

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

**Regular Meeting**

**Minutes**

**June 10, 2011**

**10:25 A.M.**

**Board Members Present**

Ms. Melva S. Vogler, Chairman  
Senator Patrick Browne  
Mr. Glen S. Galante  
Ms. Beth Winters for Mr. Thomas J. Gentzel  
Ms. Lisa Taglang for Representative Glen R. Grell  
Mr. John Raymond for Senator Shirley M. Kitchen  
Representative Joseph F. Markosek  
Ms. Jennifer Langan for Treasurer Robert M. McCord  
Mr. Hal Moss  
Mr. Richard N. Rose  
Mr. James M. Sando  
Ms. Kelly Logan for Secretary Ronald J. Tomalis  
Ms. Patricia A. Tozer  
Ms. Sally J. Turley

**Staff Members Present**

Mr. Jeffrey B. Clay  
Mr. Brian S. Carl  
Ms. Barbara D. Flurie  
Mr. Gerald Gornish  
Ms. Terrill J. Savidge  
Ms. Kelly L. Sprenkle  
Mr. Alan H. Van Noord  
Mr. Joseph E. Wasiak, Jr.

**Visitors Present**

Mr. Eric Boehm, PA Independent  
Mr. Rick Johnson, The Segal Company  
Mr. Ed Kaplan, The Segal Company  
Mr. Sandy Leopold

Ms. Vogler called the meeting to order at 10:25 A.M. in the fourth floor Board Room at PSERS' headquarters.

CALL TO ORDER

Mr. Clay welcomed Mr. Eric Boehm, PA Independent.

WELCOME GUEST

MINUTES APPROVED Ms. Tozer moved to approve the minutes of the April 29, 2011 Board meeting. Ms. Langan seconded the motion, which passed unanimously.

APPEALS/MEMBER SERVICES COMMITTEE REPORT

Ms. Tozer reported on the meeting held on June 10, 2011.

MINUTES APPROVED Ms. Tozer stated that the Committee approved the minutes of the April 28, 2011 meeting.

ESRC REPORT Ms. Tozer stated that the Committee reviewed the Executive Staff Review Committee Report from the April 12, 2011 meeting.

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

FINANCE COMMITTEE REPORT

Mr. Rose reported on the meeting held June 9, 2011.

MINUTES APPROVED Mr. Rose stated that the Committee approved the minutes of the April 28, 2011 meeting.

PRESENTATIONS Mr. Rose stated that Mr. Van Noord gave a Market Review and Comments report; Mr. Bensur presented the Wilshire First Quarter Performance Update; Mr. Smith spoke regarding Public Market Performance; Mr. Heppenstall gave a Review of Internal Fixed Income Management; Mr. Bruce Ruhl, of Aksia, presented the First Quarter Absolute Return Performance; Mr. Jacobs gave the PSERS Emerging Manager Updates; Mr. Grossman spoke regarding the Nephila Palmetto Catastrophe Fund and the Investment Objectives and Guidelines; Mr. Spiller spoke regarding Milestone Partners IV, Capital International Private Equity Fund V, Orchid Asia V, Blackstone Real Estate Partners VII, Carlyle Realty Partners VI, and DRA Growth and Income Fund VII; and Mr. Van Noord gave a preview of future meetings.

PALMETTO FUND LTD Mr. Rose moved that pursuant to the recommendations of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated May 20, 2011, and Aksia, LLC, dated May 24, 2011, the Public School Employees' Retirement Board (the "Board") invests in the Palmetto Fund, Ltd., Class G shares, in an amount within the target ranges established in Exhibit D of the Investment Policy Statement, Objectives and Guidelines as

amended from time to time (the current version of which can be found at <http://www.pasers.state.pa.us/invest/guide/index.htm>). The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Mr. Raymond seconded the motion, which passed unanimously.

Mr. Rose moved that that the Public School Employees' Retirement Board (the "Board") adopts the proposed changes to the Investment Policy Statement, Objectives, and Guidelines (specifically the Insurance guidelines and Exhibits B and C) and the proposed Investment Objectives and Guidelines Addenda listed below for the Public School Employees' Retirement System pursuant to the recommendation of James H. Grossman, Jr., Managing Director of External Public Markets, Risk & Compliance, dated May 24, 2011.

