

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

February 9, 2015

MEMBERS PRESENT

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

MEMBERS ABSENT

OTHERS PRESENT

Dearld Snider, Asst. Exec. Dir., Oper.
Craig Husting, Asst. Exec. Dir., Invest.
Alan Thompson, General Counsel
Lori Woratzeck, Chief Finan. Officer
Jeff Hyman, Internal Auditor
Tom Smith, Chief Technology Officer
Maria Walden, Legislative Director
Jeff Russler, Dir. of Emp. Services
Ronda Peterson, Dir. of Member Serv.
Nicole Hamler, Dir. Admin Planning

**Meeting
Convened**

The meeting of the Board of Trustees convened at 9:30 a.m. at the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Jason Hoffman, Scott Hunt, Yvonne Heath, and Susan McClintic, Board Members. Wayne Wheeler, Board Member, was present via telephone. Absent from the meeting was M. Steve Yoakum, Executive Director. Present were Dearld Snider, Assistant Executive Director, Operations; Craig Husting, Assistant Executive Director, Investments; Alan Thompson, General Counsel; Lori Woratzeck, Chief Financial Officer; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

**Approval of
Minutes
PSRS4535
PEERS2772**

Mr. Hunt moved that the minutes from the December 8, 2014 and January 14, 2015 meetings be approved as presented. Ms. McClintic seconded the motion. Voting “Aye”—Zalis, Hoffman, Hunt, McClintic and Wheeler; “Abstained”—Heath; “Nay”—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

Investments

Performance Report

Mr. Craig Husting and Mr. Michael Hall reviewed the investment performance for the last quarter, ending December 31, 2014, as well as the current asset allocation. He discussed the annualized investment performance and the strong total fund alpha for the year. Mr. Husting also reviewed the plan attribution as of December 31, 2014 and provided the performance rankings for PSRS/PEERS, which was in the top 25th percentile for the 1-year period ending December 31, 2014, indicating that the Systems outperformed 75 percent of peers.

Ongoing Investment Activity

Mr. Craig Husting and Mr. Michael Hall reviewed ongoing investment activities, the 2015 fiscal year-to-date return of approximately 1.6% as of January 31, 2014. He discussed the current asset allocation and the PSRS/PEERS portfolio, in which he reviewed the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting provided an update on the securities lending and commission recapture programs and the real estate and private equity portfolios. He also reviewed the tentative Board investment calendar.

Custody Review

Mr. Craig Husting discussed the recent custody review conducted by staff and outside contractor, RVK, Inc. This review included the benchmarking of all services and compensation to the market. RVK completed their review in November 2014 and a joint meeting between J.P. Morgan and PSRS/PEERS was held to discuss the results of RVK's analysis and the overall relationship. Subsequent to the meeting, new contract terms were negotiated that appropriately align the Systems' interests within today's market environment. Mr. Husting discussed the negotiated terms with the Board. Staff and RVK, recommend the Board extend the J.P. Morgan contract for an additional five-year term under the negotiated contract. Mr. Wheeler moved that the Board approve the extension of the J.P. Morgan contract as recommended by staff. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

PSRS4536
PEERS2773

Anti-Terrorism Policy

Mr. Craig Husting provided a full report of the annual compliance review of the Systems' Anti-Terrorism Investment Policy. On January 8, 2015, letters were mailed to selected federal officials requesting information on companies that, in their opinion, had terrorist links. Mr. Husting stated that no response had been received from several federal entities. Staff and General Counsel recommended that no changes be made with regard to the Anti-Terrorism Investment Policy at this time.

U.S. Equity

Mr. John Tuck, Ms. Kristin Matchica and Mr. Travis Allen updated the Board on the U.S. Equity program. It was reported that as of December 31, 2014, 30.38% of the Systems' total assets were invested in U.S. Equity with 92% of the U.S. Equity portfolio invested in large-cap stocks and the remaining 8% in small-cap stocks. Mr. Tuck also reviewed the objectives, strategies and guidelines for this portfolio. Ms. Kristin Matchica discussed the asset allocation within the large-cap portion of the portfolio. Mr. Tuck discussed the performance of the Alpha Overlay program. Mr. Travis Allen reviewed the objectives, strategies and guidelines of the Small-Cap program and updated the Board on recent performance and structure.

