

# NEWS

S P R I N G 2 0 0 4

## A HALF-CENTURY OF TRADITIONS AND INNOVATIONS

50 Years! A milestone for NASRA. The administrators of the state employee pension plans first met in Baltimore, Maryland to exchange ideas and information. Although there have been incredible changes in the public pension industry since that first meeting in 1955, the duty to operate in the best interest of the beneficiaries of the systems has remained constant. Our annual meetings have provided a forum for continuing education and networking among members, associates, and other public pension professionals.

The unique and fascinating city of Asheville, North Carolina provides the perfect setting to continue the traditions and learn more about innovations and changes in the industry. The conference will feature over 23 hours of educational programs and ample time for informal networking with colleagues. The ever-popular Roll Call of the States will provide timely information on activities in the member

systems.

The meetings will be held at The Grove Park Inn, one of the South's most venerable and famous grand resorts. Bring your family and enjoy the outstanding variety of activities at the resort and the surrounding area. The conference begins on Friday, August 6 with a cocktail reception and ends at noon on Wednesday, August 11. Reservations for the NASRA room block will be available until June 28.

Camp NASRA, for children ages 5-15, is back by popular demand. The Camp NASRA Director, an experienced educator, will organize age appropriate activities on Saturday, Sunday and Tuesday night. Children ages 2-5 may attend on Tuesday night during the conference dinner and dance. Older children may volunteer to be camp assistants. A

separate registration is required for Camp NASRA but there is no additional cost.

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## STIMULATING SPEAKERS

From doughnuts to media relations to politics to industry practices, the 50th annual conference is filled with interesting and stimulating speakers. Falling between the Democratic and Republican National Conventions, the 2004 conference is an ideal time to review the most pressing political issues that impact our industry. Howard Fineman, Newsweek's Chief Political Correspondent, Senior Editor, and Deputy Washington Bureau Chief, will be on hand to provide insight and commentary on the issues and offer his predictions for what is to come on Capitol Hill. Fineman has covered every president since Jimmy Carter and interviewed leaders of business such as Bill Gates, Steve Case, Steve Ballmer, Robert Rubin, and Ted Turner. Although he now reports exclusively on television for NBC, he has appeared on most major news programs, including Nightline, Face the Nation,

Larry King Live, Charlie Rose, The NewsHour with Jim Lehrer, Good Morning America, and CBS This Morning. With the many challenges in our industry during the past several years, media relations have never been more important.

Mark Weaver, who has more than 20 years experience in media strategy, will present a workshop on how to handle various media situations. Grover Norquist, president of Americans for Tax Reform, will challenge the existing defined benefit plans and present his



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**NASRA**

**NATIONAL**

**ASSOCIATION**

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**RETIREMENT**

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## CAMP NASRA

Camp NASRA is back by popular demand. This is a program for children ages 5-15. The goal of the camp is to provide an opportunity for the children of conference attendees to make friends and have fun while their parents attend meetings or participate in other activities. Activities will be on-site at The Grove Park Inn and at Taylor Ranch (Sunday night). Camp NASRA will begin on Saturday, August 7 from 10:30 to 3:30 with activities designed to be fun and help the children get to know each other. On Sunday, August 8, the camp will be from 10:30 to 2:30 and will include swimming at the Grove Park outdoor pool. Lifeguards will be on duty at the pool. Lunch will be served on both days. The children will attend the Carolina Mountain Ranch Party with their parents but there will be special activities before dinner for them. Camp NASRA will conclude on Tuesday, August 10 with a session from 6:00 to 10:00 p.m. (dinner included).

Arrangements have been made for children ages 2-5 for Tuesday night.

Older children may volunteer as camp assistants. The camp assistants do not have to participate in the entire program but must register for the days they plan to help.

To participate the child must be registered as a Conference Guest but there is no additional fee for Camp NASRA. A separate registration form must be submitted for each child. The Camp NASRA registration is due on July 1 so that plans can be made to ensure the safety and enjoyment of all participants.

Each participant will receive a Camp NASRA t-shirt.

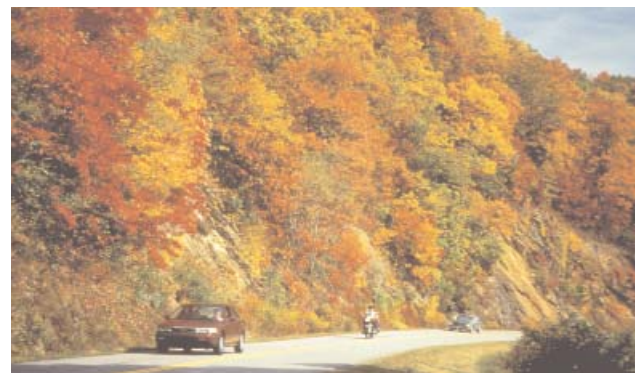
The Camp NASRA Director, Robbie McHardy, Ph.D., is an experienced educator with over 25 years of experience. Her resume is available from the NASRA office upon request.



## TRANSPORTATION TO ASHEVILLE

The Asheville Regional Airport is nine miles Southeast of Asheville (25 minutes from The Grove Park Inn). Primary carriers are Delta, US Airways and Continental. Several auto rental centers are located at the airport. More information is available at the web site [www.flyavl.com](http://www.flyavl.com).

Taxi service is not available at the airport. Ground transportation reservations can be made via email ([metrotrans@juno.com](mailto:metrotrans@juno.com)) or fax (828-681-5115). Please include name, telephone number, cell number, address, arrival date, arrival time, airline, flight number, departure date, departure time, airline, flight number, and credit card number and expiration date. Group transportation rate is \$34 round trip if booked by July 30, 2004. Sorry, no cancellation refunds or transfers are available for this special rate. Private car transportation is also available at \$50 each way.



