

REGULAR MEETING
BOARD OF TRUSTEES
OF
THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI
AND
THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

December 13, 2010

MEMBERS PRESENT

Aaron, Zalis, Chair
Wayne Wheeler, Vice Chair
Jason Hoffman
Yvonne Heath
Scott Hunt
Susan McClintic
Donald Cupps

MEMBERS ABSENT

OTHERS PRESENT

M. Steve Yoakum, Executive Director
Dearld Snider, Asst. Exec. Dir., Oper.
Craig Husting, Asst. Exec. Dir., Invest.
Alan Thompson, General Counsel
Lori Woratzeck, Chief Finan. Officer
Ronda Peterson, Dir. Member Services
Janet Harris, Internal Auditor
Maria Walden, Legislative Director
Mary Hiatte, Executive Assistant

**Meeting
Convened**

The meeting of the Board of Trustees convened at 8:30 a.m. at the Retirement System office in Jefferson City, Missouri. In attendance were Aaron Zalis, Wayne Wheeler, Donald Cupps, Yvonne Heath, Jason Hoffman, Scott Hunt, and Susan McClintic, Board Members. Staff members present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Ronda Peterson, Director, Member Services; Lori Woratzeck, Chief Financial Officer; Janet Harris, Internal Auditor; Maria Walden, Legislative Director; various other PSRS/PEERS staff members; and Mary Hiatte, Executive Assistant.

**Approval of
Minutes
PSRS4294
PEERS2544**

Mrs. Heath moved that the minutes from the October 24-25, 2010 meetings be approved. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

Investments

**Activities
Memo**

Mr. Craig Husting reviewed the ongoing investment activities memo, which included the fiscal year-to-date return and managers on the watch list, as well as

an update on the current asset allocation, the search for a passive index provider, securities lending, real estate, and private equity.

Policy Change Mr. Husting presented a recommended change to the investment policy which would change the name of the “credit bond” program to “credit” program and allow for the specific use of commodities (within a multi-strategy approach) in the Credit program. The investment staff and consultant recommended this change in order to allow them to seek other avenues and flexibility to protect the PSRS/PEERS portfolio against higher inflation. Mr. Cupps asked several questions and indicated that he would like to see additional research and information before making a decision. Following a lengthy discussion, Mr. Wheeler indicated that he didn’t want to defer the decision until February and moved that the changes in the investment policy be approved as recommended. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, Hunt and McClintic, “Nay”—Cupps. The motion carried.

PSRS4295
PEERS2545

Russell Contract Mr. Husting reviewed the Russell Consultant Contract with the Board and recommended that staff renegotiate the contract with Russell for a 3-year time period at a flat fee similar to the current retainer. He indicated they would revise the scope of services in the contract to comply with current PSRS/PEERS requirements. Mr. Wheeler moved that staff be authorized to renegotiate the contract as proposed. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4296
PEERS2546

Management Report

Contribution Rate Mr. Sheldon Gamzon and Mr. Brandon Robertson of PricewaterhouseCoopers were present to discuss the additional research they have completed in response to the request from the Board at the October meeting. Mr. Gamzon reported that he has two major concerns if the contribution rate is not increased by the 1% as previously recommended. He stated that the members and school districts would save a little money now but would be required to pay much more in the future to make up the difference and the fund would actually be at a lower funded status in the end. To put this in perspective, he indicated that raising the contribution rate by only .5% now instead of 1% would save employees and employers approximately \$23 million. However, doing so would require \$225 million more in contributions over the next thirty years and amount to a \$600 million loss in investment earnings and the system would not be as well funded in the end. Such an action would, in effect, be borrowing money from the system at an 8% interest rate.

His second concern was that the contribution rate is already approximately 3% less than the actuarially required contribution (ARC) because of the limitations in statute. To set the contribution rate lower than allowed by statute would seem to be, in his opinion, an imprudent decision. He stated that when a plan’s funding ratio is actually dropping due to declines in the investment markets, they should be accelerating their contribution rate rather than decreasing it.

Following discussion, Mr. Cupps moved that the contribution rate be increased by 1% for PSRS and .46% for PEERS as recommended by the actuary for the 2011-12 school

PSRS4297
PEERS2547

year. Mr. Hunt seconded the motion. Dr. Zalis stated that he appreciated the further analysis by the actuary and that this was not an easy decision for the Board but, as fiduciaries, they must make the prudent decision to maintain the financial stability of the system well into the future. Mrs. McClintic appreciated the research to determine if there was any way to provide relief to the school districts. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

CPI

Mr. Husting reviewed a memo with the Board discussing the different consumer price indices. The Board had requested the information previously so they could determine the best index to use when setting the cost-of-living for retirees. Mr. Husting indicated that additional information would be furnished to the Board at a later date.

