

PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD
5 North Fifth Street
Harrisburg, Pennsylvania

Regular Meeting

Minutes

December 12, 2008

9:00 A.M.

Board Members Present

Ms. Melva S. Vogler, Chairman
Ms. Rebecca May Cole for Representative Dwight Evans
Mr. Sandy Leopold for Senator Vincent J. Fumo
Mr. Glen S. Galante
Mr. J. Curtis Rose for Mr. Thomas J. Gentzel
Mr. Hal Moss
Representative Steven R. Nickol
Mr. Richard N. Rose
Mr. James M. Sando
Ms. Patricia A. Tozer
Ms. Sally J. Turley
Mr. Leo Pandeladis for Treasurer Robin L. Wiessmann
Mr. Scott Sikorski for Senator Rob Wonderling
Mr. Steven Kniley for Secretary Gerald L. Zahorchak

Board Members Absent

Ms. Tina Byles Williams

Staff Members Present

Mr. Jeffrey B. Clay
Mr. Brian S. Carl
Ms. Barbara D. Flurie
Mr. Gerald Gornish
Ms. Donna Peterson
Mr. Eugene W. Robison
Ms. Terrill J. Savidge
Mr. Charles K. Serine
Ms. Evelyn M. Tatkovski
Mr. Alan H. Van Noord
Mr. Joseph E. Wasiak, Jr.

Visitors Present

Mr. Charlie Thompson,
The Patriot News
Mr. Richard Rowland, PASR
Mr. James Roxbury,
The Roxbury News

Others Present

Ms. Janet Cranna
Buck Consultants
Mr. Ed Quinn,
Buck Consultants
Ms. Dana Spangler,
Buck Consultants

CALL TO ORDER Chairman Vogler called the meeting to order at 9:00 A.M. in the fourth floor Board Room at PSERS' headquarters.

GUESTS AND NEW EMPLOYEE Mr. Clay welcomed Ms. Janet Cranna and Mr. Ed Quinn of Buck Consultants; Mr. Charlie Thompson, of The Patriot News; Mr. James Roxbury, of The Roxbury News; and PSERS' new employee, William Snyder, of the Bureau of Benefits Administration.

MINUTES APPROVED Mr. Rose moved to approve the minutes of the September 26, 2008 Board meeting. Mr. Sando seconded the motion, which passed unanimously. Mr. Leopold moved to approve the minutes of the October 22, 2008 Board meeting. Ms. Turley seconded the motion, which passed unanimously.

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held December 11, 2008.

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the September 25 and October 22, 2008 meetings.

PRESENTATIONS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments presentation; Mr. Smith gave a presentation on Performance Attribution; Mr. Bensur, of Wilshire Associates, gave a performance review; Mr. Spiller gave a Private Markets and Real Estate Funds presentation; Mr. Grossman gave an Investment Expenses review and a Securities Lending Guidelines presentation; and Mr. Van Noord gave a preview of future meetings.

OBJECTIVES AND GUIDELINES ADDENDUM Mr. Rose moved that the Board adopt the proposed Investment Objectives and Guidelines Addendum listed below pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated November 26, 2008.

Addendum

Addendum Title

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Securities Lending Program

Ms. Tozer seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on December 11, 2008.

Ms. Tozer stated that the Committee approved the minutes of the September 25, 2008 meeting.

MINUTES APPROVED

Ms. Tozer moved to adopt the Order to dismiss and deny the request of Samuel J. Mantione to change his retirement option. Representative Nickol seconded the motion, which passed unanimously.

ADJUDICATION:
SAMUEL J. MANTIONE

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order to deny the request of Verona Phillip to be the beneficiary of David Phillip, deceased. Ms. Tozer seconded the motion, which passed unanimously.

ADJUDICATION:
VERONA PHILLIP,
ESTATE OF DAVID
PHILLIP

Ms. Tozer moved to adopt the Hearing Examiner's Opinion and Order to dismiss with prejudice the request of Paula Harte-Bielecki to elect multiple service membership. Mr. Moss seconded the motion, which passed unanimously.

ADJUDICATION:
PAULA HARTE-BIELECKI

Ms. Tozer stated that the Committee accepted the Executive Staff Review Committee Report from the October 7, 2008 meeting.

EXECUTIVE STAFF
REVIEW COMMITTEE

Ms. Tozer stated that Ms. Savidge presented an update on Benefits Processing Statistics.

BENEFITS PROCESSING
STATISTICS

HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meeting held on December 11, 2008.

