

**Louisiana School Employees' Retirement System
Regular Board Meeting**

**Monday, February 16, 2004
9:00 a.m.**

The Board of Trustees of the Louisiana School Employees' Retirement System convened in the Board Room (Room 100) of the Louisiana School Employees' Retirement System's Building located at 8660 United Plaza Blvd., Baton Rouge, LA. Chairman of the Board, Mr. Joe Seymour, opened the meeting at 8:59 a.m. The Board recited the Lord's Prayer and the Pledge of Allegiance. Roll was called.

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Members Present: Mr. Joe Seymour - Chairman, Ms. Betty Crain, Ms. Betty Jacobs, Ms. Sylvia Myers, Mr. Earl Richard, Jr., Mr. Larry Wilmer, Mr. Jeffrey Faulk, Ms. Susan Pappan - State Treasurer's Office, Mr. Warren Ponder - Secretary of State's Office.

Members Absent: Mr. Fox McKeithen - Secretary of State, Mr. John Kennedy - State Treasurer, Representative Pete Schneider - Chairman, House Retirement Committee, Senator Lambert Boissiere, Jr. - Chairman, Senate Retirement Committee

Staff Present: Mr. Patrick Cosper - Director, Ms. Debra Dudley - Assistant Director, Mr. Randall Roche - General Counsel, Ms. Julia LeBlanc - Chief Investment Officer, Ms. Judy Wright - Communications Director I, Ms. Jennifer Champagne - Executive Services Assistant

Also Present: Mr. Charles Hall - Hall Actuarial Associates

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BOARD MINUTES

Ms. Crain brought up a correction to be made on Page 7 of the November 24, 2003 Regular Board Meeting minutes in reference to the spelling of Ms. Jenkins middle name. Her name should be Ms. Dorothy Bellue Jenkins and ¹Morgan Monroe City School Board should be corrected to reflect Monroe Bogalusa City School Board.

ON MOTION OF MR. WILMER, SECONDED BY MR. RICHARD AND CARRIED, the Board approved, with corrections, the minutes of the November 24, 2003 Regular Board Meeting.

ON MOTION OF MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the minutes of the November 25, 2003 Regular Board Meeting.

On review of the December 15, 2003 Special Board Meeting minutes, Ms. Jacobs asked Mr. Roche for an overview of what happened in Mr. Williams' case. Mr. Roche stated that he and Ms. Dudley met with Mr. Williams over the Christmas and New Year Holiday. During this meeting Ms. Dudley explained to Mr. Williams the options available to him at the time he decides to retire. She also informed Mr. Williams that he needs to meet with LSERS staff when he decides to retire in order to fully understand everything involved in selecting his option for retirement.

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the minutes of the December 15, 2003 Special Board Meeting.

RETIREMENT REPORTS - OCTOBER - DECEMBER 2003

ON MOTION OF MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the Service Retirement Reports for the months of October, November, and December 2003.

ON MOTION OF MR. FAULK, SECONDED BY MS. JACOBS AND CARRIED, the Board approved the Disability Retirement Reports for the months of October, November, and December 2003.

ON MOTION OF MR. FAULK, SECONDED BY MR. WILMER AND CARRIED, the Board approved the Survivor Benefits Reports for the months of October, November, and December 2003.

ON MOTION OF MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the DROP Deposits Reports for the months of October, November, and December 2003.

¹Board approved corrections at May 17, 2004 Regular Board Meeting.

ADMINISTRATION

Mr. Seymour informed the Board that before Mr. Hall's presentation Mr. Roche had an announcement to make. Mr. Roche informed the Board that he will be retiring at the end of this year and will be submitting a letter to the Director. He also noted that the Board needs to consider hiring legal counsel to replace him, as there are several active lawsuits that the Board should be concerned about.

Mr. Seymour announced to the Board members that on August 1, 2004 he will be submitting a letter of resignation as Chairman of the Board to be effective December 31, 2004.

