

**LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
REGULAR BOARD MEETING**

*Monday - May 12, 2003
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 8:57 a.m. The Board recited the Lord's Prayer and the Pledge of Allegiance.

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Members Present: Mr. Joe Seymour - Chairman, Ms. Betty Jacobs, Mr. Boyd "Zeke" Zitzmann, Ms. Sylvia Myers, Ms. Betty Crain, Mr. Larry Wilmer, Mr. Jeffrey Faulk, Mr. Cooper Harrell - State Treasurers Office

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

Staff Present: Mr. Patrick Cospers - Director, Mrs. Debra Dudley - Assistant Director,
Ms. Michelle Reeves - Executive Services Assistant, Julia LeBlanc - Chief
Investment Officer, Mr. Randy Roche - Legal Counsel, Ms. Judy Wright -
Communications Director I

Also Present: Mr. Richard Ranallo - Segal Advisors (11:15a.m.), Mr. Charles Hall - Hall
Actuarial Associates, Ms. Ruby Jolissaint, Mr. George Lentz, Mr.
Raymond Banner, Mr. Patrick Courreges - The Advocate

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A moment of silent prayer was observed for Mr. Russell Long and for our countrymen serving in the military.

Mr. Seymour asked for agreement by the Board to address Items 4A (Experience Study by Charles Hall) and 5A (Status Report on La. Legislation) following Item 2 (Retiree Reports.) The Board agreed.

BOARD MINUTES

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the minutes of the February 17, 2003, Regular Board Meeting.

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the minutes of the February 18, 2003, Regular Board Meeting.

RETIREE REPORTS

ON MOTION OF MS. CRAIN, SECONDED BY MS. JACOBS AND CARRIED, the Board approved the Service Retiree Report for, January 2003 thru, April 2003.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board approved the Survivor Benefits Report for, January 2003 thru, April 2003.

ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN AND CARRIED, the Board approved the Disability Retiree Report for, January 2003 thru, April 2003.

Mr. Zitzmann questioned Staff on a “teacher” position that was listed; why would a “teacher” be in this System. Mrs. Dudley explained the possibilities; Mr. Zitzmann directed Staff to find the definite answer.

ON MOTION OF MR. ZITZMANN, SECONDED BY MR. FAULK AND CARRIED, the Board approved the DROP Retiree Report for, January 2003 thru, April 2003.

ADMINISTRATION

Review of Experience Study

Mr. Hall began with reviewing the purpose behind the study and explained that the study was a state

requirement; not just for FYI. He then proceeded with reviewing each event, or decrement, as he'd termed it.

ADMINISTRATION - continued

Review of Experience Study - continued

Mr. Seymour asked Mr. Hall what his recommendation would be concerning this report. Mr. Hall stated his recommendation would be to accept "all" (cost figures) of what he presented in the report.

Mr. Hall summarized the Termination decrement, Disability decrement, and the DROP decrement. Historically DROP has been included in a regular service category because of the newness of the plan; now has enough history to be a separate category. Although the numbers in this decrement look high, the DROP program is actually cost neutral; only cost would be due to the attorney generals opinion.

Mr. Seymour asked if there was a minimum cost to which

Mr. Hall replied no, but any shortage would cause an increase in employer contributions.

Mr. Seymour then asked what the impact would be if the 3 1/3% retro accrual rate legislation were passed. Mr. Hall replied that he thought the cost was approximately 25 million (based on 1200 people.) The study was based on 75000 lives with a price tag of 55 million; a figure NOT inclusive of the 25 million for the retro accrual rate.

Mr. Hall continued with the Salary Growth Experience. Pay raises, on average, were much greater than actually calculated in experience. He recommended only a slight increase in this category.

The Actuarial Valuation rate is currently at 7.5%. The most important part in determining this rate was potential returns. He used Mr. Ranallo's report in addition to economic projections, etc., to determine a reasonable rate of return. Mr. Ranallo assumed 7.4% as the average rate of return in asset allocation which resulted in Mr. Hall's assumed rate of 7.5%; what the fund will be able to achieve over the next 30-40 years.