Many travelers prefer to fly into area airports. Greenville, SC is approximately 1.5 hour drive. Charlotte, NC and Knoxville, TN are both 2 hours away. Greensboro, NC and Columbia, SC are both about a 2 hour drive and Atlanta is 3.5 hours away. Attendees may take advantage of a special US Airways' discount offer for the NASRA Conference, Gold File Number 89683117 to fly into Asheville, NC (AVL). The greatest discount is available on flights booked at least 60 days in advance. The special fares are valid for the period August 3-14, 2004. US Airways' Group and Meeting Reservations Staff can assist you in obtaining flight, fare or availability information toll free at (877) 874-7687. Additional information and the restrictions on these special fares are listed on the NASRA web site, [www.nasra.org](http://www.nasra.org).

# NEW SYSTEM DIRECTORS WELCOMED TO NASRA

## NEVADA



The Public Employees' Retirement System of Nevada (PERS) Board Chairman, Charles Silvestri, announced the selection of Dana Bilyeu as the new Executive Officer for PERS.

Bilyeu, 42, has served as the PERS' Operations Officer since January 1995. Previously she was the Deputy Attorney General representing the

System in addition to numerous State agencies. She is a past member of the National Association of Public Pension Attorneys and currently has licenses to practice law in Nevada and California. A native of Tucson, Arizona, she graduated from the University of Arizona and the California Western School of Law in San Diego.

"Dana has an excellent blend of professional experience in public pension administration and seasoned leadership qualities that are ideally suited for the position of the Executive Officer," said Silvestri. "We look forward to working with her in her new position."

"I am indeed honored and excited about the Board's selection. I am ready to face the challenges of the Executive Officer position," said Bilyeu. Dana Bilyeu, husband Lindsay, and son Mateo live in Carson City.

## OHIO



James R. Winfree accepted the post of executive director of the School Employees Retirement System of Ohio effective January 1, 2004. The \$7.7 billion SERS provides pensions and benefits to more than 180,000 non-teaching Ohio public school employees and retirees.

Prior to his appointment, Winfree was senior deputy attorney general and served as

Chief of the Business Counsel Section. Until August 2003, Winfree served as Attorney General Jim Petro's representative to the SERS board. He represented former Ohio Attorney General Betty Montgomery as her primary representative to the SERS board from February 1997 to 2003. He also served as board member alternate to the other four Ohio retirement systems during that time.

While an SERS board member, Winfree actively participated in health care, investment, and compensation committee matters. Former Executive Director, Thomas Anderson said the in-depth knowledge as an SERS board member was a strong asset for the system, and "I am confident his leadership will assure SERS' success in the future."

Winfree's previous experience includes 20 years with Columbus law firm Schottenstein, Zox and Dunn, 20 years in the Naval Reserve, and service as a Naval Officer. While serving in the Navy, Winfree was the Underwater Demolition Team Officer-in-Charge of the primary recovery team for Apollo 7.

An Upper Arlington city councilman and vice mayor, he and his wife Elizabeth have three grown children who reside in Columbus. Winfree is a graduate of the College of William and Mary, and Capital University Law School.

## OREGON



The Oregon Public Employees Retirement System Board of Directors has appointed Paul R. Cleary as PERS Executive Director effective June 1, 2004. The Director serves at the discretion of the Board and is responsible for the PERS administrative staff. He is responsible for the statewide administration of retirement benefits for more than 310,000 members, including 100,000 retirees and beneficiaries.

Cleary has more than 25 years of experience in state natural resource management, policy development, and program administration; including finance and budgeting, strategic planning and trust fund administration. He has also served as director of the Oregon Water Resources Department, Director of the Oregon Division of State Lands; Deputy Director of the Wyoming State Land and Farm Loan Office; and as a natural resource advisor in the Wyoming Governor's Office. He began his professional career at the University of Wyoming's Water Resources Research Institute.

Cleary earned his M.S. in Water Resources in 1978 from the University of Wyoming where he was Phi Kappa Phi and B.S. in Biology in 1975 from Trinity College in Hartford, Connecticut.

## PENNSYLVANIA

Eric Henry was named executive director of the \$25 billion Pennsylvania State Employees' Retirement System, Harrisburg, effective June 28. Mr. Henry was executive director of the \$3.9 billion New Hampshire Retirement System, Concord. A native of Altoona, Pennsylvania he holds an accounting degree from Penn State and an M.B.A. from Bucknell, and served as controller of the former Central Pennsylvania Financial Corporation.

## TEXAS



The Employees Retirement System of Texas Board of Trustees announced it has appointed Ann Schwartz Fuelberg to serve as the system's new executive director effective June 7, 2004. She was selected to replace Sheila Beckett who has announced she is retiring to accept a position with the U.S. Treasury Department.

Fuelberg is a veteran of state government who has served as a Deputy Comptroller of Public Accounts and was named the first Executive Director of the Department of Information Resources when it was created in 1989. She left state service in 1993 to join Transactive Corporation, an Austin-based online transaction processing company. Most recently, she has operated an independent consulting business.

As the new executive director of ERS, Fuelberg will administer retirement and deferred compensation benefits for more than 200,000 state employees and retirees and manage a trust valued at more than \$20 billion. The director also administers the Texas Employees Group Benefits Program, which provides health coverage to more than 500,000 state and certain higher education employees, retirees and their families.

Fuelberg has a business degree from the University of Texas and a juris doctorate from Texas Tech University School of Law.

Board Chairman Milton Hixson said he was pleased that the trustees were able to select such a capable and experienced

individual to lead the system. "We were fortunate to have a solid field of candidates to choose from," Hixson said. "We are confident that Ann will not only preserve the high standards for service and efficiency we have built at ERS, but guide the system successfully into the future."