PRESENTATION AND DISCUSSION OF LSERS TARGET RATIO

Mr. Hall gave a presentation to the Board on the funded ratio test, which is one of the elements that the Board has to comply with in order to grant COLA's. Since this has never been discussed in any great detail in the past, it was felt that this presentation would provide the Board with information needed to comply with legislation when considering granting COLA's.

Mr. Hall wanted to give the Board some insight as to what the funded ratio test was for granting a COLA, how it developed, and why the funded target ratio has become a problem in granting COLA's. Therefore, he started at the beginning, right around the early 1980's, and gave them an overview of what actually transpired relative to the Board's ability to grant COLA's.

Back in the early 80's COLA's generally were granted legislatively and when the legislature did grant COLA's they normally did it without providing the Board with any funding. The retirement system was required to fund the COLA's, but if the system was 100% funded that money was earmarked for every retiree to pay their pension benefits and every active member who has contributed to pay their benefits. Therefore, if you are 100% funded, you have nothing left over. If you take money out to pay COLA's then you are taking that money away from somebody that is in the system, primarily active, because the retirees are going to draw their funds first.

There were also statutory provisions on the books that allowed the Board of Trustees to grant COLA's, but there were certain rules and regulations that the Boards had to comply with in order to grant COLA's without going to the legislature. They were limited to granting COLA's from excess interest earnings that were derived, in that you had to earn excess earnings in one year to pay for the full COLA. However, if you grant a COLA you have to have sufficient excess interest earnings to pay all of our retirees for that one increase that would be paid to them for the rest of their lives.

Mr. Hall went over the history of portfolios for the system. He redefined excess interest earnings and gave them an overview of what is needed to generate sufficient excess interest earnings to grant COLA's.

ADMINISTRATION (CONT'D)

PRESENTATION AND DISCUSSION OF LSERS TARGET RATIO (CONT'D)

He also went over legislation passed in 1986 that developed the funded ratio test, which allowed the Board of Trustees to grant COLA's provided they met two criteria. The first criteria was that they needed to have sufficient excess interest earnings to fund the present value of the COLA within the fiscal year. The second criteria was that they had to meet the funding target.

Mr. Hall went into detail on how this piece of legislation affects granting of COLA's and that the funding ratio does not match the funding mechanism. In order to assure that we were achieving an increase in our funding at the same time that we granted COLA, it was felt that we should restart the funding target ratio test and put it in sync with where we are today and stretch it out to the year 2029 instead of 2016, which would coincide with the way we are funded. Because that was the basis that the legislature created it in. They wanted to make sure that if we were granting funding for COLA's we were also increasing our funded % at the same time.

Discussion was held regarding this and how best to support attempts of our retirement systems to change legislation in order to put them in a better position to grant COLA's.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board approved to have our system support or have legislation drafted to restart the target ratio.

LETTER FROM HALL AND ASSOCIATES RELATIVE TO THE PERSAC COMMITTEE MEETING HELD ON FEBRUARY 5, 2004.

Mr. Cospers brought to the attention of the Board a letter he received from Hall and Associates relative to the PERSAC committee meeting held on February 5, 2004. The purpose of the meeting was to take the information collected from the systems and make recommendations for the employer/employee contribution rates for the next fiscal year. Mr. Hall, who sits on this committee, was asked to provide information on what transpired and what recommendations will be going to the Legislature.

Mr. Hall gave the Board a synopsis of what transpired at the PERSAC Committee meeting. In summary the PERSAC committee established the recommended employer contribution rate for LSERS as 18.8% of payroll.

When asked whether the superintendents were notified of this increase in employer contribution rate, Ms. Dudley informed the Board that they had been notified in writing the date after LSERS was informed of the rate increase.