Continuing his summary, Mr. Hall addressed the Mortality decrement; again explaining how he derived at the numbers.

Ms. Jacobs intervened with questioning the Personnel section of the report. Mr. Hall explained then continued with the Mortality portion. The mortality rate will increase liability and an adjustment will need to be made in the funding in order to absorb the cost.

Finally, Mr. Hall stated that the results of the experience study will cost \$4,180,000; all decrements considered.

Mr. Seymour questioned the funding level of this System; currently approximately 97% but study indicates future to be approximately 92%. Mr. Hall - correct; largest impact will be due to investments.

In conclusion, Mr. Hall recommended that the Board approve and adopt the assumptions. He also suggested forwarding a copy of the study to John Sondergaard.

ADMINISTRATION - continued

Review of Experience Study - continued

Regarding the funding level of the System, Mr. Faulk asked Mr. Hall if he found any funds that would allow granting a COLA for the retirees. Mr. Hall replied that it had yet to be determined but looks very dismal. COLA's are based on excess interest earned; whether 100% funded or not doesn't make a difference. At this point would need returns in the area of 9% before COLA's could be granted. Mr. Faulk continued the discussion based on what the System spent the excess monies on.

Mr. Zitzmann asked Mr. Hall why the Board received the booklets containing the experience study information just this day. Mr. Cosper answered that the study contained very technical information and he felt it best the Mr. Hall be present to explain the information.

Mr. Zitzmann continued with wanting to know why the System did not have the monies to fund COLA's. Mr. Hall again explained. Mr. Zitzmann then inquired as to whether or not the System ever received all monies that the School Board's owed to which Mrs. Dudley replied, yes.

Mr. Seymour asked Mr. Hall what the funding levels were for the other systems. Mr. Hall reported the funding levels to which Mr. Seymour questioned what the employer contributions were for the other systems. Ms. Jacobs continued discussion; point of interest being the possible increase in the employer contributions, could Mr. Hall build in a percentage so that, once it's finalized, would not be such an impact. Mr. Hall stated he could not do that, Mr. Sondergaard would have to review the report, regardless, and he suggested allowing him a reasonable amount of time to do that, at least 6 months. Discussion continued.

Ms. Myers stated that from what she's heard about the losses of other retirement systems and entities across the country, that the System did very well.

Mr. Seymour questioned Mr. Hall is verifying his understanding; if the System is under 100% funded it cannot approve COLA's. Mr. Hall explained that reasoning is actually 2-fold and both criteria must be met; meet the funding target and have excess investment earnings. Ms. Jacobs commented that the System has granted COLA's to retirees longer than any other major system. Although fiduciary duties have been done, it's the market that didn't allow the COLA.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board adopted Mr. Hall's experience study and agreed to forward a copy to Mr. John Sondergaard.

Mr. Wilmer commented that after the report, he felt that findings were the result of a job well done by both the Board and Staff.

LEGISLATION

Mr. Roche noted that a report was in print at the time which would indicate which and when the Board approved bills would be heard; 4 - house committee and 2 through senate committee.

Ms. Jacobs requested explanation of HB758, salary caps when figuring average compensation. Discussion continued with HB580, re-enrollment after DROP.

Mr. Roche then informed the Board of the latest action on the bill sponsored by Senator Boissiere dealing with investments. Sen. Boissiere's final decision was he would give all Systems a year to establish a Board Policy to comply with his intent of the bill. If the policy is constructed to his liking he would not submit the bill next legislative session but if he was not in approval of the policies, he would submit the piece of legislation. Discussion continued.

Mr. Roche then stated that the remainder of the Board approved bills had not been scheduled; any bills that did not have a cost were the first to be heard. Ms. Myers inquired about the retirees returning to work bill; it didn't have a cost. Mr. Roche informed her that the legislative auditor felt there was a cost. Mr. Hall continued discussion. Ms. Myers mentioned that there is a shortage of substitute bus drivers in her district; two (2) routes just last week were not picked up. Discussion again regarding the bills that State retirement and the bill that Teacher's retirement submitted in the past regarding the same issue.