## TEXAS



The Teacher Retirement System of Texas (TRS) Board of Trustees has announced the appointment of Ronnie G. Jung, CPA, as the system's new executive director, effective immediately. As TRS executive director, Jung will oversee pension plan and related benefits for TRS -- the sixth largest public pension fund in the United States--

which serves active and retired Texas public education and higher education employees. Jung has served as interim executive director for the agency since September 1, 2003.

"Ronnie brings valuable expertise to this critical position," noted TRS Board of Trustees Chair Terry Ellis. "TRS, the state of Texas, and our more than one million members will benefit greatly from his experience, knowledge and leadership."

During Jung's eight years at TRS, he has served as the system's chief financial officer, deputy director, and interim executive director. Prior to joining TRS, Jung served as manager of performance audits for the Legislative Budget Board and in several positions with the Texas State Auditor's Office, including director of financial audits.

Jung, a native of Fredericksburg, earned a bachelor's degree in business administration from the University of Texas at Austin and a master's degree in public affairs from the LBJ School of Public Affairs. A certified public accountant since 1976, Jung has served as past president for the Austin Society for Public Administration, past chairman of the National State Auditors' EDP Committee, and was named "2002 Administrator of the Year" by the Texas State Agency Business Administrators' Association.

The Teacher Retirement System of Texas delivers retirement and related benefits that have been authorized by the Texas Legislature and manages a more than \$85 billion trust fund established to finance member benefits. More than one million public education and higher education employees and retirees currently participate in the system.

## NEW MEMBER SYSTEMS JOIN NASRA

**DAVID MALONE**  
EXECUTIVE DIRECTOR  
ARKANSAS TEACHER RETIREMENT  
SYSTEM

**DAMON ASBURY**  
EXECUTIVE DIRECTOR  
STATE TEACHER RETIREMENT SYSTEM  
OF OHIO

**RONNIE JUNG**  
EXECUTIVE DIRECTOR  
TEACHER RETIREMENT SYSTEM  
OF TEXAS

## FIRMS JOIN RANKS OF ASSOCIATE MEMBERS

### **BARING ASSET MANAGEMENT**

Baring Asset Management is a global investment management company that manages \$33.5 billion on behalf of clients located around the world. We offer a wide range of equity and fixed income products in both domestic and international markets through commingled and separate account vehicles. We have over 100 investment professionals operating from four major investment offices located around the globe.

Baring Asset Management's investment philosophy is based on the premise that by combining growth and valuation disciplines, we can generate superior long-term risk-adjusted returns. With world-wide resources, multiple products and fully integrated global financial services, Baring Asset Management is one of a handful of truly global investment management firms.

### **CHARTWELL INVESTMENT PARTNERS**

Chartwell Investment Partners is an employee owned firm, founded in 1997, that is dedicated solely to the investment management business. We are a quality-based equity and fixed income manager with a disciplined, team-oriented investment process that rests upon a firm-wide commitment to quality and consistency through fundamental research. This consistently applied investment process assures purity of investment style for predictable returns and disciplined risk management.

In our view, a well-integrated team can see more than an individual. Our team-based research and investment

management structure encourages our professionals to express their ideas, to challenge one another and to ultimately find the most promising investment opportunities.

At Chartwell Investment Partners our distinctive approach to investing reflects a culture dedicated to innovative thinking. We share a sense of confidence in our ability to make sound, independent investment judgments and achieve success on behalf of our clients.

### **ENNIS KNUPP + ASSOCIATES**

Ennis Knupp + Associates (EnnisKnupp) is an independent investment consulting firm that provides results-oriented advice to institutional investors. Investment consulting has been and remains our only business. EnnisKnupp is utterly free of conflicts of interest, a very deliberate position to which the firm has adhered since its founding.

Original research is the lifeblood of our consulting work. We do not base our advice on conventional wisdom or fads, but rather develop positions based on rigorous internal research combined with input from the best academic and professional experts.

At EnnisKnupp, we have created a diverse client base which includes public, corporate and jointly-trusted retirement funds, as well as not-for-profit organizations, foundations and other endowed institutions. In total, the firm serves over 125 retainer clients with aggregate assets of over \$425 billion.

We provide a full range of investment consulting services including: policy planning and asset allocation; manager structure; manager selection; performance review and manager monitoring; and ongoing client education. In addition, as a result of our extensive experience in all aspects of managing fiduciary funds, we are often sought to serve as an expert witness in fiduciary litigation involving public as well as private funds.

### **SCHIFFRIN & BARROWAY, LLP**

Schiffirin & Barroway, LLP, located just outside of Philadelphia, has specialized in complex class action litigation for over fifteen years, representing institutional investors, public and private funds, individual investors and consumers in state and federal courts throughout the United States. During our successful history, the firm has recovered in excess of one billion dollars on behalf of clients and the classes they represent. The firm is led by its senior partners, Richard S. Schiffirin and Andrew L. Barroway, with assistance from partners, Marc A. Topaz, David Kessler, Krishna B. Narine, Katharine M. Ryan, Stuart L. Berman, and Gregory Castaldo. With over 30 lawyers and an experienced support staff, we have developed a nationwide reputation for excellence, focusing primarily on the prosecution of securities fraud litigation brought against public companies, executives, and auditors.

As a fiduciary charged with the oversight of a sizeable pension fund you have tremendous responsibility to your beneficiaries and the financial security of the funds assets. You hire professionals to manage the fund assets and ensure growth. However, another aspect of your duties involves safeguarding the fund and taking reasonable steps to monitor claims arising from fraud and malfeasance by corporate wrongdoers. For clients with large investments, Schiffrin & Barroway will monitor their securities holdings, calculate their losses and alert them when actions relating to their holdings have been filed and/or settled. We also offer advice regarding joining an action, seeking to be a lead plaintiff, opting out of an action, bringing an individual action, and/or filing proofs of claim in order to share in a recovery as a class member. The attorneys at SCHIFFRIN & BARROWAY are the professionals who can monitor your fund's equity assets to identify losses due to violations of state or federal securities laws.