Ms. Turley stated that the Committee approved the minutes of the August 13 and 22, 2008 meeting.

MINUTES APPROVED

Ms. Turley stated that the Committee heard a presentation from Mr. Mark Schafer, regarding the HOP Budget.

PRESENTATION

Ms. Turley moved that the Board adopt the proposed Program and Administrative Budget of the Health Options Program and the Medicare Prescription Drug Program Administrative Budget for the Plan Year 2009 in the aggregate amount of \$218,519,000; as presented by Mark F. Schafer at the December 11, 2008 Health Care Committee meeting. Mr. Galante seconded the motion, which passed unanimously.

HOP BUDGET

PRESENTATIONS

Ms. Turley stated that Mr. Schafer spoke regarding the Option Selection Period; and Mr. Johnson, of Segal Company, gave a presentation on the proposed Premium Assistance Policy, which may be presented at the January Board meeting.

BYLAWS/POLICY COMMITTEE REPORT

Representative Nickol reported on the meeting held on December 11, 2008.

MINUTES APPROVED

Representative Nickol stated that the Committee approved the minutes of the June 19, 2008 meeting.

PRESENTATION

Representative Nickol stated that Mr. Gornish gave a presentation on the Right To Know Law, which goes into effect January 1, 2009.

PUBLIC INFORMATION POLICY

Representative Nickol moved that the Board approves the proposed amendments to the Public Information Policy of the Commonwealth of Pennsylvania, Public School Employees' Retirement System pursuant to the recommendation of Gerald Gornish, Chief Counsel, dated November 26, 2008. Mr. Richard Rose seconded the motion, which passed unanimously.

PERSONNEL COMMITTEE REPORT

Mr. Curt Rose reported on the meeting held on December 11, 2008.

MINUTES APPROVED

Mr. Curt Rose stated that the Committee approved the minutes of the September 25, 2008 meeting.

EXECUTIVE SESSION

Mr. Curt Rose stated that the Committee held Executive Session regarding personnel matters.

INVESTMENT OFFICE INCENTIVE COMPENSATION PLAN POLICY

Mr. Curt Rose moved that the Board terminate the previously approved Investment Office Incentive Compensation Plan Policy (Policy) for FY 2008-2009 (see PSERB Resolution 2008-40) effective as of December 31, 2008, to allow the Board an opportunity to review the Policy in light of the current market conditions, all in accordance with the recommendation of Jeffrey Clay, Executive Director. Ms. Tozer seconded the motion. Mr. Sikorski abstained, on behalf of Senator Wonderling. The motion passed 13 Yes, 1 Abstention.

NEW BUSINESS

Ms. Vogler stated that the School Board Member election has been won by Mr. Richard N. Rose. His three year term will commence on January 1, 2009 and end December 31, 2011. Mr. Clay, as Secretary of the Board, certified the validity of the results. The Board congratulated Mr. Rose on his election.

CERTIFICATION OF
BOARD ELECTION

Prior to formally introducing PSERS' actuaries from Buck Consultants, Mr. Clay recommended that the Board consider reducing its actuarial investment rate of return assumption of 8.50% by 25 basis points per year for the next three years. A resolution to that effect was made by Representative Nickol and seconded by Mr. Rose.

INVESTMENT RATE OF
RETURN

After some discussion among the Board members regarding the investment rate of return, Mr. Pandeladis moved that the discussion be tabled until the January meeting. Mr. Leopold seconded the motion. The motion passed 10 Yes, 4 No.

Mr. Clay then introduced Ms. Cranna, of Buck Consultants, who presented the June 30, 2008 Actuarial Valuation. Ms. Spangler and Mr. Quinn contributed to the presentation.

ACTUARIAL VALUATION

Mr. Richard Rose moved that the Board accept the June 30, 2008 Actuarial Valuation Report prepared by Buck Consultants, and adopts the actuarial factors, assumptions and methodologies contained therein, which result in an employer contribution rate of 4.78% for Fiscal Year July 1, 2009 through June 30, 2010. Ms. Tozer seconded the motion, which passed unanimously.