**INVESTMENT  
OBJECTIVES AND  
GUIDELINES**

<u>Addendum</u>	<u>Addendum Title</u>
I	U.S. Core Plus Fixed Income Portfolios
K	U.S. High Yield Fixed Income Portfolios
K1	Mortgage and Asset Backed Securities Portfolios
L	Internally-Managed Treasury Inflation Protection Securities Portfolios
Q	Global Core Plus Fixed Income Portfolios
Q1	Emerging Markets Fixed Income Portfolios
Y	Internally-Managed Short-Term Investment Pool
Y1	LIBOR-Plus Short-Term Investment Pools

Internally-Managed Premium Assistance Program Portfolio  
Mr. Moss seconded the motion, which passed unanimously.

Mr. Rose moved that that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$70 million plus reasonable normal investment expenses, in Milestone Partners IV, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment

**MILESTONE PARTNERS  
IV, L.P.**

contract. Ms. Turley seconded the motion, which passed with 2 abstentions by Ms. Langan, on behalf of Treasurer McCord and Ms. Reeves, on behalf of Representative Markosek.

CAPITAL  
INTERNATIONAL  
PRIVATE EQUITY FUND  
VI, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in Capital International Private Equity Fund VI, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Ms. Tozer seconded the motion, which passed unanimously.

ORCHID ASIA V, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$50 million plus reasonable normal investment expenses, in Orchid Asia V, L.P. in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Office of Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Mr. Sando seconded the motion, which passed unanimously.

BLACKSTONE REAL  
ESTATE PARTNERS VII,  
L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$300 million plus reasonable normal investment expenses, in Blackstone Real Estate Partners VII, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Ms. Turley seconded the motion, which passed unanimously.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$200 million plus reasonable normal investment expenses, in Carlyle Realty Partners VI, L.P., in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Mr. Sando seconded the motion, which passed unanimously.

CARLYLE REALTY  
PARTNERS VI, L.P.

Mr. Rose moved that the Public School Employees' Retirement Board (the "Board") invests an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in DRA Growth and Income Fund VII, LLC, in accordance with the recommendation of Charles J. Spiller, Managing Director, Private Markets and Real Estate, dated June 9, 2011. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director, as evidenced either by the appropriate signatures on the implementing investment contract or by a memo to that effect appended to the implementing investment contract. Mr. Raymond seconded the motion, which passed unanimously.

DRA GROWTH AND  
INCOME FUND VII, LLC

#### HEALTH CARE COMMITTEE REPORT

Ms. Turley reported on the meetings held June 9 and 10, 2011.

Ms. Turley stated that the Committee approved the minutes of the March 10, 2011 meeting.

MINUTES APPROVED

Ms. Turley stated that the Committee went into Executive Session both days to discuss the Prescription Benefit Manager RFP; Mr. Johnson, of The Segal Company, spoke regarding the HOP Benefits; and Mr. Kaplan, of The Segal Company, spoke regarding the HOP Rates.

PRESENTATIONS

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the benefit modifications to the HOP Medical Plan effective January 1, 2012:

HOP MEDICAL PLAN  
BENEFITS AND RATES

In conjunction with Medicare and the HOP Medical Plan, the Member pays	HOP Medical Plan
Emergency Room	\$25 (Waived if admitted)
Imaging (MRI and CT Scans)	\$25
Durable Medical Equipment	10% up to \$100
Skilled Nursing Facility Care	\$0 up to 100 days

And further moved that the Public School Employees' Retirement Board (the "Board") approves the premium rates of the HOP Medical Plan effective January 1, 2012:

<b>HOP Medical Plan: w/ Benefit and Rating Changes</b>	<b>2012</b>
North and Central Region Rate	\$164
Southwest Region Rate	\$195
Southeast Region Rate	\$199

And further moved that the Public School Employees' Retirement Board (the "Board") approves the Age 65 premium rates of the HOP Medical Plan effective January 1, 2012:

