



**COLORADO  
PERA**  
*Record of Proceedings*

**PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION  
BOARD MEETING MINUTES  
1300 Logan Street  
Denver, CO 80203  
November 21, 2003**

***Trustees Present:*** James Casebolt, Board Chair, Mark Anderson, Vice Chair, Sara Alt, Donna Bottenberg, Terry Campbell, F. Elizabeth Friot, Joanne Hill, Patricia Kelly, Richard Lansford, Sandra Mills, Dick Murphy, Amy Nichols, Marcus Pennell, Gloria Santistevan-Feedback, Douglas Windes.

***Trustees Absent:*** Scott Noller

***Staff Present:*** Lana Calhoun, Rob Gray, Katie Kaufmanis, Amber Malley, David Maurek, Kim Natale, Jennifer Paquette, Greg Smith, Meredith Williams.

James Casebolt, Board Chair, called the meeting to order at 9:32 a.m.

Mr. Casebolt opened the meeting by welcoming Sandra Mills, new PERA Trustee of the State and School Division, to the Board.

**Approval of Agenda**

James Casebolt, Board Chair, moved that, "*the Board agenda be approved as published.*" The motion was approved.

**Approval of October 17, 2003 Board Meeting Minutes**

By motion of Gloria Santistevan-Feedback and second by Terry Campbell, the October 17, 2003 Board Meeting Minutes were approved as published.

**Public Comment**



James Casebolt, Board Chair, recognized the guests in attendance and requested that each guest introduce himself or herself.

## **Monthly Reports**

### **Executive Committee Report**

Mark Anderson, Board Vice Chair, reported that the Executive Committee met earlier in the day and approved the October 17, 2003 Executive Committee minutes, reviewed the September 30, 2003 Unaudited Financial Statements and the October 31, 2003 Budget Reports, and reviewed the agenda for the October Board meeting. Mr. Anderson stated that the Committee had also reviewed the Board and Officer Election Calendars for 2004.

### **Executive Director Report**

Mr. Williams, PERA Executive Director, reviewed statistics on membership and the financial status of the fund. Mr. Williams then provided information to the Board regarding the exceptional manner in which Staff had managed the influx of Purchasing Service Credit requests and the Board directed Mr. Williams to express their appreciation to staff for their hard work. Mr. Williams then responded to a Trustee question regarding the temporary employees hired to assist with the purchasing service credit deadline. Mr. Williams concluded with a presentation of major organizational objectives for 2004.

### **Market and Portfolio Update**

Jennifer Paquette, Deputy Executive Director of Investments, provided a market and portfolio review and information regarding the economic outlook. Ms. Paquette then discussed the fund's investments with Janus Funds and Alliance Capital. Ms. Paquette informed the Board that staff agreed with the recommendation of Mercer Investment Consulting to maintain the fund's relationship with Alliance Capital but would continue to examine the relationship and make a final recommendation to Meredith Williams, Executive Director, upon completion of their review. Ms. Paquette then commented on her staff's continued advancement in aligning PERA's investments with established asset class benchmarks.

Trustee Joanne Hill entered the meeting at 10:05 a.m.



**Legislative Package and Report**

Rob Gray, PERA Director of Government Relations, with the assistance of Bob Kirscht, PERA contract lobbyist, presented information regarding possible legislative initiatives to be considered by the Board. Extensive discussion ensued regarding the potential legislative initiatives and their individual fiscal impacts on the fund, the influence of the alternatives on the membership, and various components of each option. Legislative initiatives under discussion included reducing interest on member contributions, suspending MatchMaker, including IRC Section 125 & 132 deferrals in salary, amending the due date for contributions to be received by PERA, reallocating a portion of future employer contributions for the health care trust fund to the pension fund, charging full actuarial cost for service credit purchases, restricting working after retirement provisions by requiring employers to pay contributions for retired members who return to work, modifying early retirement provisions for new hires, and altering the method by which cost of living increases are calculated for new hires, increasing employer contribution rates, and providing DC plan choice.

The Board took a break at 11:15 a.m. and the meeting reconvened at 11:29 a.m.

Following the break, the Board resumed discussion of legislative package considerations. At the conclusion of discussion, James Casebolt, Board Chair, requested that the Board consider motions regarding each legislative proposal as a means of providing direction to staff in their formulation of a proposed comprehensive legislative package. Following Mr. Casebolt's request, the Board considered the following proposals:

**Reducing Interest on Member Contributions:**

Gloria Santistevan-Feeback moved, *"to reduce the interest rate credit to member accounts to a 5% maximum, to be set annually by the Board, with an effective date of July 2004."* This motion was seconded by Patricia Kelly and passed unanimously.