### **SMITH WHILEY & COMPANY**

Smith Whiley & Company, a registered investment advisor with the SEC, specializes in management buyouts, recapitalizations, acquisitions and growth capital, and makes private equity and mezzanine investments in small- to medium-sized companies. Established on May 23, 1994, the firm is headquartered in Hartford, Connecticut and has offices in Evanston, Illinois and Chino, California. The Smith Whiley investment team has collectively invested over \$5 billion in alternative investments and over 150 years of institutional investment experience with prominent financial institutions.

Smith Whiley has managed in excess of \$500 million in alternative investments. The Firm currently manages three private equity and mezzanine partnerships. Smith Whiley's value proposition revolves around investing in industry sectors which will benefit from secular shifts, market dislocations, or growth opportunities. The team has considerable experience in successfully working with portfolio companies in every facet of growth and development. Over the past five years, the Firm has invested in 25 portfolio companies.

Sharon Morrow, Senior Vice President of Marketing and Gwendolyn Smith Iloani, President and CEO, will be the NASRA contacts.

### **SPECTOR, ROSEMAN, & KODROFF, P.C.**

Spector, Roseman, & Kodroff, based in Philadelphia, Pennsylvania, has been directly responsible for recovering millions of dollars on behalf of defrauded shareholders, consumers and small businesses.

The firm's team of experienced attorneys concentrates its practice in complex class action litigation, including actions dealing with securities laws, antitrust, contract and

commercial claims. The firm is active in major litigation pending in federal and state courts throughout the United States. Spector, Roseman & Kodroff's reputation for excellence has been recognized on repeated occasions by courts which have appointed the firm as lead counsel in numerous major class actions involving violations of federal securities laws and federal antitrust laws.

### **U.S. TRUST**

U.S. Trust Corporation is one of America's oldest investment management and trust companies. Founded on Wall Street in 1853, U.S. Trust has grown to more than 2,300 employees based in 39 offices with over \$102 billion in assets under management. U.S. Trust excels at serving the needs of many types of institutional clients. Our clients include endowments, foundations, corporations, public funds, insurance companies, and Taft-Hartley organizations, as well as the consultants with whom they work. We meet our clients' objectives by providing both breadth and depth of professional investment expertise and by building strong, lasting relationships based on investment performance, quality, and integrity.

More than a respected investment advisor, we are a broadly based financial services firm that commits substantial resources to helping institutional clients manage their assets prudently and effectively. In this regard, we offer a full range of value-added non-investment services. These include specialized fiduciary services for employee benefit plans, planned giving administration, educational seminars and conferences, and custody and trustee services.

U.S. Trust brings multiple resources to our clients. Our personalized client service teams draw upon comprehensive product offerings, significant investment expertise and a commitment to enduring relationships.

### **WADDELL & REED ASSET MANAGEMENT GROUP**

Waddell & Reed has offered investment management services to the institutional marketplace since 1972. We offer separate account management in domestic equity, international equity and domestic fixed income strategies. In addition, many of our separate account capabilities are available as funds.

We're a fundamental research firm that offers a defined, disciplined approach to each of our investment styles - our in-house equity and credit research and proprietary evaluation tools are continuously adjusted to reflect our outlook on the global markets, currency conditions and business cycles.

Sharing the wisdom of an extraordinary collection of investment professionals, economists and research analysts, our portfolio managers have historically been able to deliver highly competitive investment results.

## RESEARCH ROUNDUP By: Keith Brainard, Director of Research

The Public Fund Survey—an online public retirement system database, accessible at [www.publicfundsurvey.org](http://www.publicfundsurvey.org)—is a core element of NASRA's research function. The survey captures and reports information taken primarily from retirement systems' most recent annual financial reports. 100 systems and 124 plans make up the survey, representing more than 85% of all public pension assets and members in the U.S.

Although information from previous years is not presented on the website, NASRA retains historic data and uses it to identify trends over time and to make comparisons among systems and plans. As information from prior years accumulates, the Survey will provide an expanding picture of trends in selected public retirement system characteristics, such as asset allocations, benefit levels, cash flows, and changes in active and retired membership levels.

A 1960's folk song includes the line, "You don't need a weatherman to know which way the wind blows." In pension terms, you don't need a research report to know that recent years have tested public defined benefit plan designs. The good news is that, as a group, public defined benefit pension plans have demonstrated resilience during a period that is likely to be viewed through the lens of history as a crucible: a nearly simultaneous three-year decline in equities, coupled with an economic recession, hindering the ability of employers to pay required contributions; all occurring in the wake of many benefit enhancements and their corresponding liability increases.

Based on information received so far, the aggregate funding level of the plans included in the Public Fund Survey is around 91%. This figure does not fully reflect the investment market declines that began in March 2000 and lasted through February 2003—three full years in duration. Yet considering the magnitude of this decline, which was accompanied in many cases by improved benefits, the fact that public plans in the aggregate have anything near 90% of the assets required to pay their liabilities is impressive and demonstrates the wisdom and intelligence of the design of these plans.

Callan Associates reports the median public fund return in calendar 2003 was 21.0%. This translates into aggregate public pension investment earnings of approximately \$400 billion. Although they do not entirely make up for the losses incurred during the market downturn, these investment gains, when compared with the roughly \$300 billion lost in fiscal years 2001 and 2002, are welcome news.

We are awaiting FY 03 results for most systems and plans with a fiscal year-end date of December 2003, as well as some with an earlier FY-end date. Based on the information received so far, following are a few trends from the Public Fund Survey.

After several years of aggregate liability growth of 8% or greater, data so far indicates liability growth in FY 03 of just below 7%. In the absence of spectacular investment returns, controlling liabilities is essential to progressing toward full funding.

Assets measured by actuarial value are lower from one year ago by 0.2%. This figure is likely to improve for FY 03 as data for more systems with a 12/31 fiscal year-end date are added to the calculation.

