

Washington State Department of Retirement Systems

Employee Retirement Benefits Board

Regular Board Meeting December 9, 2008 Minutes

Chair Sandy Matheson called the meeting to order at 9:40 am. Board members present: Claude Burfect, Michael Coleman, Carol Jensen, Dorothy Kiest, Judi Owens, Al Symington, Staci Vesneske and Kathy Whitlock.

Staff/resource personnel present: Assistant Attorney General Lara Zimmermann, Kris Heurich, Joe Dear, 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 Al Symington's term has ended and he is leaving the board. Al provided the board with experience in defined contribution plan administration and was a board member since 1996. Chair Matheson thanked him for sharing his expertise and for the time and energy he dedicated to Plan 3 members over the past twelve years.

A-1 Approval of Meeting Minutes - September 23, 2008

Judi Owens made a motion, seconded by Staci Vesneske, to approve the September 23, 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 7 percent increase in Plan 3 member phone call and internet contacts. Because of the market volatility, they have seen an increase in the number of people who want to talk to someone about their concerns and ask questions about what's going on in the market. Company names in the news also trigger member calls asking about the impact on the retirement funds and the Total Allocation Portfolio (TAP) Fund. Quarterly statements were mailed in early October, generating member calls about their accounts and requesting logon and password assistance to access their online accounts.

Ms. Heurich reported an approximately 15.5 percent year to date increase in fund transfers members moving money between the different fund options. The majority of transfers were executed in January, September and October. The bulk of the money transferred in September and October went into the Money Market Fund. She reported, however, that most members did not make any major changes in their investment strategy.

B-2 Defined Contribution Plans Investment Performance

Joe Dear, Washington State Investment Board (WSIB) Executive Director, provided an investment report for the Plan 3 and Deferred Compensation programs for the quarter ended September 30, 2008 along with an analysis of what's happening in the markets. In relation to the housing market, he noted that between 1898 and 1997 housing prices fluctuated but stayed close to the rate of inflation. However, between 1997 and 2006, housing prices rose by 85 percent over that 100 year price. Now housing prices are contracting and have come down by nearly half of that increase, but prices need to fall further to stabilize. Leverage, the ratio of total U.S. credit market debt to the gross domestic product, also increased steadily since 1984 and reached an all time high in 2007. Mr. Dear noted that when financial institutions and households begin to deleverage, some very powerful negative forces are set loose in the economy.

Mr. Dear reported that in the Capital Market environment no asset class had ten year returns over 8 percent, the defined benefit pension plan return assumption. For the third quarter of 2008, the Plan 3 programs and the Deferred Compensation Program (DCP) all experienced fund decreases due to investment losses.

Mr. Dear concluded his presentation with observations that in the current market environment there is no place to hide - credit markets have not stabilized, home prices have further to fall, deleveraging will continue and create very difficult times in 2009 and patience and confidence in investment strategies will be tested; however, governments and central banks are committed to resolving the crisis, time is our ally, and the cycle will turn.

In response to Staci Vesneske's question about what the State Investment Board is doing to manage investments in the current market conditions, Mr. Dear stated that the primary risk control tool is diversification and time, which the WSIB has always had as their investment philosophy, and not making major changes in the investment strategy even in the face of doubt about that strategy. He stated that the long term dynamics of the markets they invest in have not changed. What has changed is the difficult choices they face when raising cash for new investments and deciding when to rebalance funds.

B-3 Defined Contribution Plans Activity Report

Jeff Wickman, Senior Assistant Director of Policy at the Department of Retirement Systems (DRS), reported that on October 6, 2008, 11 new Retirement Strategy Funds were available for Plan 3 members and DCP participants. The Horizon Funds were closed on October 3, 2008 and assets were mapped to the Retirement Strategy Fund based on when an individual was born and an assumed retirement at age 65. In September, Transition Guides were sent to 25,894 Horizon Fund investors explaining the new funds and the transition and mapping process. Over \$401,000,000 was transferred from the Horizon Funds to the Retirement Strategy Funds with 78 percent of the dollars mapping into the 2010 through 2025 Funds.

