

## Getting it right: Face to Face with Meredith Williams

By Cecily O'Connor

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Meredith Williams 'doesn't like to reinvent the wheel.' That attitude is taking on added importance at a time when the merits of defined benefit plans are increasingly being called into question.

Meredith Williams, executive director at the \$38.2 billion Public Employees' Retirement Association of Colorado, Denver, is also president of the National Council on Teacher Retirement. The NCTR joined with the National Association of State Retirement Administrators and the Council of Institutional Investors to create the National Institute of Retirement Security, a separate entity to promote defined benefit plans. Mr. Williams discussed the work of NCTR and the new institute in a recent interview. He also talked about progress Colorado PERA is making in reducing its unfunded liability after legislation passed in May to address the shortfall.

**Why was it necessary for NCTR and other organizations to create the institute?** (It) offers us a vehicle for obtaining independent research with respect to the various types of plan designs out there and the different arenas (in which) pension plans come to play. It will get the word out that the public sector can be unique, and different from a private company.

Public plans are doing a good job of getting retirement right. Many of us started out as strait-laced defined benefit plans, and over the years have had some pretty significant enhancements and learned from what defined contribution plans do, particularly in the way of portability. Some of the defined contribution plans in the private sector are taking on attributes of the defined benefit plan. We'll see more and more of the DB features being incorporated in the DC plan. Those are some of the issues this organization will look into and commission research on.

**As part of DB preservation, what changes do you think are necessary to asset allocations?** There is a lot of debate on the ideal asset allocation mix. Increasingly funds are taking a look at the nature of their liabilities, and that's having a significant impact on where they are putting money at any given point in time. We (NCTR) are involved and interested in being prudent and productive investors. (That) means a different asset allocation from one jurisdiction to another. For example, if you look at the mix, what's the ratio of active (workers) to retired? The rates of pay for the actives? Or what's going on with the active population? All of those factors have to be taken into account. Not to mention on the investment side, what are asset classes presenting in the way of risk and return ratios? That's ever changing as we develop better analytical techniques.

My fund (Colorado PERA) spends about 10 basis points running the show and 34 basis points on investment expenses. If you go to a total fixed-income approach, returns will not be really high (but they'll be pretty darn stable. Can you, by having a mix of other investments, assume a higher rate of return, and thus hold down the costs of your plan? We're (Colorado PERA) motivated by DB plan

preservation. Over the last six years we have lessened our dependence on equity and enhanced the portion of the portfolio that's in fixed income. We have also dialed down our exposure to real estate and private equity.

**Is Colorado PERA planning near-term asset allocation shifts?** Not really. That's a constant issue for us. We're always looking at products in the marketplace and looking if there are ways we can enhance our portfolio mix. We like to say we're never satisfied and every few years undertake a significant asset liability study. That's more likely when you would get a significant shift.

**When is the next study planned?** It is something the board will take a look at (this summer). We generally will do something like that every three to five years. The timing depends on changes in the coverage of our plan, or if the benefits changed in some fashion. We had some significant legislative changes last year. We'll consult with actuaries and consultant and solicit their thoughts in making this (asset allocation) decision.

**Will PERA consider hedge funds?** What about other areas? We have been longtime players in the private equity and real estate worlds. We were on the forefront of that movement. We have looked at (hedge funds), and continue to look at them, and at some point in time may find there's a place in our portfolio. But we're not there.

**Why is that?** There are some transparency issues the board is not comfortable with at this time.

**How would you evaluate PERA's work to improve its unfunded liability?** We have (approximately) 74% of the money in the bank today, invested in the marketplace. We're pre-funded to that extent. We took some significant steps last legislative session to both control future liabilities and enhance revenues coming into the funds. ... All of our lines are now trending upward and moving in the direction of full funding in the years ahead.

**How might Colorado PERA be affected should a current legislative proposal seeking to ban Sudan holdings pass?** We're spending a lot of time on the Sudan issue. The issue in Sudan is horrific, inexcusable. We're working with our legislative body to find a cost-effective way to have the greatest voice through our actions. One of the issues we'll (PERA) struggle with here ... is what are the criteria that warrant divestiture? During the South Africa divestiture period, the Sullivan Principles ended up being a standard for divestment. ... I'm not sure we're there yet with Sudan. According to one list, we have \$137 million of exposure on a \$38.4 billion portfolio.

This is a huge issue across the country for NCTR members, too. (At last count), we had six large public pension plans that had made a divestment decision. I would expect by the end of the legislative session (June), we'll have a multiple of that number involved in a formal divestiture mandate.

**Is there a timeframe for passage of the Colorado proposal?** I would expect we'll have hearings on it within the next several weeks, certainly.

**You previously served as CII chair. In what corporate governance activities does Colorado PERA engage?** We've always felt the shareholder rights attached to our holdings are an important asset to our members and deserve to be exercised. We do, in fact, actively vote our proxies and we are always looking to enhance the transparency to which shareholders are able to know what a company is doing and how they are doing it. We have been involved as appropriate to our fund in securities action, most recently in the Royal Ahold case, the first international Sarbanes-Oxley case, which is moving rapidly down the road to distribute settlement proceeds to investors.

**What do you enjoy outside of work?** I really like Colorado. I love all the outdoor activities. We love the skiing, the hiking and have enjoyed activities with our children over time. My big crusade right now is to make all the weddings of my old baseball team (children I coached). I also enjoy reading about local history.