Regulation

Mr. Thompson presented an amendment to the PSRS and PEERS regulations which would cap the credit an individual can earn based on their starting date of employment. Mr. Hunt moved that the following amendments to the regulations be adopted:

16 CSR 10-4.010 Membership Service Credit

PURPOSE: This amendment provides clarification on determining service credit for members who are employed after the start of a school year as authorized in section 169.020, RSMo.

(3) When a member terminates employment with an employer included in the retirement system before the end of a school year, the maximum credit that may be received for that school year for employment with such employer will be calculated based on the portion of the school year completed before termination of membership. **When a member begins employment with an employer included in the retirement system after the start of a school year, the maximum credit that may be received for that school year for employment with such employer will be calculated based on the portion of the school year completed after starting covered employment.** Provided, however, that the beneficiary of a deceased member may elect to have membership service credit calculated pursuant to section (1) of this rule if such beneficiary is eligible or would become eligible for benefits pursuant to section 169.070.3(2) or 169.075, RSMo. In no event will benefit payments commence prior to July 1 if the member is allowed one (1) year of membership service credit.

16 CSR 10-6.040 Membership Service Credit

PURPOSE: This amendment provides clarification on determining service credit for members who are employed after the start of a school year as authorized in section 169.610 and 169.020, RSMo.

(2) When a member terminates employment with an employer included in the retirement system before the end of a school year, the maximum credit that may be received for that school year for employment with such employer will be calculated based on the portion of the school year completed before termination of membership. **When a member begins employment with an employer included in the retirement**

system after the start of a school year, the maximum credit that may be received for that school year for employment with such employer will be calculated based on the portion of the school year completed after starting covered employment.

Provided, however, that the beneficiary of a deceased member may elect to have membership service credit calculated pursuant to section (1) of this rule if such beneficiary is eligible or would become eligible for benefits pursuant to section 169.670.4(2), RSMo. In no event will benefit payments commence prior to July 1 if the member is allowed one (1) year of membership service credit

PSRS4298
PEERS2548

Mr. Cupps seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**External
Counsel**

Mr. Thompson updated the Board on the timeline for hiring external counsel and a firm for the legal bill review. He indicated that he expects to complete the evaluation of the proposals by the end of the year and to execute agreements the first part of January.

**Pension
Project**

Mr. Dearld Snider reported that the design portion of Phase 1 of the pension project should be completed in April. This is slightly behind schedule but Phase 2 is scheduled to begin on time.

**Legislative
Update**

Mr. Jim Moody and Mrs. Maria Walden updated the Board on pending legislation. Mr. Moody reported that state revenues continue to lag previous years and that the state will have to make cuts in the upcoming year. Mrs. Walden briefly reviewed the 2010 legislation and the important dates for 2011. She indicated that several bills had been pre-filed and also discussed potential legislation for the upcoming session.

**Public
Comment**

Mr. Yoakum pointed out that this would be the last meeting that Jim Coen would attend. Mr. Coen represents the M-NEA Retired group and has been attending the Board meetings for 14.5 years. Mr. Yoakum thanked Mr. Coen for his support over the years. Mr. Coen commented that, over the years, he has noticed how eager the staff is to be helpful to the members and that he very much appreciated it.

Mr. Cecil Sharpe asked for Mr. Yoakum’s opinion regarding federal changes. Mr. Yoakum stated that there are many unknowns but that his primary concern is mandatory social security. He also briefly discussed the possible changes with GASB which would change the accounting rules and cause the cost of the system to go up. Mr. Yoakum reminded the organizations that as they lobby in Washington, that they need to be careful and not trade off relief for WEP and GPO for mandatory social security.

**Closed
Session**

PSRS4299
PEERS2549

Mr. Wheeler moved that the meeting continue in closed session to hear the legal report, a member appeal and to review personnel matters in accordance with section 610.021 (1), (3) and (13), RSMo. Mrs. McClintic seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

Motion No. PSRS4300 through PSRS4302 were made in closed session.
Motion No. PEERS2550 and PEERS2551 were made in closed session.

Investments Following a return to open session, Mr. Husting distributed research regarding commodities which Mr. Cupps had requested earlier in the day. Mr. Tuck reported that the strategy would be a good diversifier of total risk within the portfolio.

Adjournment Mrs. McClintic moved that the meeting adjourn. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.