Next discussion was the bill that addressed the Commission of Public Retirement Systems. Mr. Roche noted that it was just a study. Next was DROP investment options. Ms. Jacobs continued with discussion of the DROP interest, investment options.

After continued discussion on the issue, Mr. Roche mentioned to the Board that he would like direction from them on their position with these bills. Continued discussion. Mr. Harrell stated that the emphasis behind the DROP investment options bill is for the people in the DROP program to be able to participate in the risk aspect of making the decisions. Discussion continued.

Mr. Seymour directed Staff to use their own discretion on what they would be comfortable with in handling these bills.

ON MOTION OF MS. MYERS, SECONDED BY MR. WILMER, the Board was asked to oppose both bills passed in committee requiring investments of DROP money in the money market accounts; Bill numbers **Roll Call Vote #1 Ms. Crain - abstain; Ms. Jacobs - abstain; Ms. Myers - yes; Mr. Zitzmann - yes; Mr. Wilmer - yes; Mr. Faulk - abstain; Mr. Harrell - abstain; Mr. Seymour - no YES - 3; NO - 1; ABSTAIN - 4 MOTION FAILED**

Ms. Jacobs stated that instead of giving an absolute directive, she would like to instruct staff that, if there is anything that comes into play that would affect the membership in this particular plan...Mr. Faulk interrupted; this is a dead issue. Mr. Cosper stressed the importance of the impact that these bills will have on the System.

PERSONNEL

Personnel Actions for January - April 2003

Mrs. Dudley summarized the personnel actions for January - April 2003. Mr. Zitzmann questioned the difference between filling positions and new hires.

Ms. Jacobs questioned the civil service reorganization portion of the report; how much of an increase would that mean. Mrs. Dudley replied that it would be thirteen to fourteen thousand total increase in salaries for the particular department that the reorganization would affect. Mr. Seymour requested a total dollar amount reflecting all employee increases. Mrs. Dudley stated that the figure would be in the overall report in the budget section.

ON MOTION OF MS. JACOBS, SECONDED BY MS. CRAIN AND CARRIED, the Board approved the Personnel Actions for January - April 2003, as summarized by Mrs. Dudley.

Approval of Minutes of the April 14, 2003, Personnel Committee Meeting

Ms. Myers summarized the minutes of the personnel committee meeting held April 14, 2003.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board approved the minutes of the Personnel Committee Meeting held April 14, 2003.

Recommendations of the Personnel Committee

Ms. Myers summarized the first recommendation by the committee; grant the 4% increase for all unclassified personnel. She then followed with a motion which was seconded by Ms. Crain to grant the increase. Mr. Faulk stated his desire to make a substitute to place a hiring freeze on staff and not grant increases for unclassified employees salaries until the System could grant COLA's. Mr. Wilmer continued with the discussion. Mr. Faulk further stated that he had done some research on salaries paid in the past to the Director, and Assistant Director in addition to the number of employees over time. The System went from 14 employees to 39 and he felt that the Board ought to tighten their belt in order to save monies to afford giving retirees an increase.

Ms. Jacobs stated that it was her understanding that the report given by Mr. Hall earlier in the meeting was what the COLA's were based on. Ms. Myers elaborated; the System prospered because of this

Executive Staff. They are professional people and they have a cost of living also.

Mr. Zitzmann stated that in the discussion of saving monies; this System is only 92% funded and he's asking that the unclassified personnel give up their raise just this one time...it's not forever.

Mr. Faulk stated that he couldn't believe what he just heard; professionals get an increase but not retirees?

Ms. Jacobs continued with the discussion. She asked Mr. Cospier if there was a policy or an

PERSONNEL - continued

Recommendations of the Personnel Committee - continued

actual motion made on this issue. Mr. Cospier had a copy of the minutes in which a motion had been made and a copy of the policy that derived from that motion. A copy was handed out. Discussion continued; a chart that graphed a schedule of the unclassified personnel salary increases was handed out. Ms. Jacobs stated that she couldn't be more supportive of their salaries and appreciated the time allowed for her to explain.