**Suspend MatchMaker:**

Patricia Kelly moved, and F. Elizabeth Friot seconded, *“to suspend MatchMaker effective July 1, 2004, or sooner, to resume when the fund reaches 110% funded level.”*

Dick Lansford introduced discussion regarding the funding level at which MatchMaker would resume, and after discussion, the motion was amended with the addition of, *“in accordance with the proposal contained in Senate Bill 03-101.”* The motion was approved unanimously as amended.

**Amending the Due Date for Employers to Submit Contributions:**

Sara Alt moved, *“to change the due date for employer contributions to 5 business days after the payroll date effective July 1, 2004.”* This motion was seconded by Amy Nichols and passed unanimously.

**Reallocating a Portion of Employer Contributions from the Health Care Trust Fund to the Pension Fund:**

Donna Bottenberg moved, *“to allocate 0.08% of salary to the Defined Benefit plan instead of the Health Care Trust Fund effective July 1, 2004.”*

Extensive discussion ensued regarding the effect of the reallocation on the availability of funds for providing future health care subsidy increases to retirees. After discussion, the question was called and the motion passed. By request of Dick Lansford, a roll call vote was taken. Trustees Sara Alt, F. Elizabeth Friot, Dick Lansford, Amy Nichols, and Gloria Santistevan-Feeback voted against the motion. Trustees Mark Anderson, Donna Bottenberg, Terry Campbell, Dick Murphy, Joanne Hill, Patricia Kelly, Marcus Pennell, and Douglas Windes voted for the motion. Trustee Sandra Mills abstained. Scott Noller was absent.

**Restricting Working After Retirement Provisions by Requiring Employers to Pay Contributions for Retired Members Who Return to Work:**

Dick Lansford moved, *“to have employers make contributions on salaries of retirees who work after retirement for PERA employers effective July 1, 2005.”* The motion was seconded by Amy Nichols. After brief discussion regarding the effect of the change on contract employees, the motion passed unanimously.



**Including IRC Section 125 & 132 Deferrals in Salary:**

Dick Lansford moved, *“to require PERA contributions on deductions to Section 125 and Section 132 Plans effective January 1, 2005.”* The motion was seconded by Gloria Santistevan-Feedback. The motion passed unanimously.

**Altering the Method by Which Cost of Living Increases are Calculated for New Hires:**

Patricia Kelly moved, *“to lower post retirement increases to the lower of 3% or actual CPI for new hires effective July 1, 2005.”* The motion was seconded by Terry Campbell and passed unanimously.

**Modifying Early Retirement Provisions:**

Patricia Kelly moved, *“that retirements before age 55 with 30 years of service be actuarially reduced effective July 1, 2005 for new hires.”* The motion was seconded by Amy Nichols and passed unanimously.

The Board recessed for lunch at 12:52 p.m. and reconvened at 1:27 p.m. with discussion of adjusting the cost of purchasing service credit to full actuarial cost. Trustee Joanne Hill was absent.

**Charging Full Actuarial Cost for Service Credit Purchases:**

Gloria Santistevan-Feedback made two motions regarding the initiative to increase the fees for purchasing service credit to full actuarial cost. To allow for the consideration of the adjustment of the cost of service credit purchases independent of the implementation date for the change, Ms. Santistevan-Feedback first moved, *“to change the cost to purchase service credit to full actuarial cost on an attained age basis.”* Her second motion moved to implement the change, *“with an effective date of November 1, 2006.”* Both motions were seconded by Dick Lansford.

Discussion ensued regarding the effect of the first motion on potential new affiliates and plan portability. After discussion, the question was called and the first motion passed with eight Trustees voting in favor and five voting against.

The Board then considered the second motion regarding the effective date of November 1, 2006. This motion passed with ten Trustees voting in favor and three voting against.



**Providing Defined Contribution Plan Choice:**

Meredith Williams, PERA Executive Director and Rob Gray, PERA Director of Government Relations, with the assistance of Bob Kirscht, PERA contract lobbyist, facilitated discussion and responded to questions from Trustees regarding defined contribution plan choice. Rob Gray stated that protecting the defined benefit plan, establishing a sound structure for educating those with the defined contribution option, and conferring on PERA the responsibility to administer the defined contribution choice plan were priorities in the consideration of seeking legislation to institute defined contribution choice. Meredith Williams, PERA Executive Director, informed the Board that legislation will be introduced with the support of higher education representatives which would allow current classified employees and all new hires to choose between a defined benefit and a defined contribution plan. Rob Gray presented information regarding alternative defined contribution structures which could be considered. Extensive discussion ensued regarding the historical relationship between PERA and the higher education community, the potential impact of defined contribution plan choice on the fund, which employees should be offered defined contribution plan choice, the various types of defined contribution plan designs that could be considered, fiduciary concerns, and political implications.