FY 03 growth in active membership among systems measured so far is nearly imperceptible: aggregate growth in active members is approximately one-half of one percent, continuing a trend of increasingly slower growth among this group. Meanwhile, retired member growth so far this year exceeds 4%.

The median inflation assumption has declined from 4.0% to 3.75%. Coupled with the median investment return assumption holding at 8.0%, the median real rate of return has grown during the past year to 4.25%.

These and many other trends for all systems and plans in the Survey will be included in the FY 03 Survey of Findings report, scheduled for distribution in August.

Cooperation from public retirement systems is essential to the Survey's accuracy and completeness. Thank you for your ongoing assistance in forwarding us your annual financial report and reviewing your system's information online.

Other Projects: The NASRA research function continues to administer ad hoc surveys on a range of issues pertinent to public retirement system administration and policy. Surveys conducted recently include internal audit processes, disability benefit administrative processes, and air time policies. Ad hoc surveys usually are conducted at the request of one or more NASRA members; by participating, participants are helping out their fellow public retirement systems and adding to the public retirement system databank. Thank you for taking time to participate.

## FEDERAL UPDATE

Jeannine Markoe Raymond, NASRA Director of Federal Relations

Despite this being a presidential election year with an increasingly limited legislative schedule, a number of benefit-related initiatives have been moving through Congress. While only a handful have been (or are expected to be) enacted, those that do not pass will likely carry over to the next Congress and, depending on the outcome of the election, could move rapidly next session. Thus, members of Congress should be advised of the potential impacts these proposals could have on public retirement systems and retirees in their state.

The Administration's Retirement and Savings Initiatives Sen. Craig Thomas (R-WY) and Rep. Sam Johnson (R-TX) introduced legislation this spring (H.R. 4078, S. 2263) to enact President Bush's lifetime savings account (LSA) proposal, the first of three retirement and savings initiatives included in the Administration's FY 2004 and FY 2005 budgets. Under the LSA legislation, individuals could contribute up to \$5,000 a year into a Roth-like, after-tax account and withdraw money at any time penalty- and tax-free, with no income or age limits. Not yet introduced are the Administration's proposals for after-tax Retirement Savings Accounts (RSA) to replace traditional and Roth IRAs, and a new Employer Retirement Savings Account (ERSA) (after-tax or pre-tax), which would replace 401(k) plans, 403(b) plans, and governmental 457 plans.

While supportive of increased savings opportunities, many groups (including NASRA) are concerned the proposals' departure from traditional pension policies will likely have significant impacts on targeted retirement savings, may not be as successful in spurring savings as employer matches and tax deferral incentives, may not be as helpful in encouraging employees to retain their savings for retirement, would result in workers losing the economies of scale or retirement education they receive from employer plans, and may cause workers to lose the valuable ancillary benefits they derive from participating in an employer-sponsored retirement plan, among other things. Also of great concern is the lack of understanding regarding the governance of public plans, which currently have very unique plan features and are not subject to ERISA.

### PENSION TAX LEGISLATION

New House Pension Package Expected. For procedural rather than substantive reasons, the bipartisan pension reform package (HR 1776) forwarded by pension champions Rob Portman (R-OH) and Ben Cardin (D-MD) in spring 2003 has been stalled and no further action is expected this Congress. Instead, Reps. Portman and

Cardin are planning to introduce a scaled-down (less-expensive) version, along with other reforms aimed at moving in the direction of simplification and uniformity. NASRA and other public interest groups are working to ensure a number of helpful provisions that were included in HR 1776 are retained in the new legislation and possibly even more helpful language added. While Chairman Thomas (R-CA) stated the Ways and Means will take up pension tax matters this year, the timing and extent to which reforms will cover public pension provisions remains uncertain.

### SENATE NESTEG BILL FINALIZED

The Senate Finance Committee passed its own pension tax bill last summer, the National Employee Savings and Trust Equity Guarantee Act of 2003 (S. 2424), which primarily surrounds Enron-related security measures. The report was finalized last month and includes many of the low-cost public sector pension tax provisions supported by NASRA and others, but does NOT enforce new Enron-inspired reporting and disclosure requirements on public plans (as it had done last session of Congress and currently does in House-passed Enron legislation, H.R. 1000). While finalizing the report is one of the required steps readying the legislation for Senate voting, final enactment of the measure is still seen as extremely unlikely given the tight election-year schedule. Nonetheless, NASRA members are encouraged to review the NEW language in the bill, particularly on purchase of service credit, as it will likely be the basis for future Senate and House legislation. Among other things, the new language is aimed at remedying IRS issues with benefit enhancements, early retirement windows, formula increases, and other "airtime" and tier-to-tier purchases that IRS indicated may not be allowed under 415(n) by their strict reading of the law. Your input on the new language would be very helpful (please send comments to [jeannine@nasra.org](mailto:jeannine@nasra.org)).

### GUARDSMEN/RESERVISTS BILL MOVING QUICKLY

The Guardsmen and Reservists Financial Relief Act of 2004 (H.R. 1779) has passed the House and reports indicate it, or a companion measure (S 2375, S 2474), could soon be taken up by the Senate. The bill would allow members of the reserves and National Guard who are called to active duty for more than 180 days to make withdrawals under more circumstances and penalty-free from certain types of retirement accounts, including IRAs, pre-tax contributions to 401(k)s and certain 403(b)s, but not governmental section 457(b) plans. Repayments could be made to an individual's IRA during the two-year period following the individual's active duty period without being subject to IRA limits, but the repayments would NOT be deductible and could not be made to the individual's 401(k) plan or 403(b) contract. The provisions would apply to individuals ordered or called to active duty after September 11, 2001, and before September 12, 2005. There is concern that this bill is not very good retirement policy and a number of technical issues have been raised, yet the sentiment for

reservists may make voting against it difficult for any lawmaker. That said, it is hoped that state and local employees called to active duty may would receive the same treatment under the bill as their private sector counterparts.