With the implementation of the new funds, the default investment option in the Plan 3 Self Directed program was also changed from the Money Market fund to the Retirement Strategy Fund that assumes the member is age 65. In addition to the confirmation letters that are sent to members who default, DRS is also contacting members by telephone to make sure they understand how the default process works and to provide information about changing their investment option if they so choose.

B-4 Plan 3 Pension Legislation Report

Jeff Wickman provided a report on Plan 3 issues being considered by the Select Committee on Pension Policy (SCPP). The SCPP has recommended the following proposal for the 2009 Legislative session.

- SERS/PERS 2/3 Part-Time Service - Prior to January 1, 1987 members paid contributions if they were in an eligible position even if they did not meet the hourly threshold to earn service credit. On September 1, 1991 the Legislature created the partial service credit rules that allow for service credit depending on the hours worked. This proposal retroactively applies the current half-time service credit rules for educational employees to periods of prior educational service. This proposal allows members, who worked for an educational employer prior to January 1, 1987, to receive six months of service if they worked the entire year and at least 630 hours.

The following Plan 3 bills are still under consideration by the SPPP.

- Change Membership Default for Plans 2/3 - New employees hired into PERS, TRS, or SERS eligible positions must choose to be a member of Plan 2 or Plan 3. Members who don't choose are "defaulted" into membership in Plan 3. The SPPP is considering whether to change the default plan option.
- Improved Disability Benefits - The SPPP is considering whether to create a new disability benefit for members of Plans 2/3. The benefit would provide a smaller actuarial reduction at retirement. Members with at least 10 years but less than 20 years of service would receive an allowance that is reduced 3 percent per year to reflect the difference between their age at disability and age 65. Members with at least 20 years of service would receive an allowance that is reduced 3 percent per year to reflect the difference between their age at disability and age 62.

Presentation

C-1 WSIB Investment Education - Public Equity Presentation

Phil Paroian, WSIB Senior Investment Officer - Public Equity, provided information about the structure of the Public Equity program, investment beliefs and the role of the public equity investment officers. The Public Equity program manages the Money Market Fund, the equity portion of the Total Allocation Program (TAP), Target Date Strategies, Socially Responsible Balanced Fund, U.S. Large Stock Index Fund, U.S. Stock Market Index Fund, U.S. Small Stock Index Fund and the International Index Fund.

Mr. Paroian highlighted the WSIB key investment beliefs, including their mission to maximize returns at a prudent level of risk, to maintain focus on a long-term horizon and to construct a broadly diversified portfolio. Responsibilities of the Public Equity program include selecting, monitoring, and terminating managers when necessary, researching potential new strategies and managers, coordinating with the custodian, contacting other leading public pension funds to stay current with best practices, hiring and managing the consultant pool and transition managers. He discussed the actions that need to take place during an investment search, before a recommendation is made to the Chief Investment Officer, Public Markets Committee and the full State Investment Board. Investment manager monitoring includes face-to-face meetings at least twice a year and an on-site visit at least once a year, watching for any changes, distractions and reviewing what's working, what isn't and why. He noted that investment performance is an outcome, not something on its own. Mr. Paroian concluded the presentation by sharing different ways to look at investment performance.

Action Item

D-1 Adopt 2009 Meeting Dates

Chair Sandy Matheson reviewed the proposed meeting schedule for 2009 - February 24, May 26, September 22 and December 8.

Mike Coleman made a motion, seconded by Judi Owens, to approve the 2009 meeting dates as proposed. The motion passed unanimously.

Board Report

D-1 February 2009 - Tentative Agenda

Chair Sandy Matheson reviewed the proposed agenda for the February 24, 2009 meeting.

With no further business, the meeting adjourned at 11:50 a.m.

Approved:

Steven R. Hill