Trustee Joanne Hill joined the meeting at 2:13 p.m.

Trustee Patricia Kelly left the meeting at 2:25 p.m.

The Board recessed for a short break at 3:07 p.m. and reconvened at 3:24 p.m.

The Board continued with discussion regarding legislation which would implement a defined contribution choice plan and, at the conclusion of discussion, Mark Anderson moved that the Board, *“Direct staff to proceed with the concept of the higher education retirement plan as presented with the addition that current ORP participants be eligible for PERA.*

- *No segregation of the unfunded liability*
- *Payment towards unfunded liability across the entire employer base*
- *Phased-in implementation*
- *Limit to high-turnover positions in State government.”*

The motion was seconded by F. Elizabeth Friot.

Douglas Windes offered an amendment to the motion with the addition of, “to include all State new hires at a date to be determined.” Dick Murphy seconded the amendment to the motion. A vote was called and the amendment failed.



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Dick Lansford moved to amend the motion with the addition of, “separate State and School Divisions.” Mark Anderson and F. Elizabeth Friot agreed to the amendment.

Sara Alt offered an amendment to the motion with the insertion of, “an independent review of the program.” After discussion, Mark Anderson and F. Elizabeth Friot declined Ms. Alt’s request to amend the motion and there was no second to the Motion for Amendment.

Marcus Pennell called for a vote on the finalized motion which, as amended, stated that the Board had agreed to, *“Direct staff to proceed with the concept of the higher education retirement plan as presented with the addition that current ORP participants be eligible for PERA.”*

- *No segregation of the unfunded liability*
- *Payment towards unfunded liability across the entire employer base*
- *Phased-in implementation*
- *Limit to high-turnover positions in State government*
- *Separate State and School into two new Divisions*

The motion was approved unanimously.

## **Increasing Employer Contribution Rates:**

James Casebolt, Board Chair, introduced discussion regarding the introduction of legislation that would increase employer contribution rates. Mark Anderson moved, “to increase the employer contribution rate starting July 1, 2005 with an annual increase of 0.5% with a cap in the State and School Division of 12.15% (Troopers 14.85%), in the Municipal Division of 12.00%, and in the Judicial Division of 14.00% of salary.” This motion was seconded by Terry Campbell.

Discussion ensued regarding the sufficiency of the maximum contribution increase and the appropriateness of the implementation date. F. Elizabeth Friot moved to amend the motion, *“to a 3% cap (13.15%, 15.85%, 13.00%, 15.00%).”* This motion was seconded by Gloria Santistevan-Feedback and passed.

Terry Campbell called for a vote on the motion, which as amended, directed staff to seek legislation, *“to increase the employer contribution rate starting July 1, 2005 with an annual increase of 0.5% with a cap in the State and School Division of 13.15% (Troopers 15.85%), in the Municipal Division of 13.00%, and in the Judicial Division of 15.00% of salary.”* The motion passed as amended.



### **General Counsel Update**

Greg Smith, PERA General Counsel, distributed Personal Financial Disclosure Statements and Personal Financial Disclosure Statement Updates to the Board and informed them that each member of the Board of Trustees was required to submit their completed form to the Secretary of State by January 10, 2004.

Mr. Smith then requested the Board go into executive session to address pending and threatened litigation involving PERA. Pursuant to Colorado Revised Statutes § 24-6-402(3)(b), a motion was made by Sara Alt and seconded by Dick Lansford to go into executive session at 3:56 p.m., and was approved unanimously. In addition to the Trustees and the General Counsel, the Executive Director, the three Deputy Executive Directors present, the Director of Communications, the Director of Government Relations, the Manager of Strategy and Innovation and the Legal Administrative Assistant remained present for the closed executive session.

The executive session concluded at 4:19 p.m.

"By my signature below, I certify that the only issues discussed by the members of the Board during the closed executive session were pending and threatened litigation involving PERA," Board Chair James Casebolt.

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James Casebolt, Chair

### **Committee Reports**

#### **Investment Committee Report**

Marcus Pennell, PERA Trustee, on behalf of Patricia Kelly, Investment Committee Chair, reported that the Committee had received an update regarding current activities that the PERA Investment Department continues to be engaged in. Mr. Pennell stated that the Committee heard a presentation made by Ennis Knupp regarding PERA's current investment benchmarks. The Committee then participated in a round table discussion with Jim Liptak, PERA Director of Equities, and Kari Bayer Pinkernell of Merrill Lynch, regarding the current financial markets. Gloria Santistevan-Feeback, PERA Trustee, then discussed the timetable, goals, and expectations of the issuance of an RFP for PERA's Investment Consultant. Ms. Santistevan-Feeback stated that the Committee hoped to bring the list of finalists to the Board for consideration and discussion at the January Board meeting.



