



**COLORADO
PERA**
Record of Proceedings

**PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
BOARD MEETING MINUTES
April 18, 2003**

Trustees Present: J. Kim Natale, Board Chair, James Casebolt, Vice Chair, Mark Anderson, Edward Bohac, Donna Bottenberg, Terry Campbell, Mike Coffman, Julie Coleman, F. Elizabeth Friot, Joanne Hill, Patricia Kelly, Richard Lansford, Amy Nichols, Scott Noller, Gloria Santistevan-Feedback. (There is one vacant seat.)

Staff Present: Steve Brown, Lana Calhoun, Rob Gray, Katie Kaufmanis, David Maurek, Greg Smith, John Spielman, Meredith Williams.

Approval of Agenda

The agenda was approved without change.

The Chair introduced Marcus Pennell, the sole candidate for the School Category Trustee position. Mr. Pennell is a teacher in the Jefferson County School District.

Approval of February 21, 2003 Board Meeting Minutes

The February 21, 2003 Board Meeting Minutes were approved with the correction to the dates for the ILPA Conference to read March 5 and 6 on page 4.

Public Comment

There was no public comment.



Monthly Reports

Executive Committee Report

James Casebolt reported that the Executive Committee met earlier in the day and approved the February 21, 2003 Executive Committee minutes, reviewed the February 28, 2003 Unaudited Financial Statements, the March 31, 2003 Budget Reports, as well as the status of the strategic initiatives. The Committee also reviewed the progress of the 2003 Board Elections. The Committee reviewed the agenda for the April meeting.

Topics for the 2003 Board Retreat include a follow-up on the strategic planning efforts by Cortex Consulting and a review of the actuarial earnings assumption for the fund.

Executive Director Report

Meredith Williams, PERA Executive Director, commented on the day's meeting, reviewed recent activities and responded to Trustee's questions. Trustees were given calculators that will also be sent to employers in appreciation of the work they do on behalf of the membership.

Mr. Williams announced the hiring of Jennifer Paquette as Deputy Executive Director of Investments. He briefly outlined the process and noted that Ms. Paquette was selected from over 95 applicants through an extensive search and interview process in which four members of the Board participated.

Mr. Williams also announced the pending retirement of Steve Brown, the Deputy Executive Director of Support Services later this summer. Mr. Williams acknowledged the extensive contributions Mr. Brown has made over his career at PERA, upon which the Board congratulated Mr. Brown with a standing ovation.

Trustee Lansford asked what staff was doing to promote participation in the MatchMaker program. Mr. Williams responded that the reporting would be improved so as to better reflect efforts to promote the program.

Mr. Williams reviewed statistics on membership and the financial status of the fund, including the volume of purchase of service credit requests. He noted that in May the Audit Committee would be reviewing the financial compliance audit, and the entire Board would hear the legislative wrap-up and be presented with the actuarial evaluation of the fund.



Market and Portfolio Update

David Maurek, Manager of Strategy and Innovation, provided a market and portfolio review and responded to Trustees' questions. He noted that efforts continue to reduce the internal small cap portfolios by transferring \$80 million two times a month to fixed income. Mr. Maurek said that the High Yield Fixed Income Portfolio, previously managed internally, had been moved to outside managers on April 4.

General Counsel Update

Greg Smith, PERA General Counsel, reviewed the activities and issues involving the Legal Department. In his report, he outlined the fees paid to date to outside legal counsel for various projects. He also noted that Meredith Williams had been elected to the Council of Institutional Investors Executive Council, one of nine public fund seats on the 15-member council. He stated that this action represented acknowledgment by other public funds that Colorado PERA has been a leader in the corporate governance policy arena. Finally, Mr. Smith told the Board that the Colorado PERA logo had been officially registered, protecting the symbol from unauthorized use.

Under Colorado Revised Statutes § 24-6-402(3)(b), the Board went into executive session. The Board voted unanimously to go into closed executive session. In addition to the Trustees and the General Counsel, the Executive Director, the three Deputy Executive Directors, and the directors of Communication and Government Relations, and the Manager of Strategy and Innovation participated in the closed session.

"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 Kim Natale.

J. Kim Natale, Chair

Following the Executive Session at 10:28 a.m., the Chair announced a short break. The meeting resumed at 10:46 a.m.

Legislative Report

Rob Gray, Director of Government Relations, assisted by Bob Kirscht, PERA consultant, reviewed the status of Senate Bill 101. He stated that Meredith Williams had met with Governor Owens and the Governor had



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expressed two concerns about Senate Bill 101. These concerns include the lack of a year-to-year-limit on the employer contribution rate if Senate Bill 101 should become law, and a missing defined contribution option for state employees. Mr. Gray discussed the issue related to the contribution limit or “collar” on year-to-year increases. The State and School Division contribution rate is currently capped at 10.15 percent, and Senate Bill 101 would remove that cap, keeping the contribution rate at its current level, 10.04 percent, for fiscal year 2003-2004. After that, the cap is removed and the rate can fluctuate as required by actuarial analysis. The Governor has proposed a 0.5 percent collar on the contribution rate, while PERA staff recommends a 0.75 percent collar. Mr. Gray requested Board guidance on the issue.