Mr. Zitzmann continued the discussion, still. Historically, he voted for the raise every time as he did this time although he didn't want to since the System is under funded. He continued with comparisons to the "other" systems. Mr. Seymour noted that they stayed in comparison to the other systems, the Board would be paying them more at this point. The Staff is now somewhat in line with the other systems and he is very proud of them/staff that work for this System. They perform the same duties with less staff than other systems.

Mr. Harrell interjected; not wanting to get involved but to note the history of this subject as he could recollect. As a reminder he noted that, in May 1999, the Board voted to "unfreeze" the unclassified personnel salaries and established a policy in an attempt to keep the personnel turnover at a minimum. Also, he felt that COLA's and merit increases should not be categorized the same.

Mr. Seymour directed the Board address the substitute motion first.

ON SUBSTITUTE MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN the Board was asked to place a hiring freeze in addition to no 4% merit increases to all unclassified employees. **Roll Call Vote Ms. Crain - no; Ms. Jacobs - no; Ms. Myers - no; Mr. Zitzmann - yes; Mr. Wilmer - no; Mr. Faulk - yes; Mr. Harrell - abstain; Mr. Seymour - no YES - 2; NO - 5; ABSTAIN - 1 MOTION FAILED**

ON MOTION OF MS. MYERS, SECONDED BY MS. CRAIN the Board was asked to approve the recommendation by the personnel committee to grant the 4% merit increase for all unclassified personnel; the Director, Assistant Director, and Chief Investment Officer. **Roll Call Vote Ms. Crain - yes; Ms. Jacobs - yes; Ms. Myers - yes; Mr. Zitzmann - no; Mr. Wilmer - yes;**

**Mr. Faulk - no; Mr. Harrell - abstain; Mr. Seymour - yes YES - 5; NO - 2; ABSTAIN - 1
MOTION PASSED**

ON MOTION OF MR. FAULK, SECONDED BY MR. ZITZMANN the Board was asked to place the results of “these two (2) motions” in the Crossroads, informing all those that receive the newsletter. **Roll Call Vote Ms. Crain - yes; Ms. Jacobs - abstain; Ms. Myers - yes; Mr. Zitzmann - yes; Mr. Wilmer - yes; Mr. Faulk - yes; Mr. Harrell - abstain; Mr. Seymour - yes YES - 6; NO - 0; ABSTAIN - 2 MOTION PASSED**

PERSONNEL - continued

Recommendations of the Personnel Committee - continued

Ms. Myers noted that at the personnel committee meeting a motion had been made by Ms. Crain and seconded by herself to approve staff’s request for additional personnel and to present it to the full board. Discussion transpired.

Mr. Zitzmann then stated that it takes approximately six (6) months before a retiree gets their first check. He had even signed a promissory note for a person who was going to loose their house before they got their first check. Another one that was behind on rent. He wants to do something to help these people. Although he understands that it is not the Systems fault, what can we do. Mr. Seymour agreed. Mr. Zitzmann then questioned the additional personnel requested; can we then guarantee their benefits quicker.

Mr. Cospers explained what is actually looked at in order to justify additional positions. Ms. Jacobs asked if the additional personnel would eliminate over time. Mr. Cospers then asked for Mrs. Smith (MIS department) and Ms. Schultz (Retirement department) to approach the table for questioning. Ms. Schultz explained that in the first year over time would not be eliminated due to the training necessary for the positions but very possible in the future years. Mrs. Smith stated that, by nature of the business, over time will be applicable at different times but will eliminate it on a regular basis.

Ms. Jacobs then directed Staff to track over time hours, indicating which of the departments it was for, and report this information to the Board on a quarterly basis. She also took this opportunity to state that the motion she abstained from earlier was because she was not an individual that felt it necessary to publish salaries; the budget itself was public information.