Management Report

Cortex Governance Review

Mr. Alan Thompson reviewed the recommendations to the Board Charters made by Cortex during their annual review of the Board Governance Charters. Cortex recommended a small change to the Executive Director Charters which better reflects the current arrangement between the Executive Director, Investment staff and the Board. Mr. Hunt moved that the Board accept the suggested change to the Executive Director Charters as recommended by Cortex. Ms. McClintic seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4537
PEERS2774

Funding Stabilization Policy

Mr. Thompson reviewed the recommendation to rescind the Funding Stabilization Policy adopted by the Board in August 2011. The Actuarial Funding Policy adopted by the Board in August 2014 captures the essence and information of the current Funding Stabilization Policy, making the Funding Stabilization Policy duplicative and therefore unnecessary. After discussion, the Board was reluctant to rescind given the amount of effort that went into developing the Funding Stabilization Policy. Also, The Board addressed that the information in the current Funding Stabilization Policy may be spread out within the Actuarial Funding Policy, therefore, making it difficult for the Board and staff to quickly find the information. After the discussion, Mr. Hunt made a motion to table the discussion of rescinding of the Funding Stabilization Policy to another meeting. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4538
PEERS2775

Board Education Policy

Mr. Thompson discussed the recommended changes to the Board Education Policy as recommended by Cortex to bring the current policy in compliance with the requirements set out in Section 105.666.1 of the RSMo. After reviewing the recommendations, Ms. Heath moved that the Board approve updates to the Board Education Policy. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4527
PEERS2763

Board Communication Policy

Mr. Thompson discussed the recommended addition to the Board Communications Policy as recommended by Cortex address communication by the Board for political purposes. After reviewing the language of the addition, Mr. Hoffman moved that the Board approve addition to the Board Communications Policy. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4539
PEERS2776

Executive Director Vacancy Succession Policy

Mr. Thompson discussed the addition of the Executive Director Vacancy Succession Policy to the Board Governance Policies. After reviewing the language of the policy, Mr. Hunt moved that the Board approve the addition of the Executive Director Vacancy Succession Policy. Ms. McClintic seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4540
PEERS2777

Amendments to Regulations

Mr. Alan Thompson presented amendments to regulations relating to the clarification for agreement to terminate employment not being considered “salary” for the purposes of the Retirement System. Following discussion, Mr. Hoffman moved to approve the following amendments to regulations:

16 CSR 10-3.010 Payment of Funds to the Retirement System. The Retirement System is amending Section 9.

PURPOSE: This amendment clarifies that consideration for agreement to terminate employment is not to be considered “salary” for the purposes of the Retirement System.

(9) The terms “salary,” “salary rate” and “compensation” are synonymous when used in regulations promulgated by the board, unless the context plainly requires a different meaning.

(A) For purposes of calculating contributions and benefits, those terms mean the regular remuneration earned by a member as an employee of any covered district during a school year, including (unless excluded by subsection (11)(B)):

1. Salary paid under the terms of the basic employment agreement;
2. Wages;
3. Payments for extra duties, whether or not related to the employee’s regular position;
4. Overtime payments;
5. Career ladder payments made pursuant to sections 168.500 to 168.515, RSMo;
6. Supplemental salary paid in addition to workers compensation;
7. Medical benefits as specified in section (7) of this rule;
8. Payment for annual leave, sick leave or similar paid leave actually used by the member;
9. Payment for leaves of absence if at least one hundred percent (100%) of previous contract rate;
10. Compensation on which taxation is deferred under Internal Revenue Code (IRC) section 401(k), 403(b), 457, 414(h)(2) or similar plans established by the employer under the IRC;
11. Salary reductions for purposes of a plan established by the

employer under IRC section 125; and

12. Other similar payments that are earned by a member as an employee of any covered district during a school year.

(B) Salary, salary rate and compensation do not include:

1. Payments for services as an independent contractor, or any other payment that must be reported on IRS form 1099-MISC;

2. Payments made by an entity that is not a covered employer, and reported to the IRS under that entity's tax identification number;