Discussion continued on the defined contribution component issue of the bill. The Governor had proposed that “high turnover” job classifications be given an option to select a defined contribution plan, rather than PERA. A conceptual proposal was then discussed with the following parameters:

- The Director of Personnel (or other designated official) would be authorized to petition the PERA Board to offer the State’s 401(a) Plan to certain state employee groups that meet yet to be determined criteria for turnover and retention. The proposal only applies to new hires.
- The PERA Board would approve eligibility for these groups.
- The approval would be for one year.
- The entire program would end in five years.
- The Legislative Audit Committee would evaluate the program at the end of four years.

Rob McGuire, an aide to the Governor addressed the Board at 11:10 a.m. He explained the Governor’s concern about the lack of a collar on the contribution rate and his desire to have state employees receive the entire state contribution to their retirement upon refunding their account. Questions were raised about the costs involved in retirement planning, specifically the cost incurred to educate participants about what type of plan would be best for them. The Chair suggested that the Board and the Governor should work together to craft a system that would be a benefit to both sides of the issue and that he appreciated that Mr. McGuire came to talk with the Board.

Dick Lansford made a motion to add a collar of 0.625 percent in Senate Bill 101. The motion was seconded by Ed Bohac and passed.



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Patricia Kelly made a motion to direct staff to update the Buck Report of 2001 and study options for maximizing the value of employer contributions for short-term employees, including an analysis of costs and benefits, with the work plan presented to the Board in May 2003. The motion was seconded by Mike Coffman and passed.

The Board recessed for a lunch break at 12:15 p.m.

When the Board returned at 1:15 p.m., Rob Gray and Bob Kirscht discussed the latest developments with Senate Bill 98 related to various amendments to the bill relating to the Colorado County Officials and Employees Retirement Association (CCOERA). The Board took no action on this issue.

Mr. Gray then briefed the Board on other legislation that impacts PERA, including Senate Bill 227, the "furlough bill," that had been amended to include any PERA member who was furloughed in fiscal years 2002-2003 and 2003-2004. Mr. Gray then reviewed the status of federal legislation, noting that the Coalition to Preserve Retirement Security had met with AARP on the issue of mandatory Social Security coverage for public employees.

Committee Reports

Benefits Committee

Donna Bottenberg, Benefits Committee Chair, reviewed the previous day's committee meeting and made a motion to accept the committee's recommendation that the Board approve replacing the Morgan Stanley Institutional U.S. Mid Cap Core Portfolio with the Dodge & Cox Stock Fund as the PERA 401(k) Plan investment fund in the Value Domestic Equity Category. The motion passed.

Investments Committee

Julie Coleman, Chair of the Investments Committee, reviewed the previous day's meeting and made a motion to support the staff recommendation to terminate the equity options program. The motion passed.

Ms. Coleman also made a motion to approve the Investment Committee recommendation that the Board approve the recommended change in the benchmark composition for the internal Fixed Income portfolio to 90% Lehman Aggregate and 10% Emerging Markets Index for the entire year 2003. The motion passed.

Ms. Coleman noted that the new format for investment performance data would be ready for the May Board meeting.



Shareholder Responsibility Committee

Mark Anderson, Shareholder Responsibility Committee Chair, briefed the Board on the recent Council of Institutional Investors meeting. He stated that three initiatives had been adopted by the Council of Institutional Investors for review. They include policies related to shareholder-director communications, shareholder access to management's proxy and offshore reincorporations.

Mr. Anderson stated that the Shareholder Responsibility Committee Charter, Committee Policies, and Proxy Voting Policies had been posted on the PERA Web site. Staff was asked to track input from the public related to these policies.

Revision of Board Education Policy

John Spielman, Director of Internal Audit, reviewed the proposed changes to the Board Education Policy that included waiver language related to the first and second year educational session requirements under paragraphs 9) and 10) on page 24-3, and include a new form in Appendix E on page 24-11. Changes were also proposed related to the two year budget period under paragraph 17) on page 24-4 and paragraph 18) on page 24-5.

Scott Noller moved to accept the Board Education Policy changes as proposed. Jim Casebolt seconded the motion and the motion passed.

Accrued Leave Payments Policy

The Board discussed the proposed accrued leave payments policy. The Benefits Committee recommended approval of this policy and it was adopted as amended below:

Accrued Leave Payments.

- A. Payments by an employer made in satisfaction of or in lieu of accrued leave will be treated as PERA includable salary pursuant to C.R.S. 24-51-101 (42) if the following criteria are met.
 - 1. The payment by the employer of the accrued leave is made in a lump sum at the termination of the member's employment or periodic payments after severing employment and not at the election of the member;
 - 2. The accrued leave payments are paid at a rate not to exceed the member's most recent rate of pay; and



3. The payment is for accrued leave earned by the member pursuant to an established employer policy or employment contract and not as a result of a retroactive grant or an award by the employer.