ADMINISTRATION (CONT'D)

CONSIDERATION TO APPROVE EFFECTIVE DATE OF DROP FOR PEGGY MATHERNE

Ms. Dudley asked the Board to consider approval of the effective date of Ms. Peggy Matherne's application to enter the DROP program as January 1, 2004. Ms. Peggy Matherne, an employee of St. Charles Parish, completed an application to enter the DROP Program effective January 1, 2004. Ms. Matherne completed the application on August 8, 2003. Due to an administrative error by the school board, the application was not mailed to the LSERS office before the effective date of DROP participation. The application was received in the LSERS office on January 14, 2004. Staff received a letter from the St. Charles Parish School Board stating that the delay of the submission of the application was due to an error by the school board.

Under the provision of LA R.S. 11:1141(B), the Board is authorized to approve effective dates of retirement or DROP participation up to 90 days before the application is received in the LSERS' offices, if the application was delayed due to an error. The staff recommends that the Board approve Ms. Matherne's effective date to enter the DROP program as January 1, 2004.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the Board approved Ms. Peggy Matherne's effective date to enter the DROP program as January 1, 2004.

DISCUSSION OF REQUEST FROM INVESTMENT CONSULTANT

Ms. LeBlanc asked the Board to consider for discussion a request from the investment consultant. She went over a letter addressed to Mr. Pat Cosper dated December 17, 2003 from Mr. Richard E. Ranallo, CFA, of Segal Advisors. In his letter Mr. Ranallo indicated that Segal Advisors has been at their current level of pay since February of 1999, almost 5 years, and that he is requesting an increase beginning July 1, 2004 from \$132,250 per year to \$147,500 per year. This is a 2.2% increase per year over this five year period and Mr. Ranallo feels that these fees are competitive and they are willing to guarantee this fee for a three year period.

A discussion was held regarding this matter and the need for an increase at this time. Mr. Cosper addressed the Board and informed the members that Segal Advisors is asking that the Board consider placing their request for a fee increase in the budget for consideration at the May Board meeting.

Roll Call Vote #1

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN, the Board voted on request from Mr. Richard E. Ranallo, CFA, of Segal Advisors for an increase in fees beginning July 1, 2004. Betty Crain - yes; Betty Jacobs - yes; Sylvia Myers - abstained; Earl Richard, Jr. - abstained; Larry Wilmer - no; Jeffrey Faulk - no (Mr. Faulk wished to qualify his vote. I voted no before on raises and it's not because they're not deserving. I've voted yes before, but I think it's a bad time right now to give them an increase when we can't give an increase to our retirees) Susan Pappan - abstain; Warren Ponder - abstain; Joe Seymour - yes. **YES - 3, NO - 2, ABSTAIN - 4, MOTION FAILED.**

ADMINISTRATION (CONT'D)

DISCUSSION OF REQUEST FROM INVESTMENT CONSULTANT (CONT'D)

Ms. Myers told the Board that the reason she abstained was that this item had just been brought to her attention today and that she could change her mind if they wanted to bring it back for discussion at a later date.

A discussion was held regarding this. It was felt that since there was no prior discussion on this matter and this is the first request, this matter could be brought up again at one of the committee meetings prior to the full board meeting in May, which is when the budget is brought up for approval. This would give board members the opportunity to address this issue again and ask questions of staff or Mr. Ranallo prior to voting before the full board. A request was made to consider having this matter reconsidered at a later date.

Roll Call Vote #2:

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER, the Board voted to add letter of request from Investment Consultant to the agenda for discussion at the April 2004 Investment Committee Meeting. Betty Crain - yes; Betty Jacobs - yes; Sylvia Myers - yes; Earl Richard, Jr. - yes; Larry Wilmer - yes; Jeffrey Faulk - yes; Susan Pappan - yes; Warren Ponder - yes; Joe Seymour - yes. **YES - 9; NO - 0; ABSTAIN - 0. MOTION PASSED.**

PERSONNEL ACTIONS FOR FOURTH QUARTER 2003

Ms. Dudley presented the personnel actions report to the Board.

ON MOTION OF MR. WILMER, SECONDED BY MR. FAULK AND CARRIED, the Board approved the personnel actions report for the Fourth Quarter 2003 (October - December 2003).

STAFF DEVELOPMENT TRAVEL EXPENSES REPORT FOR FOURTH QUARTER 2003.