### **Audit Committee Report**

Joanne Hill, Audit Committee Chair, informed the Board that the Committee heard a presentation from PricewaterhouseCoopers LLP, PERA's external auditor, and informed the Board that the outside audit report should be delivered to the Board of Trustees at the May Board meeting. Ms. Hill then stated that the Committee had approved the waiver of the Trustee Education Requirement for Trustees Scott Noller and Joanne Hill, informed the Board that the Committee had provided input to Meredith Williams, PERA Executive Director, for the General Counsel and Internal Auditor's evaluations, and announced that an additional meeting of the Audit Committee had been called for December 11, 2003 for the discussion of external risks and the 2004 Audit Plan.

### **Benefits Committee**

Donna Bottenberg, Benefits Committee Chair, informed the Board that the Committee had reviewed an analysis of the PERA life insurance programs, heard a presentation by Liz Leif which discussed the PERA CARE program and heard an overview of the purchasing service credit process by Rick Larson, PERA Director of Benefit Services and Anne Bandy, PERA Director of Customer Service.

### **Shareholder Responsibility Committee**

Mark Anderson, PERA Trustee, advised the Board that the Committee would be receiving information stemming from research being conducted regarding PERA's contract proxy voting services. Mr. Anderson then stated that the Committee heard a securities litigation update, information pertaining to shareholder access policies, and an update regarding PERA's participation in the formation of an Independent Director Definition for adoption by the Council of Institutional Investors. Mr. Anderson then distributed a draft Securities Litigation Policy and requested that the Board review the policy and be prepared to discuss and vote on it at the January Board meeting.

### **Salary and Budget Committee**

Terry Campbell, Budget and Salary Committee Chair, presented the 2004 proposed budget to the Board stating that the budget represented a 4.04% decrease from the 2003 budget. After providing a brief overview and calling for questions, Mr. Campbell moved that, *"the 2004 proposed budget be*



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*approved by the Board.*" This motion was seconded by Dick Lansford and passed unanimously.

Mr. Campbell then discussed the Committee's progress in its review of PERA's executive compensation and evaluation methods. Mr. Campbell informed the Board that an Investment Department and organizational compensation study was also being conducted as well as a formulation of an overall compensation philosophy. The draft of the overall compensation philosophy was distributed for Board members to review prior to the December 12, 2003 meeting. Mr. Campbell stated that the Committee had selected a consultant to conduct the executive compensation study, established a meeting schedule, and would be prepared to discuss the progress of the executive compensation study and the market analysis at the December Board meeting and would be prepared to make an executive compensation recommendation to the Board at the January meeting.

## **DPSRS Merger Update**

Greg Smith, General Counsel, provided an update to the Board regarding the progress of the PERA/DPSRS merger and distributed a copy of the draft Merger Agreement. Mr. Smith requested that the Board review the document and be prepared to consider a resolution at the December 12, 2003 meeting that would allow the execution of the Merger Agreement at such time as the document was complete.

## **Board Election Calendar**

Kim Natale, Deputy Executive Director, Support Services, provided information regarding the Board Election Calendar, which was distributed to all Board members for review on Friday, November 14, 2003. Mr. Natale stated that the calendar was in compliance with the requirements of the law, had been reviewed by the General Counsel and was approved by the Executive Committee. Discussion ensued regarding promoting an increase in the number of members who voted and looking at alternatives to requesting that members print their social security numbers on the ballots.

After discussion, Mark Anderson moved, *"that staff be directed to proceed with the proposed 2004 Board Election Calendar."* This motion was seconded by F. Elizabeth Friot and passed.

## **Other Business**

There was no other business.



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**Board Meeting Dates**

**2003 Meeting Dates:**

December 12, 2003

**2004 Meeting Dates:**

January 16, 2004

February 20, 2004

March (18) 19, 2004

April 16, 2004

May (20) 21, 2004

July 14-16, 2004 – Retreat

September (16) 17, 2004

October 15, 2004

November (18) 19, 2004

With no further business to discuss, Chair James Casebolt adjourned the meeting at 4:54 p.m.

Respectfully submitted by

Amber Malley  
Senior Administrative Assistant, Legal Services Division

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James Casebolt, Chair

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Meredith Williams, Executive Director