#### **NEW FORM 1040S FOR SENIORS**

The U.S. House of Representatives recently approved a that would allow seniors to use a simplified tax form, form "1040S," beginning with 2005 returns. H.R. 4109, the Simple Tax for Seniors Act, passed by a vote of 418-0. Under current law, more than 35 million individuals cannot use the 1040EZ simply because they are 65 or older, or because they collect Social Security or other retirement income. The bill would allow simplified filing for seniors who receive retirement income. The IRS estimates that as many as 11 million seniors will be eligible to use the new form in the first year it is made available. The Joint Committee on Taxation estimates that H.R. 4109 will have no revenue effect.

#### **NEW SEC OFFICE TO ADDRESS TERRORIST-LINKED INVESTMENTS**

NASRA, the National Conference of State Legislatures, the National Association of State Auditors Comptrollers and Treasurers, and the National Council on Teacher Retirement recently wrote to SEC Chairman William Donaldson requesting a meeting to discuss the work of the SEC's new Office of Global Security Risk and how it could best assist institutional investors. Congress recently authorized the establishment of an Office of Global Security Risk within the SEC to assist investors by requiring publicly traded companies to disclose business they conduct in states designated by the State Department as sponsoring terrorism. Institutional investors have been subjected to negative news reports based upon the false premise that institutional investors are unknowingly "supporting" terrorist activities. NASRA and others are interested in working with the SEC to assure that any required disclosures provide useful and appropriate information to ascertain whether companies are engaging in business which might support terrorism. NASRA has been working with other members of the "Economic Terrorism Commission" since it was originally established shortly after September 11, 2001. A copy of the letter is posted on the NASRA website: [www.nasra.org](http://www.nasra.org)

#### **NEW SOCIAL SECURITY REPORTING**

The Social Security Protection Act of 2003 (HR 743) was signed into law in March (Public Law 108-203) and includes a new provision (section 419) requiring new disclosures to employees not covered by Social Security. The notice will be prescribed by the SSA and would need to be provided by "the head of the agency or instrumentality" to any non-SS covered employee hired after

1/1/2005 and shall explain the maximum effect the non-covered employment could have on the employee's SS benefits. The employee would need to complete and sign the notice and it is to be submitted to the agency or instrumentality and its pension system prior to the employee commencing service. The SSA will also be required under this section to furnish better information to affected individuals regarding GPO/WEP beginning 1/1/07. NASRA and other public interest groups are working with SSA on the new notice and have already given input on the first draft. A meeting with officials is currently being scheduled.

#### **IRS PHASED RETIREMENT PROJECT**

NASRA, NCTR and NCPERS have been meeting with IRS on the topic of phased retirement and return to work, as they have stated they expect to issue guidance in this area by this summer. In meetings, the IRS has admitted that there is currently a "clear gray area" regarding whether someone has a bona fide separation from service. They did disclose that in-service distributions are permitted with regard to someone that has reached normal retirement age (eligible for a full, unreduced benefit) under the plan. While this would let a plan make distributions to someone that has reached normal retirement age regardless of whether the IRS considers there to have been a bona fide break in service, it does not address the issue that a bona fide separation from service is required before age 59 ½ for the 72(t) excise tax not to apply to the pension distributions. Guidance could be expected as early as this summer. Some members of Congress are waiting on these before they introduce legislation in this area.

#### **RETIREE HEALTH CARE INITIATIVES**

A host of retiree health care tax proposals were under discussion last year, such as permitting premium conversion plans for retirees, permitting retirees to roll over a portion of their deferred compensation into a flexible spending account or to defer a portion of their retirement check into a flexible spending account or other tax-favored vehicle for medical expenses, tax-free withdrawals from 457 plans and other deferred compensation for certain health related expenses. Unfortunately, cost is an overwhelming factor in any tax proposal in this area. While many provisions were included in Portman and Cardin's original version of HR 1776, they were not retained in the Chairman's Mark of the bill, nor in Senate pension legislation. Given the passage of a Medicare Prescription Drug Bill, enactment of any retiree health proposals seems slim for this session, although discussions are underway and public retirement systems should be involved. A bill introduced by Rep. Davis (R-VA) to allow premium conversion plans for federal retirees is being eyed as a potential vehicle for a similar provision for state and local retirees. While the House has also passed legislation to allow \$500 in a

Flexible Spending Account to be carried over from year to year; and to permit up to \$500 in an FSA to be contributed to a health savings account (HSA), final enactment is not expected on this health legislation or any other this year.

**Minimum Distribution Regulations**

Proposed Treasury regulations would have adverse effects on government defined benefit plan COLAs, non-spouse surviving beneficiary benefits, and forms of annuity payments. The House and Senate pension packages (HR 1776, S 2424) include provisions permitting governmental defined benefit plans to comply with minimum distribution laws under the Code on a good-faith basis.

**ADEA ISSUES CONTINUE TO SURFACE**

Potential Age Discrimination in Employment Act (ADEA) concerns have surfaced surrounding a number of pension and benefit areas. The U.S. Equal Employment Opportunity Commission (EEOC) had been pursuing suits enforcing the ADEA against Medicare Bridge plans, as they provided lesser health care benefits to Medicare-eligible retirees than to their younger retirees. While the EEOC eventually reversed its policy in this area, and just recently finalized a proposal that would exempt retiree health plans from the Age Discrimination in Employment Act (ADEA), the agency continues to state its intent to vigorously pursue other types of age discrimination claims involving retirees, such as disability plans that include imputed benefits based on normal retirement age. Possible ADEA implications of phased retirement proposals have also been raised.