Ms. Dudley presented the staff development travel expenses report to the Board.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board approved the staff development travel expenses report for the Fourth Quarter 2003 (October - December 2003).

ADMINISTRATION (CONT'D)

STAFF OVERTIME REPORT FOR FOURTH QUARTER 2003

Ms. Dudley presented the staff overtime report to the Board. She informed the Board that since the previous report submitted at the last meeting was through October 31, 2003 this report picked up for the months of November and December 2003.

After a brief discussion of staff overtime and how it is reported, the Board asked that future reports also include the number of personnel involved in the overtime and costs of overtime hours worked.

ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the staff overtime report for November 1, 2003 - December 31, 2003.

EVALUATION OF UNCLASSIFIED PERSONNEL

Mr. Coper informed the Board that annual evaluations on unclassified employees will be sent in the mail in the next few weeks. Completed evaluations are to be mailed in the self addressed stamped envelopes to Ms. Sylvia Myers, Chairperson for the Personnel Committee. Ms. Myers will submit a report of these evaluations to the Personnel Committee on April 12, 2004, which will be held prior to the Investment Committee meeting. The Personnel Committee will report its findings at the Regular Board meeting on May 16, 2004.

REQUEST FOR INFORMATION RELATIVE TO OTM PHONE CARDS

Mr. Seymour informed the Board that this item will not be discussed, as Mr. Coper had spoken to each board member individually and this matter has been taken care of.

LETTERS REGARDING MANAGEMENT OF ACCOUNTS

Mr. Roche gave the Board an update on letters that were sent to all investment managers requesting information on what brokers they use and what kind of soft dollars they may receive from those brokers based upon their use of those brokers. Responses have been received from the majority of the managers; however, some have been submitted again, as some of the information received was not exactly what was needed. All of the managers are cooperating and there have been no problems obtaining information requested.

ADMINISTRATION (CONT'D)

OTHER BUSINESS

CONSIDERATION TO APPROVE PAYMENT OF EXPENSES

Mr. Seymour asked the Board to consider adding an item to the agenda concerning payment of expenses for both Mr. Roche and Mr. Seymour if services are required regarding litigation after December 31, 2004.

Roll Call Vote # 3

ON MOTION OF MS. JACOBS, SECONDED BY MS. MYERS, the Board voted to add to the agenda consideration for payment of expenses for Mr. Roche and Mr. Seymour for securities litigation after retirement. Betty Crain - yes; Betty Jacobs - yes; Sylvia Myers - yes; Earl Richard, Jr. - yes; Larry Wilmer - yes; Jeffrey Faulk - yes; Susan Pappan - yes; Warren Ponder - yes; Joe Seymour - yes. **YES - 9, NO - 0, ABSTAIN - 0 MOTION PASSED**

Mr. Roche addressed the Board regarding a request for payment of expenses that he incurs while taking care of litigation concerning the system after he retires. He also informed the Board that Mr. Seymour may also need to be involved in this litigation and would also need to have expenses paid for his services.

ON MOTION OF MS. JACOBS, SECONDED BY MS. MYERS AND CARRIED, the Board approved payment of expenses for requests to former legal counsel and former Chairman of the Board in event they are called on litigation after December 31, 2004.

LEGISLATION

LSERS PROPOSED LEGISLATION

Mr. Roche informed the Board of LSERS proposed legislation, which are considered house cleaning matters that the retirement section of the system needs in order to be able to handle their job more efficiently. Ms. Dudley was asked to explain the details to the Board.

Ms. Dudley gave a brief synopsis of what this piece of legislation does. It states that if anybody who retired from a retirement system on a regular service retirement or retired under DROP or under IBRP or under early retirement and are re-employed in a position covered by school employees retirement system, that they can be employed in a part-time, temporary, or substitute employee or as a full time employee as long as they don't earn over 50% of the salary that they had prior to retirement. If they earn over 50% then their retirement benefit would be reduced in order to recover the excess amount that they were overpaid. It is similar to what is done now, except that the legislation they are operating under is not clear. A lot of the retirees and school boards are not really aware of what happens in those situations, so this piece of legislation is basically going to clear this up.