3. Payments made for unused annual, sick or similar leave time, except as provided by section 104.601, RSMo;

4. Payment for leaves of absence if less than one hundred percent (100%) of previous contract rate, except as provided in section 169.055 or 169.595, RSMo;

5. Extraordinary payments such as bonuses, awards and retirement incentives;

6. Consideration for agreeing to terminate employment, including retirement incentives, retirement or separation notice incentives, or any other payment(s) received by an employee in exchange for agreeing to terminate employment, regardless of if the employee is required to also perform extra duties as a condition of receiving the payment(s);

[6] 7. Fringe benefits, except medical benefits as described in section (7) of this rule;

[7] 8. Any other payment that is not part of the regular remuneration earned by a member as an employee of a covered district during a school year; and

[8] 9. Payments resulting from employment disputes including back pay awards, payments in settlement of employment contract disputes, payments in consideration for agreeing to terminate employment and payments in settlement of other employment disputes.

(C) While an individual is employed in a position covered by the system, compensation received from all employers participating in the system will be used to determine contributions and benefits. Compensation includes payments for services rendered during the regular school session, summer school or interim periods. Individuals may not have compensation covered by both Public School Retirement System (PSRS) and Public Education

Employee Retirement System (PEERS) for the same period; provided, individuals who contributed to both systems on compensation for the same period during the 1996-97 school year may elect in writing to continue that status. The election is irrevocable and must be made before September 30, 1997.

(D) In determining “final average salary” as defined in section 169.010, RSMo, the system will disregard any increase in compensation in excess of ten percent (10%) from one year to the next in the final average salary period. This limit will not apply to increases due to bona fide changes in position or employer, increases required by state statute, or district wide salary schedule adjustments for previously unrecognized education related service.

16 CSR 10-6.020 Source of Funds. The Retirement System is amending Section 11.

PURPOSE: This amendment clarifies that consideration for agreement to terminate employment is not to be considered “salary” for the purposes of the Retirement System. It also corrects an incorrect section reference in paragraphs (A)7 and (B)7.

(11) The terms “salary,” “salary rate,” and “compensation” are synonymous when used in regulations promulgated by the board, unless the context plainly requires a different meaning.

(A) For purposes of calculating contributions and benefits, those terms mean the regular remuneration earned by a member as an employee of any covered district during a school year, including (unless excluded by subsection (11)(B)):

1. Salary paid under the terms of the basic employment agreement;
2. Wages;
3. Payments for extra duties, whether or not related to the employee’s regular position;
4. Overtime payments;
5. Career ladder payments made pursuant to sections 168.500 to 168.515, RSMo;
6. Supplemental salary paid in addition to workers’ compensation;
7. Medical benefits as specified in section ~~[(10)]~~ **(9)** of this rule;
8. Payment for annual leave, sick leave, or similar paid leave actually used by the member;

9. Payment for leaves of absence if at least one hundred percent (100%) of previous contract rate;

10. Compensation on which taxation is deferred under Internal Revenue Code (IRC) section 401(k), 403(b), 457, 414(h)(2), or similar plans established by the employer under the IRC;

11. Salary reductions for purposes of a plan established by the employer under IRC section 125; and

12. Other similar payments that are earned by a member as an employee of any covered district during a school year.

(B) Salary, salary rate, and compensation do not include:

1. Payments for services as an independent contractor, or any other payment that must be reported on IRS form 1099-MISC;

2. Payments made by an entity that is not a covered employer, and reported to the IRS under that entity's tax identification number;

3. Payments made for unused annual, sick, or similar leave time, except as provided by section 104.601, RSMo;

4. Payment for leaves of absence if less than one hundred percent (100%) of previous contract rate, except as provided in section 169.595, RSMo;

5. Extraordinary payments such as bonuses, awards, and retirement incentives;

6. Consideration for agreeing to terminate employment, including retirement incentives, retirement or separation notice incentives, or any other payment(s) received by an employee in exchange for agreeing to terminate employment, regardless of if the employee is required to also perform extra duties as a condition of receiving the payment(s);

[6] 7. Fringe benefits, except medical benefits as described in section [(10)] (9) of this rule;

[7] 8. Any other payment that is not part of the regular remuneration earned by a member as an employee of a covered district during a school year; and

[8] 9. Payments resulting from employment disputes including back pay awards, payments in settlement of employment contract

disputes, payments in consideration for agreeing to terminate employment and payments in settlement of other employment disputes.