ON MOTION OF MS. JACOBS, SECONDED BY MS. MYERS, the Board voted to approve Staff’s request for three (3) additional personnel. **Roll Call Vote #5 Ms. Crain - yes; Ms. Jacobs - yes; Ms. Myers - yes; Mr. Zitzmann - yes**; Mr. Wilmer - yes; Mr. Faulk - no; Mr. Harrell -**

abstain; Mr. Seymour - yes YES -6; NO - 1; ABSTAIN - 1 MOTION PASSED Mr. Zitzmann made note that his “yes” vote was in hopes that retirees could get their checks within 30 days.

INVESTMENTS

RFP Reviews and Selection

Mr. Roche noted for the attendees that in order to participate in the selection process; the Trustee must be present for the most substantial portion of the presentation by each firm and that the ballot sheet must be signed by the voter. Mrs. LeBlanc elaborated that the firm with the highest vote on the “yellow” sheet will be the best, although will be the lowest score when figuring the overall rating.

INVESTMENTS

RFP Reviews and Selection

Three (3) firms were selected in the RFP process; each scheduled to make presentation for review and selection.

Evergreen Investments - Kevin McKane, Thomas Burton, Balaam Elliott

Prudential Investment Management - Jack Horner & James Herbst

Wells Capital Management - Gerard Jacob, Thomas O'Connor, Sandra Willen

Mr. Seymour turned direction to Mr. Ranallo for a summary of the presentations as a consultant, prior to making any selections. Mr. Ranallo stated that Prudential was probably lowest in risk with a lower fee schedule. Evergreen had a good track record although risk in their strategy was more than Prudential. Wells was probably the most aggressive of the three (3) interviewed although their strategy outperformed 14 out of 14 years, their fees were a bit higher. He didn't sense any “red flags” with any of the firms.

MANAGER SEARCH VOTE TALLY

FIRM	VOTES	TOTAL
EVERGREEN INVESTMENTS	1, 1, 1, 1, 1, 2, 1	8

PRUDENTIAL INVEST MGMT	2, 3, 3, 3, 3, 3, 3	20
WELLS CAPITAL MGMT	3, 2, 2, 2, 2, 1, 2	14

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board agreed, based on negotiating an acceptable fee, to select Evergreen Investments as the new domestic core fixed income manager.

Discussion continued. Mr. Cospers asked the Board if they wished to establish a maximum fee. Ms. Jacobs asked what the other two (2) fixed income managers charged. Mr. Ranallo and Mrs. LeBlanc continued. It was determined that the negotiating committee should begin the negotiating at 15 basis points but not to exceed 20 basis points.

Mr. Seymour appointed the negotiating committee as follows: Ms. Jacobs, Mr. Zitzmann, and Mr. Cospers with Mr. Ranallo in attendance for advisement.

ADMINISTRATION - continued

Discussion of Estimated Benefits

Mr. Cospers summarized a conversation he had previously held with Mr. Zitzmann on this issue. He had directed Mrs. Dudley to contact both the Teachers and State systems on what their procedures are, which she did. Both systems do estimated benefits but due to the procedures each system uses it could still be approximately two (2) months before the member gets their first check. At this system, it's an average of three (3) months without estimated benefits. Even so, if LSERS were to do estimated benefits, the current computer system would have to change. It would be approximately 18 months before the computer system would be automated in order to perform the task.

Mr. Seymour continued the discussion; how long should procedures allow the school boards to get the correct information to LSERS in order to finalize the benefit. Mrs. Dudley indicated that it should be the retirees responsibility to pressure the employer to finalize certifications for the final benefit. Ms. Jacobs commented that Staff needs to make the employee understand that.

Mr. Seymour stated he understood the 18 months and did Staff need to get go ahead with it. Mrs. Dudley clarified her understanding; the Board would approve the revamp of the computer system in addition to approval of estimated benefits.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED the Board directed Staff to immediately work towards implementing the process to begin estimated benefits within 18 months; January 2005.

LSERS' Proposed Operating Budget for the FY 2003-04

Mrs. Dudley directed attention toward the bottom line of the budget; an increase of approximately \$146,000. from previous years which was mainly caused by investment advisors.