**TREATMENT OF PENSION ASSETS UNDER**

**NEW BANKRUPTCY LAWS LEGISLATION**

(H.R. 975) This Congress would again codify existing favorable case law regarding the protection of public pension assets, as well as remedy conflicts that have arisen regarding the treatment of governmental 457 plan assets, mandatory public employee pension plan contributions, and pension plan loans. The overall thrust of the legislation is to move more debtors into Chapter 13 repayment plans rather than Chapter 7 liquidation. The bill has again stalled for non-pension-related reasons.

**RESTRICTIONS ON USE OF SOCIAL SECURITY NUMBERS**

Public and private pension organizations are working to ensure that legislation regarding identity theft and the use of Social Security numbers would not adversely affect retirement plan operations. Recent legislation passed out of the House would apply to ERISA plans only.

**LEGISLATION TO MODIFY GPO/WEP**

Reforms continue to be forwarded regarding the Social Security Government Pension Offset (GPO) and

Windfall Elimination Provision (WEP), which apply to the Social Security benefits or Social Security spousal/widows benefits of public employees that had employment not covered by Social Security. Retiree groups are showing increased interest in not only reform, but full repeal of the proposals. However, the most recent initiative in this area-which is co-sponsored by the Chairman of the House Social Security Subcommittee-only addresses WEP, and modifies, rather than repeals, the provision. The Public Servants Retirement Protection Act (PSRPA, H.R. 4391) would calculate Social Security benefits as if all the worker's earnings were subject to the payroll taxes, using the standard benefit formula, and this benefit amount would then be multiplied by the proportion of the worker's average career earnings subject to Social Security taxes to determine benefits payable. The minimum benefit and phase-outs in current law would be repealed. Thus, depending on one's average earnings and years in non-Social Security-covered employment, they could fare better or worse under the new proposal. A grandfather provision was included for current employees (so that they could get the higher of the current or future WEP calculation), but new hires would be subject to the new calculation. Staff have also mentioned that the cost of the measure would need to be offset by some other Social Security provision, but not much detail has been provided on how much will be needed or where they will be looking.

**INVESTOR ACCESS TO PROXY**

NASRA, CII and NCTR sent a joint comment letter to the SEC commending the Commission for proposing rules that would, for the first time, give institutional shareholders the ability to participate meaningfully in board elections, and suggesting some changes that could be made to the current proposal to permit the timely and effective use of the proxy access rule. A joint signatory letter was also submitted by individual fund directors within each organization and participants in retirement plans were also encouraged to weigh-in. It is hoped that a final rule will soon be approved. Its pending finalization already appears to have made an impact on company responsiveness to shareholder resolutions.

**STOCK OPTION EXPENSING**

Legislation (HR 3574) is moving through the House, which would block the Financial Accounting Standards Board from moving forward this year with rules requiring the stock options be treated as an expense. Fortunately, Senate Banking Chairman Richard Shelby (R-AL) has stated his refusal to bring a companion measure up for a vote, thus making passage in that chamber far more difficult. Nevertheless, language could still be added later this year to an appropriations measure as it moves through Congress, and investors are being encouraged to weigh-in with FASB and members on Capitol Hill.

## 53 SYSTEMS RECEIVE PPCC STANDARDS AWARD

Developed by the Public Pension Coordinating Council (PPCC) to promote excellence in plan design and administration among state and local public retirement systems, the Public Pension System Standards serve as a benchmark for measuring defined benefit public plans. In the first year of the program, 53 systems received the award.

The PPCC is a coalition of three associations that represent public pension funds whose members include virtually all state and local government employees in the United States. These associations are the National Association of State Retirement Administrators (NASRA), National Council on Teacher Retirement (NCTR) and National Conference on Public Employee Retirement Systems (NCPERS).

In order to receive the award, a system must meet the criteria established for six major principles. The Comprehensive Benefit Program Principle requires that the system provides a core defined benefit plan that includes adequate service retirement benefits, payments to beneficiaries in case of in-service death, disability benefits, post retirement adjustments, and vesting provisions and prohibits involuntary forfeiture or reduction of vested benefits. The Funding Adequacy Principle requires funding in accordance with GASB 25. A system must have an actuarial valuation performed at least biennially to meet the Actuarial Valuation Principle. The Audit Principle requires that the system receive an unqualified opinion from an independent auditor. Written investment policies, written fiduciary standards, and an annual investment performance evaluation are required by the Investment Principle. To meet the Disclosure Principle, the system must provide plan descriptions to new employees, annual benefit statements to members and conduct board meetings at least quarterly.

The Public Pension System Standards are intended to reflect minimum expectations for public retirement systems. The retirement systems and the state and local governments that sponsor them are encouraged to meet the standards.

Alan Winkle, Executive Director of the Public Employee Retirement System of Idaho, administers the program. The complete Public Pension System Standards are available from Alan, from the NASRA web site, or from the NASRA office.

The 53 systems receiving the award for 2003 are:  
California Public Employees Retirement System  
California State Teachers Retirement System