(C) While an individual is employed in a position covered by the system, compensation received from all employers participating in the system will be used to determine contributions and benefits. Compensation includes payments for services rendered during the regular school session, summer school, or interim periods. Individuals may not have compensation covered by both Public School Retirement System (PSRS) and Public Education Employee Retirement System (PEERS) for the same period; provided, individuals who contributed to both systems on compensation for the same period during the 1996–97 school year may elect in writing to continue that status. The election is irrevocable and must be made before September 30, 1997.

(D) In determining “final average salary” as defined in section 169.600, RSMo, the system will disregard any increase in compensation in excess of twenty percent (20%) from one year to the next in the final average salary period. This limit will not apply to increases due to bona fide changes in position or employer or increases required by state statute.

PSRS4541
PEERS2778

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

Tax Information Update

Mr. Jeffrey Hyman, Internal Auditor, discussed the 1099-R tax form update with the Board. He reviewed the timeline of events and explained to the Board that PSRS was able to meet our legal obligation in providing the required information to benefit recipients, the data files for the IRS and Missouri Department of Revenue were not affected and the data within OASIS was correct and never modified. He assured the Board that a thorough review of the processes was completed in order to prevent a situation like this from occurring in the future.

Pension Project

Mr. Dearld Snider was present to give a status report to the Board on the pension project. Mr. Snider discussed OASIS activity since the December Board meeting. He explained that December 31st was the second payroll to benefit recipients under the new system. Mr. Snider reviewed the objectives for February, March and April, which included improving response time and performance issues and also focusing on defects and enhancements. Mr. Snider also discussed the overall project budget and that there was approximately \$1.3 million left to pay under the original contract.

Member Services

Ms. Ronda Peterson, Director of Member Services, presented a brief presentation celebrating the 50th anniversary of PEERS. She discussed all the changes the systems have gone through in the last 50 years. Ms. Peterson also gave a mid-year report regarding member services to the Board. She reviewed changes in membership, retirees, and new membership records received. She also broke down PSRS and PEERS active membership by retirement eligibility and reviewed benefit distribution in calendar year 2014.

Legislative Update

Ms. Maria Walden and Mr. Jim Moody updated the board on the current legislative session. Mr. Moody reported briefly on state revenue and gave an update on January 2015 revenue to the Board. He also discussed sales tax growth and Missouri income from capital gains and dividends.

Ms. Walden discussed the upcoming important legislative dates and the 2015 legislative statistics. Ms. Walden reviewed all retirement legislation, of which HB 478 and SB 219 both impact PSRS by permanently extending the 2.55% formula factor. Ms. Walden discussed the results of the actuarial cost study which had been requested from the actuary, PriceWaterhouseCoopers. Based on current member population and actuarial assumptions concerning retirement timing, if the benefit has a permanent extension there is a savings to the Systems.. Ms. Walden further explained that the Unfunded Actuarial Accrued Liability (UAAL) of the Plan will be reduced by nearly \$70 million should the 2.55% benefit formula be permanently adopted. There would be an annual savings of \$7.7 million per year for the next 30 years due to this reduction.

Following discussion, Mr. Hoffman moved that, based on the actuarial cost analysis showing a savings for the Systems, the Board support legislation for the permanent extension of the 2.55% benefit formula factor. Mr. Hunt seconded the motion. Voting “Aye” —Zalis, Wheeler, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4542
PEERS2779

Public Comment

There were no public comments regarding the meeting.

Closed Session

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

PSRS4543
PEERS2780

Motion No. PSRS4544 through PSRS4545 were made in closed session.
Motion No. PEERS2781 through PEERS2782 were made in closed session.

Adjournment

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

PSRS4546
PEERS2783