Ms. Jacobs inquired as to the salaries being inclusive of the unclassified merit increases. Mrs. Dudley replied - yes, in addition to the civil service merit increases. Mr. Seymour generated discussion regarding the temporary employee listed; Mrs. Dudley - staff for the imaging project. Mr. Cospers informed the Board that the cost of the salary would be an ongoing expense. The up front costs to perform the imaging in it's entirety would have been enormous so it will be piecemealed over a period of time.

Mrs. Dudley continued summary of the budget categories. The travel category had a slight increase due to professional improvement courses that were now available within the state that personnel in the MIS department will benefit from. Ms. Jacobs wanted clarification in the professional improvements category; what was in state and what was out of state, staff and board. She directed Staff to provide her with an estimate of the costs and have it broke down into staff and board.

Through continued discussion Ms. Jacobs further directed Staff to itemize a cost of the "food" that was listed. When informed that it was, for the most part, for the Board meetings, etc., Ms. Jacobs questioned if it was fairly consistent. Mrs. Dudley replied yes and when mentioned if it was to continue, Mr. Seymour replied yes. Mrs. Dudley continued summarizing the remaining categories.

Mr. Cospers asked the Board to return to the professional services category. He then noted he'd been made aware that Mr. Hall's contract was expire on 6/30/03. He has not requested an increase in his annual fee for three (3) years and is now requesting the Board extend his contract with an annual fee of \$45,000.00. Ms. Jacobs questioned why the budget did not reflect this increase. Mr. Seymour replied that Mr. Hall had neglected to submit a letter for the request; the verbal request had been made earlier this day and Mr. Hall would submit the official letter for review at Tuesday's meeting. Ms. Jacobs then stated that she felt it necessary that the letter be presented prior to the Board approving "this" category of the budget

Budget category review continued. General questions and discussion.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board approved the 2003-04 Operating Budget as presented by Mrs. Dudley.

LSERS' Proposed Building Budget for FY 2003-2004

Mrs. Dudley summarized. The building budget remains fairly consistent from year to year. There will be an increase in total salaries as a result of civil service restructure of these types of positions in addition to merit increases.

ON MOTION OF MR. ZITZMANN, SECONDED BY MR. FAULK AND CARRIED, the Board approved the 2003-04 Building Budget as presented by Mrs. Dudley.

Staff Travel - 1st Quarter 2003

Mrs. Dudley summarized the report, explaining that the report is the regular quarterly report. Nothing unusual to report.

ON MOTION OF MS. JACOBS, SECONDED BY MR. ZITZMANN AND CARRIED, the Board approved the Staff Travel Report for 1st Quarter 2003 as summarized by Mrs. Dudley.

Status Report on 1st District Election

Mr. Cospers summarized. To date there have been eight (8) requests for petitions. June 13, 03, is the deadline for receipt of the completed petitions.

LEGISLATION

Status Report on 2003 Washington D.C. Legislation

Mr. Cospers noted a handout that contained the updates on the GPO and WEP issues. He informed the Board that there has finally been a hearing scheduled to address these issues although, no action/no votes; however, there appears to be a lot of support to do something. This is the 1st time these issues have ever gone to committee.

Mrs. Dudley took this opportunity to inform Mr. Zitzmann of the results of her research regarding the Teacher listed in the retiree report that he inquired about earlier in the meeting. The member was indeed a teacher and was a member of this system by virtue of the laws governing this system over the years. Mr. Zitzmann was satisfied.

OTHER BUSINESS

Mr. Cospers made note of the "benefit calculator" that had been placed in the folders for this meeting. The calculator had been created for the members to give them a tool to use to estimate their monthly benefit. He then reminded the audience of their dinner invitation for the evening at 6:00p.m.

ON MOTION OF MS. JACOBS, SECONDED BY MR. WILMER AND CARRIED, the Board agreed to adjourn - 4:40p.m.

Mr. Patrick Cospers - Director

Mr. Joe Seymour - Chairman