ACCEPTANCE OF
ACTUARIAL VALUATION

EXECUTIVE DIRECTOR'S REPORT

Mr. Clay stated that the following information was available (See Board Book 331, Executive Director TAB):

INFORMATION
AVAILABLE

- PSERS' Legislative Report
- NASRA/NCTR Issue Brief on the pension funds and the economy
- Council of Institutional Investors letter to The Honorable Nancy Pelosi, dated December 2, 2008, of which PSERS was a signatory
- PASR letter, dated December 2, 2008, requesting an IRS audit of PSERS

- Projection of Contribution Rates & Funded Ratios as of June 30, 2008

RECENTLY ATTENDED EVENTS	Mr. Clay stated that he, along with Mr. Van Noord, attended the House Commerce Committee Economic Roundtable on October 1, 2008. Mr. Clay stated that he also attended the PASR Annual Convention Banquet on October 7, 2008; made a PASR Chapter presentation on October 23, 2008; participated in the PSBA Webinar on both November 18-19, 2008; made a presentation at Carbon Lehigh Intermediate Unit Human Resource Meeting on November 19, 2008; and made a PASA presentation on November 21, 2008.
UPCOMING EVENTS	Mr. Clay stated that he has no upcoming events planned as of the date of this meeting.
WINTER EDUCATION SEMINAR	Mr. Clay stated that in light of the economy and other factors, the Winter Education Session will be combined in some manner with the Finance Committee meeting at the January meeting.
CAFR	Mr. Clay stated that the Comprehensive Annual Financial Report has been completed. This was the earliest completion of this important document in recent memory.
BUDGETARY RESERVE	Mr. Clay stated that although PSERS has not been required to create a budgetary reserve of 4.25% by the Office of the Budget, the agency has voluntarily created a budgetary reserve in excess of the 4.25%.
HOLIDAY GIFT DONATION	Mr. Clay informed the Board that the staff donated holiday gifts to Dauphin County Social Services for Children and Youth, Tremont Nursing Home and Windy Hills Village.
UPCOMING MEETING ITEM	Mr. Clay also noted that the January meeting will include the Board elections.
REGARDS FOR SERVICE	Mr. Clay extended regards on behalf of the Board to Treasurer Weissmann, Representative Nickol, and Mr. Leopold on behalf of Senator Fumo for their outstanding service to the Board.

CHIEF COUNSEL REPORT

ROYAL DUTCH	Mr. Gornish updated the Board on the Royal Dutch settlement. He stated that there have been some spurious appeals filed regarding the attorneys' fees, none of which should hold up distribution.
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Mr. Gornish informed the Board that the Union Officers Case was argued before the Supreme Court on October 20, 2008 in Philadelphia. A split decision is expected. UNION OFFICERS CASE

Mr. Gornish reported that the Healthways case has been settled and the money has been received. Therefore, this case is over. HEALTHWAYS CASE

Mr. Gornish stated that the Commonwealth Court reversed the Board's decision in the Thomas A. Kline case. The Board, by consensus, agreed not to appeal. KLINE CASE

Mr. Gornish informed the Board that PSERS, along with SERS and PMRS, sought outside counsel to assist with making a recommendation regarding the necessity to seek a tax qualification determination letter from the IRS. An inventory of the issues is tentatively scheduled to be presented to the Board at the March meeting. OUTSIDE COUNSEL

Mr. Gornish stated that a survey has been completed to determine if School Solicitors in Pennsylvania are being permitted to maintain an outside business, while being members of PSERS. No cases of such were found. SCHOOL SOLICITORS

Mr. Gornish updated the Board on the Commonwealth Court decisions in ethics cases, previously reported to the Board. In response to those decisions, PSERS has adopted a conflicts protocol for itself, which will continue to be followed. Board members are advised to recuse themselves from voting on a contract where a conflict exists because of involvement of members of their immediate family in a corporation seeking a contract with PSERS. ETHICS

CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation to the Board on the Comprehensive Annual Financial Report, Budget Update and September 30, 2008 Financial Statements (See Board Book 338, TAB 29). PRESENTATIONS

BOARD MEMBER COMMENTS

Ms. Vogler extended her gratitude to the staff for a job well done this past year. THANK YOU

END OF TERM


Ms. Vogler thanked Mr. Leopold, Representative Nickol and Treasurer Weissmann for their years of service on the Board.

ADJOURNMENT AND
NEXT REGULARLY
SCHEDULED MEETING

Ms. Turley moved to adjourn the meeting. Mr. Richard Rose seconded the motion, which passed unanimously.

Chairman Vogler adjourned the meeting at 10:37 A.M. The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on January 23, 2009, in PSERS Board Room, 5 North 5th Street, Harrisburg, PA.

Date 1/9/09

Approved 
Jeffrey B. Clay
Executive Director