If each of the aforementioned criteria are met, the accrued leave payment will be treated as salary in calculating service credit and highest average salary for retirement by applying the payment over as many months as possible at the member's most recent monthly rate of pay and including additional service credit for such months in the retirement benefit calculation as well as including such months in the highest average salary calculation.

- B. Notwithstanding the foregoing, an annual lump sum payment of accrued leave paid because the individual has accrued in excess of the maximum accumulation allowed by the employer's established leave policy shall be included as PERA salary in the month paid.
- C. No other payments for accrued leave, whether as a lump sum or paid over time, shall be included as PERA salary.
- D. Staff is directed to implement this policy so as to accommodate those members who are presently participating in accrued leave payment programs not in compliance with this policy but which were developed in consultation with PERA staff prior to adoption of this policy. All accrued leave payments must comply with this policy by July 1, 2004.

Board Election Update

Greg Smith, PERA General Counsel, reviewed the status of the Board election. There are 10 candidates running for one Retiree seat and eight candidates running for two State Category seats. There are uncontested races for one seat each in the Municipal, Judicial Divisions, and School Category of the Board.

Scott Noller moved that the Board approve the appointment of Judge James Casebolt for the Judicial Division Trustee position on the Board of Trustees for a four-year term beginning July 1, 2003, as he is the sole candidate duly nominated and eligible to be elected to the position. Further, he moved that the Board direct staff to not go forward with the election for the Judicial Division position. The motion was seconded by Terry Campbell and passed.

Scott Noller moved that the Board approve the appointment of Patricia Kelly for the Municipal Division Trustee position on the Board of Trustees for a four-year term beginning July 1, 2003, as she is the sole candidate duly nominated and eligible to be elected to the position. Further, he moved that



the Board direct staff to not go forward with the election for the Municipal Division position. The motion was seconded by Dick Lansford and passed.

Julie Coleman moved that the Board approve the appointment of Marcus Pennell for the School Category Trustee position on the Board of Trustees for a four-year term beginning July 1, 2003, as he is the sole candidate duly nominated and eligible to be elected to the position. Further, she moved that the Board direct staff to not go forward with the election for the School Category position. The motion was seconded by Scott Noller and passed.

Service Purchase Calculation Project

Steve Brown, PERA Deputy Executive Director of Support Services, reviewed the status of the service purchase calculation project at the Pointe. He said that the expenditure of capital for remodeling to the Logan Street PERA building was postponed to fund the additional temporary employees located at the Pointe. Staff responded to Dick Lansford that service credit purchases tied to upcoming retirements are receiving priority treatment.

Health Insurance Portability and Accountability Act

Greg Smith, PERA General Counsel, reviewed the federal Health Insurance Portability and Accountability Act (HIPAA) with the Board. This law governs the privacy of health plan participant health information and ensures that participants have access to their own health information. HIPPA requires, among other items that have been adopted and put in place by PERA staff, that the Plan documents be amended and certified which requires Board action.

Elizabeth Friot moved that the Board approve the amendment of the PERA health plan to comply with the Federal Health Insurance Portability and Accountability Act and authorize the Executive Director to execute the two documents titled the "HIPAA Privacy Master Group Health Plan Amendment for PERA Health Plan" and the "Plan Sponsor Certification of HIPAA Privacy Plan Amendments for PERA Health Plan." The motion was seconded by Scott Noller and passed.

Year in Review

Meredith Williams reviewed the highlights of the 2002-year for the Board. He was followed by Steve Brown, Deputy Executive Director of Support Services, who outlined the activities of the Divisions that report to him.



Lana Calhoun, Deputy Executive Director of Benefits, then reviewed the operations of the Benefits Department.

Review of PERA Consultants/Service Providers

David Maurek, Manager of Strategy and Innovation, reviewed the list of consultants and service providers PERA used in the past year. He noted that it is important for PERA to re-evaluate the current service providers and the length of time these relationships have been in place. He also stated that PERA should be considering other providers in the marketplace and evaluate the impact that any change might have. Mr. Maurek proposed timelines for consultant re-evaluations. Those consultants requiring a review every five years include the custodian bank, the investment consultant, the 401(k) administrator, the investment performance consultant, the healthcare consultant, the actuary, political and economic forecasters, external auditors, and disability plan service providers. This consultants requiring a review every three years include lobbyists, investment product/database providers, benchmarking consultants, outside members of the Audit Committee, the risk manager, the human resources consultant, and the trading efficiency consultant.

Dick Lansford made a motion to accept the proposed timelines for consultant re-evaluation as outlined above. Amy Nichols seconded the motion that passed.

Other Business

Gloria Santistevan-Feedback announced that there would be two training sessions at the National Council on Teacher Retirement conference and encouraged Trustees to attend.

Board Meeting Dates for 2003

May 16
July 16 – 18 (Annual Retreat)
September (18), 19
October 17
November (20), 21

With no further business to discuss, Chair Kim Natale adjourned the meeting at 3:42 p.m.



Respectfully submitted by

Katie Kaufmanis
Director of Communications

J. Kim Natale, Chair

Meredith Williams, Executive Director