Category	Current Structure	Increases to Current Structure	New Structure	Increases to New Structure
Standard Rate	Base Rate (100%)	Medical Care Inflation + Medicare Cost Shifting	Base Rate (100%)	Medical Care Inflation + Medicare Cost Shifting
Age 65 Rate	Discounted Rate (95% of Base)	Medical Care Inflation + Medicare Cost Shifting	<i>Discontinue "old" age 65 Rate for new members</i>	<i>2.5% reduction in discount over the next 2 years + Medical Care Inflation + Medicare Cost Shifting</i>
<i>New Age 65 Rate for 2012</i>			<i>Discounted Rate (85% of Base)</i>	<i>3% reduction in discount each year until it equals Base Rate + Medical Care Inflation + Medicare Cost Shifting</i>

<b>HOP Medical Plan</b>	<b>2012</b>
<b>North and Central Region</b>	
Old Age 65 Rate	\$160
<i>New Age 65 Rate</i>	<i>\$140</i>
<b>Southwest Region</b>	

Old Age 65 Rate	\$191
New Age 65 Rate	\$166
<b>Southeast Region</b>	
Old Age 65 Rate	\$195
New Age 65 Rate	\$170

Ms. Vogler seconded the motion, which passed unanimously.

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the benefit modifications to the HOP Pre-65 Medical Plan effective January 1, 2012:

**HOP PRE-65 MEDICAL PLAN BENEFITS AND RATES**

Benefit Category	Current Threshold	Proposed Threshold
Annual Deductible	\$ 1,500	\$ 1,500
Annual Out of Pocket Maximum	\$5,000	\$5,500
Annual Maximum Benefit	\$200,000	\$250,000

And further moved that the Public School Employees' Retirement Board (the "Board") approves the premium rates of the HOP Pre-65 Medical Plan effective January 1, 2012:

HOP Pre-65 Medical Plan: w/ Benefit Changes	2012
Pre-65 Medical Plan	\$650
Pre-65 Medical Plan w/ Prescription Drugs	\$750

Mr. Rose seconded the motion, which passed unanimously.

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the following benefit modifications to the Basic Medicare Rx Option effective January 1, 2012:

**BASIC MEDICARE RX OPTION BENEFITS AND RATES**

The Member Pays:	2011 Basic Medicare Rx Option	Proposed Basic Medicare Rx Option for 2012
<b>Initial Coverage</b> (up to \$2,840 for 2011 and \$2,930 for 2012)		
Generic Rx (30/90 day)	\$7/\$21	\$7/\$21
Preferred Brand Rx	30% (\$75 max for 90-day supply)	30% (\$50 max for up to 33-day supply; \$100 max for 34- to 90-day supply)
<b>Non-Preferred Brand Rx</b>	N/A	40% with no max
<b>Coverage Gap</b>		
Generic Rx	93%	86%

And further moved that the Public School Employees' Retirement Board (the "Board") approves the following premium rates of the Basic Medicare Rx Option effective January 1, 2012:

Basic Medicare Rx Option: w/Benefit Changes	2012
Single	\$27
Two Person	\$54

Mr. Galante seconded the motion, which passed unanimously.

ENHANCED MEDICARE  
RX OPTION BENEFITS  
AND RATES

Ms. Turley moved that the Public School Employees' Retirement Board (the "Board") approves the following benefit modifications to the Enhanced Medicare Rx Option effective January 1, 2012:

Member Pays for:	Current Enhanced Option	New Enhanced Option
Initial Coverage (up to \$2,840 for 2011 and \$2,930 for 2012)		
Generic Rx (30/90 day)	\$7/21	\$7/21
Brand Coinsurance	25% up to a \$75 Max for a 90-day supply	25% (\$50 max for up to a 33-day supply; \$90 max for 34- to 90-day supply)
Non-preferred brand	N/A	25% (\$50 max for up to a 33-day supply; \$90 max for 34- to 90-day supply)

And Further RESOLVED, that the Public School Employees' Retirement Board (the "Board") approves the following premium rates of the Enhanced Medicare Rx Option effective January 1, 2012:

Enhanced Medicare Rx Option: w/Benefit Changes	2012
Single	\$81
Two Person	\$162

Ms. Tozer seconded the motion, which passed unanimously.

AUDIT/BUDGET COMMITTEE REPORT

Mr. Galante reported on the meeting held June 10, 2011.

MINUTES APPROVED

Mr. Galante stated that the Committee approved the minutes of the December 9, 2010 meeting.