ON MOTION OF MR. FAULK, SECONDED BY MR. RICHARD AND CARRIED, the Board approved the report on LSERS proposed legislation for 2004/2005.

LEGISLATION (CONT'D)

2004/2005 LEGISLATIVE CALENDAR

Mr. Cospers informed the Board that the legislature will convene on Monday, March 29, 2004 and adjourn no later than 6:00 p.m. on Monday, June 21, 2004. He also mentioned that this is a regular session and that the legislative calendar does not include any special session that may be called by the Governor.

WASHINGTON DC LEGISLATIVE UPDATE

Mr. Cospers gave the Board a synopsis of the 2004 NCPERS Legislative Conference, which included congressional visits. It was felt by everyone who attended that this was a very good conference and it was very informative. This conference was also very productive in a sense of the people that they were able to meet with this year from the congressional standpoint, as they were able to meet with 5 out of 7 congressional members in Washington.

All of the congressional members indicated that, relative to the two main issues that this system deals with in Washington, government pension offset and windfall elimination, probably nothing was going to happen this year because it is a campaign year and there are other big items that they are dealing with.

These issues were brought to the attention of Ms. Kim Hildred, Director of the House Ways and Means Subcommittee and Social Security, who spoke at the conference relative to government pension offset and windfall elimination. Basically, Ms. Hildred said that they are looking at initiatives in drafting legislation that will deal with those issues. Mr. Cospers, Director of LSERS, informed Ms. Hildred that there has been legislation previously introduced for the last 8-9 years and it is not currently being drafted. In fact, Representative William Jefferson from Louisiana had a bill that had 300 cosponsors last year, yet he was still unable to get it to the floor for a full vote because it was grid locked in subcommittee, which is Representative Clay Shaw's committee

When approached with this Ms. Hildred indicated there are too many intricate issues in the law they are working on that they don't quite fully understand. Basically, what this boils down to is that social security is in trouble, they don't want to give money back and they want to keep the money in social security.

When asked what we as a Board can do Ms. Hildred informed them to just continue to do what they are doing right now, be active, be vocal, send letters, mail, phone calls, and stay with them in Washington. She indicated that is the only way it is going to happen. Board members expressed that they will continue to do that, as they have been doing for the past 8 or 9 years and that they will be back.

ON MOTION OF MR. FAULK, SECONDED BY MS. JACOBS AND CARRIED, the Board approved the report on the Washington, DC Legislative Update.

INVESTMENTS

INVESTMENTS COMMITTEE MINUTES

ON MOTION OF MR. WILMER, SECONDED BY MS. PAPPAN AND CARRIED, the Board approved the minutes of the December 15, 2003 Investment Committee Meeting.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board approved the minutes of the December 15, 2003 Ad Hoc Committee Meeting.

ON MOTION OF MS. JACOBS, SECONDED BY MR. FAULK AND CARRIED, the Board approved the minutes of the January 7, 2004 Investment Committee Meeting.

TRADING COMPLIANCE REPORTS

ON MOTION OF MR. FAULK, SECONDED BY MR. WILMER AND CARRIED, the Board approved the Trading Compliance Reports.

INVESTMENT REPORTS BY STAFF (BOOK II)

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Investment Reports by Staff.

OTHER BUSINESS

There was no other business under Investments

LEGAL REPORT: CURRENT SECURITIES LITIGATION

Mr. Roche gave the Board a report on current securities litigation.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board approved the Legal Report on Current Securities Litigation.

OTHER BUSINESS

There was no other business to discuss.

ON MOTION OF MR. FAULK, SECONDED BY MS. CRAIN AND CARRIED, the Board agreed to adjourn at 11:46 a.m. until 1:00 p.m. when the Ad Hoc Committee Meeting on Act 788 of 2003 will convene.

Patrick Cospers - Director

Joe Seymour - Chairman