equity markets average a negative 10 percent return. He noted that on the 10 year returns, no asset class produced an 8 percent return. The Total Allocation Portfolio (TAP) fund is down 1.2 percent; however, the average U.S. pension fund is down around 4 percent. The bond fund outperformed 3.4 percent over its benchmark on a one year basis. The bond fund will be a component of the new Retirement Strategy Funds.

For the plan asset values, the Teachers' Retirement System (TRS) Plan 3 is over \$4 billion, School Employees' Retirement System (SERS) Plan 3 is just over \$1.1 billion, Public Employees' Retirement System (PERS) Plan 3 at \$1.4 billion and DCP at \$2.4 billion.

Mr. Dear reported that none of the troubled insurance companies are suppliers of funds for the savings pool and the investment portfolio had no exposure to Fannie Mae or Freddie Mac. He noted that this is an unprecedented situation with respect to the markets. While no one knows where we will end up, the WSIB is a long horizon investor with a highly diversified portfolio and high quality assets distributed around the globe.

B-3 Defined Contribution Plans Activity Report

Jeff Wickman, Senior Assistant Director of Policy at the Department of Retirement Systems (DRS), reported that on Monday October 6, 2008, 11 new Retirement Strategy Funds will be available for Plan 3 members and Deferred Compensation Program (DCP) participants. The funds replace the three existing Horizon Funds. Plan 3 members and DCP participants with assets in the Horizon Funds will be mapped into a Retirement Strategy Fund based on the year they were born and an assumed retirement at age 65. The transition will occur Friday, October 3, 2008 when Horizon Fund assets will be liquidated and reinvested in the appropriate Retirement Strategy Funds.

Presentations

C-1 Actuarial Funding Basics

Matt Smith, Washington State Actuary, provided a presentation about the basics of actuarial funding. He stated that contributions plus investment earnings must equal benefits plus expenses; or what goes in equals what goes out.

Washington State utilizes systematic actuarial funding, which prefunds benefits while members are working, with a goal of intergenerational equity. He noted that Washington State relies on investment returns to fund about 75 percent of the cost of plan benefits. Prefunding requires an actuarial projection. The projection estimates, for each active and retired member, when the benefit will start, the annual benefit amount and how long the member will receive the benefit. The grand total for each member, for every type of benefit, is called the "present value of future benefits." The projection also includes future investment returns using an 8 percent statutory assumed rate of investment return. After calculating expected future benefits and investment Employee Retirement Benefits Board September 23, 2008 Page 3 return, the remainder comes from member and employer contributions, collected as a percent of salary. Mr. Smith noted that Washington's employer contribution rates include the current year's normal cost and an amortization payment for the unfunded liability in the Plan 1 programs.

The Actuary monitors assumptions annually and makes adjustments when experience doesn't match assumptions. The most common measure of the health of a plan is the funded ratio, which shows if the state and employer have set aside sufficient funds to pay for future benefits earned by employees to date. With the exception of TRS Plan 1 and PERS Plan 1, all of Washington State's retirement plans have funded ratios over 100 percent.

C-2 Retirement Strategy Fund Education Program

Sandy Matheson and Jeff Wickman discussed the education program for the new Retirement Strategy Funds. Plan 3 members and DCP participants with investments in the Horizon Funds received a transition guide that provided them with information on the new funds and how the mapping will work. The transition guide was mailed to 25,894 individuals. Mr. Wickman also highlighted the Web site that has more in depth information about the funds <http://rs.alliancebernstein.com/CmsObjectRS/html/Sow/>.

Board Report

D-1 December 9, 2008 -Tentative Agenda

Chair Matheson reviewed the proposed agenda for the December 9, 2008 meeting. The agenda will include a report on the October implementation of the Retirement Strategy Funds.

With no further business, the meeting adjourned at 11:35 am

Approved:

Sandra J. Matheson

Discussion Items

C-1 Life Cycle Funds

Sandy Matheson introduced the concept of “life cycle” investment funds. Gary Bruebaker provided information about the option, also known as retirement “target date” funds. Investors face the challenges of making time to manage investment choice, understanding their risk tolerance and investment options, making the optimal asset allocation and changing their investment mix over time. Target date funds are professionally managed and the fund manager automatically changes the investment mix over time as appropriate for a participant’s age and career. The participant can monitor the investment but does not need to actively manage their investment.

The Horizon Funds currently offered are static balanced funds. An issue with static balanced funds is that the asset allocation never changes. Studies show that 80 percent of participants initiate no trades and 86 percent fail to rebalance over time. An investment choice made at the beginning of a career may not be the appropriate choice 20 years later. Retirement target based funds provide an appropriate risk level at every age and place the critical asset allocation and rebalancing decisions in the hands of investment professionals. WSIB staff recommends that DRS and WSIB work together to conduct a competitive process to identify retirement target based funds to replace the current static, risk-based Horizon Funds.

Al Symington made a motion, seconded by Robert Lenigan, to strongly support the continued review of life-cycle investment options. The motion passed unanimously.

C-2 Plan 3 Self Directed Investment Default Option

Sandy Matheson reported that the default option is established in rule and can be changed by board action. The issue will be brought back to the ERBB when the life cycle funds option has been explored.

D-1 ERBB Meeting Dates

Sandy Matheson reviewed the revised meeting schedule for 2007 - January 23, May 15, September 18 and December 11.

Judi Owens made a motion, seconded by Robert Lenigan to approve the revised 2007 meeting dates as proposed. The motion passed unanimously.

Board Report

E-1 May 2007 Tentative Agenda

Chair Sandy Matheson reviewed the proposed agenda for the May 15, 2007 meeting.

With no further business, the meeting adjourned at 12:00 p.m.

Approved:

Sandra J. Matheson, Chair