PRESENTATIONS

Mr. Galante stated that Mr. Rey, of Clifton Gunderson, spoke regarding the Audit Plan; and Mr. Clay spoke regarding the Actuarial Audit.



Mr. Galante moved that the Public School Employees' Retirement Board (the "Board") accepts the report prepared by PricewaterhouseCoopers LLP for the Commonwealth of Pennsylvania, dated August 18, 2010, entitled *Analysis of Actuarial Valuation, Projections, Plan Design, and Funding Options: The Public School Employees' Retirement System*, solely with respect to its findings pertaining to PSERS' June 30, 2009 valuation, as satisfying the Board's requirement for an actuarial audit every five years of the accuracy and reasonableness of the methods, procedures and assumptions used by PSERS' actuary in a designated annual actuarial valuation, i.e. June 30, 2009. Mr. Sando seconded the motion, which passed unanimously.

ACTUARIAL AUDIT

### PERSONNEL COMMITTEE REPORT

Ms. Vogler, on behalf of Mr. Gentzel, reported on the meeting held June 9, 2011.

Ms. Vogler stated that the Committee approved the minutes of the December 9, 2010 meeting.

MINUTES APPROVED

Ms. Vogler reported that a Executive Session was held to discuss a personnel issue.

### NEW BUSINESS

The Board agreed to accept the 2012 Board Meeting calendar, with the understanding that changes may be made when necessary.

### EXECUTIVE DIRECTOR'S REPORT

Mr. Clay recently attended the following events:

- May 12 – PSEA-R presentation in Monroeville
- May 24-25 – PAPERS Conference in Harrisburg, PA

RECENTLY ATTENDED  
EVENTS

Mr. Clay stated that he has no upcoming events scheduled at this time.

UPCOMING EVENTS

Mr. Clay reported that Ms. Byles Williams has resigned from the Board, effective June 2, 2011. A replacement will be appointed by the Governor.

RESIGNATIONS

Mr. Clay stated that Mr. Knepp, Executive Director at the State Employees' Retirement System, has announced his retirement effective the end of 2011.

SPECIAL BOARD MEETING

Mr. Clay stated that a special Board meeting will be held telephonically the end of June regarding the results of the Pharmacy Benefits Manager Request for Proposal.

EDUCATION DAY

Mr. Clay stated that an Education Day will be held on August 9, 2011 at PSBA's Headquarters facility in Mechanicsburg, PA.

CHIEF FINANCIAL OFFICER REPORT

Mr. Carl gave a presentation to the Board containing the Financial Statements as of March 31, 2011; Other Financial Management Issues; and the Impact of Fund Outperformance (See Board Book 356, CFO Report TAB).

BOARD MEMBER COMMENTS

THANK YOU

Ms. Vogler thanked the members of the Board for their commitment and service during this session of meetings.

CHIEF COUNSEL REPORT

EXECUTIVE SESSION

At 11:06 A.M., Mr. Clay stated: "In accordance with Section 5.13 of the Bylaws of the Public School Employees' Retirement Board, we are going into an Executive Session to discuss the item listed on today's agenda, namely litigation matters. The Board may hold an executive session for any one or more of the reasons enumerated in Section 708(a) of the Sunshine Act (65 Pa C.S. §708(a)), including agency business which, if conducted in public would violate a privilege or lead to the disclosure of information or confidentiality protected by law, including matters related to the initiation and conduct of investigations of possible or certain violations of laws."

Mr. Rose moved that the Board enter into Executive Session. Ms. Tozer seconded the motion, which passed unanimously. The Executive Session ended at 11:24 A.M. and the meeting immediately returned to Regular Session.

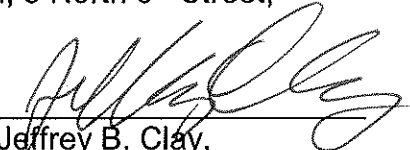
ADJOURNMENT

Chairman Vogler adjourned the meeting at 11:24 A.M.

The next regularly scheduled meeting of the Board of Trustees of the Public School Employees' Retirement Board will be held on August 11, 2011, in PSERS Board Room, 5 North 5<sup>th</sup> Street, Harrisburg, PA.

NEXT MEETING

Date 7/18/11

Approved   
Jeffrey B. Clay,  
Executive Director