Charter Township of Clinton Fire and Police  
City of Fresno Retirement Systems  
City of Grand Rapids General Retirement System  
City of Grand Rapids Police & Fire Retirement System  
City of Little Rock Police Pension and Relief Fund  
City of Milwaukee Employees  
City of Roseville Employees' Retirement System  
City of San Jose Retirement Services  
City Pension Fund for Firefighters & Police Officers in the City of Miami Beach  
Colorado PERA  
Contra Costa County Employees  
Delaware PERS  
Employees Retirement System of Georgia  
Fairfax County Education Retirement System  
Fairfax County Employees' Retirement System  
Fire & Police Pension Association of Colorado  
Fort Lauderdale General Employees' Retirement System  
Irving Firemen's Relief and Retirement Fund  
Kentucky Retirement Systems  
Kentucky Teachers  
Lansing Board of Water & Light Defined Benefit Retirement Plan  
Los Angeles County Employees Retirement Association (LACERS)  
Massachusetts Water Resources Authority  
Missouri Local Government Employee Retirement System  
Missouri State Employees' Retirement System  
Montana Public Employees' Retirement Board  
Montana Teachers Retirement System  
New York State Teachers  
Ohio Public Employees Retirement System  
Public Employee Retirement System of Idaho  
Public Employees Retirement System of Mississippi  
Public Employees' Retirement System of Nevada  
Public School Retirement System of the City of St. Louis  
Public School Teachers' Pension & Retirement Fund of Chicago  
San Bernardino County Employees  
San Diego County Employees Retirement Association  
San Francisco Employees' Retirement System  
San Luis Obispo County Pension Trust  
San Mateo County Employees  
South Dakota Retirement System  
State Employees Retirement System of Illinois  
State Retirement & Pension System of Maryland  
State Teachers Retirement System of Ohio  
Sterling Heights (MI) Police & Fire Retirement System, Act 345  
Teachers' Retirement System of Louisiana  
Tennessee Consolidated Retirement System  
Texas County and District Retirement System  
Tulsa Municipal Employees Retirement Plan  
Utah Retirement Systems  
Virginia Retirement System  
Wichita Retirement Systems

## TRADITIONS AND INNOVATIONS

*Continued from page 1*

Experience life in the mountains at the Carolina Mountain Ranch Party on Sunday night, August 8. Enhance your experience by riding in the horse drawn covered wagon, joining in the square dancing, fishing in the mountain lake, calling the herd of Longhorn cattle for feeding, and enjoying the mountain barbeque.

The annual golf tournament will be held on Monday afternoon, August 9, at the Grove Park Inn Golf Course, considered one of the finest courses in Western North Carolina. Attendees may play golf or select one of the four other activities scheduled for Monday afternoon. One activity will be white water rafting on the Nantahala River. There are numerous class I and II rapids with a class II rapid at the end. You don't have to be an experienced rafter but you must weigh at least 60 pounds. Another option is a gentle float trip on the French Broad River. This is an enjoyable, gentle float trip that is appropriate for children at least 3 years old and at least 35 pounds. Attendees over the age of 12 may go on an Art Safari in the Toe River Valley, home of the world famous Penland School of Craft. This tour of the studios of talented artisans allows you to see the artists at work and shop for unique, one-of-a-kind pieces. The fourth option is a tour of the Biltmore Estate. Built by George Vanderbilt in the late 19th century, the 255-room Biltmore House still contains its original collection of 50,000 furnishings, artwork and antiques. The estate features fabulous gardens and an award winning winery.

On Tuesday, August 10, spouses, guests and children will be treated to an all-day tour. The first stop on the tour will be a behind the scenes tour of the Blue Ridge Motion Pictures. You will visit the production offices and walk through the Studio's sound stages, a wet stage for water effects, and green screen/CYC wall for digital special effects. Several major motion pictures, such as Patch Adams starring Robin Williams were filmed at this studio. The second part of the tour will be in downtown Asheville. You will have the choice of shopping in historic downtown Asheville or going to the Colburn Gem Museum or the Health Adventure in the Pack Center. There are over 150 boutiques, shops, craft shops, art galleries and antique stores. The activities in the Pack Center are a hands-on type museum that is especially appealing to children of all ages.

In addition to the planned activities, Asheville has an endless number of activities you and your family can enjoy before or after the conference. The roadway through the majestic Blue Ridge Mountains is considered the nation's most scenic highway. Chimney Rock Park, Lake Lure, Indian villages, and the Folk Art Center are

just a few of the area attractions.

Breathtaking views - outdoor activities - history - shopping - architecture - antiques - restaurants - crafts - artists - night life: Asheville has something for everyone. Don't miss it!

## STIMULATING SPEAKERS

*Continued from page 1*

ideas for reform. Other speakers will include Richard Moore, North Carolina State Treasurer, discussing the importance of corporate governance; Jeannine Markoe Raymond, NASRA Director of Federal Relations; Anthony Chan, Chief Economist from Banc One; Dallas Salisbury, President and CEO of the Employee Benefit Research Institute; Scott Livengood, CEO and President of Krispy Kreme Doughnuts; Andrew Beal and Noel O'Halloran to discuss international markets; Keith Brainard, NASRA Director of Research; and Fred Nesbitt, Executive Director of NCPERS, and Bill Robinson, Gallagher Benefits Services, to make the case for long term care.

A panel of system administrators, Michael Williamson, John Charles and Glenn Deck, will discuss current industry issues. The ever-popular Roll Call of the States will provide a short update on activities in member systems.

Attendees will enjoy the lively and intriguing luncheon speakers. Steve Crisp from Dale Earnhardt, Inc. will surprise and delight with an insiders view to the fast paced NASCAR industry. Dr. Dale Henry encourages individual and team excellence through his entertaining and enlightening program.

In addition to the outstanding educational sessions, attendees will have the opportunity to network and discuss issues in more informal settings throughout the conference.



N A S S R A N E W S

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## SAVE THE DATES

**2005 WINTER ADMINISTRATORS' MEETING**  
**FEBRUARY 6-7, 2005**  
**HOLIDAY INN ON THE HILL**  
**WASHINGTON, D.C.**

**51ST ANNUAL CONFERENCE**  
**AUGUST 5-10, 2005**  
**HILTON ANCHORAGE**  
**ANCHORAGE, ALASKA**

**2006 WINTER ADMINISTRATORS' MEETING**  
**FEBRUARY 5-6, 2006**  
**HOLIDAY INN ON THE HILL**  
**WASHINGTON, D.C.**

**52ND ANNUAL CONFERENCE**  
**AUGUST 4-9, 2006**  
**LOEWS CORONADO BAY RESORT**  
**CORONADO, CALIFORNIA**

**53RD ANNUAL CONFERENCE**  
**AUGUST 3-8, 2007**  
**FAIRMONT TURNBERRY ISLE RESORT & CLUB**  
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