



NASRA

NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS

NASRA Newsletter

Fall 2010

Annual Conference Overview

Near the end of a summer of record-breaking heat throughout the country, the fresh air of Seattle provided a perfect location for the 2010 NASRA annual conference. NASRA members, associates, and other representatives of statewide public retirement systems gathered to listen,

to a candid and articulate assessment of the current state of employee workplace benefits. Economics scholar David Kelly delivered his analysis of the current state of the world and national economies, coupled with his forecast of where we're headed.

NASRA members convened in a work session to develop and reinforce key messages and strategies for communicating public retirement issues, while top staff members, gathering for the second senior staff workshop, discussed issues and developments pertinent to their roles. Professional actuaries presented unique views of funding public pensions under "the New Normal," and NASRA staff members presented the latest developments in federal and state and local issues affecting public retirement systems. A panel of CIOs discussed managing risk in a chang-

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learn, and collaborate regarding issues and events affecting public retirement system administration and policy.

The plenary program led off with a packed conference room spellbound by a first-hand oratory of the life of Frank Abagnale, made famous by the movie based (roughly) on his life, *Catch Me If You Can*. Benefits guru Dallas Salisbury treated attendees



Catch Me If You Can

“We live in an extremely unethical society: it literally takes only one person to defeat the system,” said Frank Abagnale. “What I did in my youth is a hundred times easier today. Technology breeds crime.”

A writer wrote a book, a film director made a movie, and a Broadway play producer made a play about each of their views of Frank Abagnale’s life—each titled *Catch Me If You Can*; yet none had ever met him!

Was it his upbringing, speech, mannerism, dress, appearance, charisma? According to Frank Abagnale, “I was a child; a child needs his mother and his father.”

It began with his parents’ divorce and its dramatic effect on him. He ran away at 16, hopped a train to New York City, and suddenly found himself a teenager alone in the world.



Marcia Stempien and Frank Abagnale

He had to grow up very quickly and become very creative in order to survive. But what started out as survival became more and more of a

game. He was an opportunist, so when he saw an opening, he would ask himself, ‘could I get away with that?’ Then there was the satisfaction of actually getting away with it. The more he got away with, the more of a game it became—a game he knew he would ultimately lose, but a game he was going to have fun playing until he did.

It would be seven years before he spoke to his mother; and, regrettably he never saw nor spoke to his father again (his father passed suddenly when Frank was in prison in France).

Frank first found odd jobs but soon found out that he couldn’t make much money. He already had a touch of gray in his hair and was often told he looked more like a teacher than a student at school. Thus his first foray into forgery was changing his birth decade from a 4 to a 3 on his driver’s license. He was



Steve Hill, director of the Washington Department of Retirement Services, welcomed attendees with an introduction to Washington and his department.

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Federal Developments and National Trends

Keith Brainard, NASRA Research Director, and Jeannine Markoe Raymond, NASRA director of Federal Relations, updated conference attendees on issues and trends facing the public pension community. Following on the heels of the entertaining Frank Abagnale, Keith and Jeannine managed to keep the audience focused with interesting and crisp summations of the state of the public pension world and the challenges faced in the post-market decline pension environment. The theme that ran throughout their presentations was independently voiced by each of them: “The facts are on our side.”

Mr. Brainard kicked off the session by announcing the newest NASRA-sponsored informational tool – Wikipension. Although this new on-line service has no leaked intelligence documents to support its launch, it promises to be an

invaluable tool for pension professionals. Functioning much like the ubiquitous Wikipedia, Wikipension opens with a root menu comprised of the primary components of pension fund administration, where users are afforded a user-friendly roadmap to seek a potentially endless variety of public pension research. Keith encouraged all public pension professionals to play a role in populating the site with content about their respective professional area, while he and possibly an advisory board will serve as reviewers to regulate the accuracy and relevance of submitted content.

Mr. Brainard then ran through a series of charts depicting trends in funding levels and other characteristics of the public pension community. Given the decade of net stagnation in the public equity markets, the point was well made that things are not nearly as bad as the popular media and policy makers portray.

The average funding level of just above 80 percent was demonstrated to be directly correlated to the performance of equity markets.

While Mr. Brainard pointed to some trends that give rise to legitimate concern, particularly those related to employment and the declining ratio between active and retired employees, he was quick to point out that over the past 25 years, the median public pension fund investment return exceeds nine percent, meeting and for the most part exceeding even the most optimistic actuarial assumptions. This fact surprises most members of the media and policymakers.

Keith rebutted some of the popular arguments surrounding public employee compensation and challenged the view that supports the inevitability of the demise of traditional pension plans for employees of state and local government. While he is realistic that the present environment has made things difficult for states, that the data indeed shows some alarming trends, and that there is now “a higher likelihood of losing a state or two in the next year to defined contribution plan conversions,” he closed by advocating a proactive approach to combating the anti-DB propaganda. “You are the front line of defending DB plans,” he told the audience. “We know that you will not go down without a fight.”

Ms. Markoe Raymond then took the podium and acknowledged that



Keith Brainard, David Bergman, Jeannine Markoe Raymond, and Eric Stanchfield

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Hedge Funds: Build, Buy or Stay Away?

What happens when you put three well-known public pension executives on a panel moderated by a fourth, to discuss hedge funds on a Sunday morning at 9:00 am? When Jeffrey Scott, Larry Powell and Howard Bicker sat down with Tim Barron to do just that for more than 200 of their peers, investment consultants, many different service providers, and of course, hedge fund managers, we heard passion, conviction, no clear consensus and a fair bit of humor.

One could not have asked for a better panel for such a topical issue. Each panelist opened with a brief summary of their plan's asset allocation. The audience learned that Utah Retirement Systems' hedge fund allocation (18 percent) is



From left: Tim Barron, Jeffrey Scott, Larry Powell, David Burke, and Howard Bicker

almost as large an allocation by percent as Minnesota State Board of Investment's entire allocation to alternatives (20 percent), although Minnesota has no hedge fund exposure and the Alaska Permanent Fund's 6 percent allocation to hedge funds is part of a 21 percent special opportunities allocation rather than a typical alternatives allocation.

“ *There was some agreement, with shared views that hedge funds are not an asset class, but a compensation scheme . . .* ”

RogersCasey's Tim Barron asked each panelist to define hedge funds, specifically what characteristics exemplify them. There was some

agreement, with shared views that hedge funds are not an asset class, but a compensation scheme, that hedge fund managers have no boundaries and that they don't have a benchmark. Larry likes that unlike traditional long-only, hedge fund managers invest in their own strategies, think outside the box, don't rely on "street" research and have minimal constraints. Jeff said that hedge funds offer Beta (cheap), sophisticated Beta (inexpensive to replicate) and a little bit of alpha (expensive). Howard was unequivocal in his view that hedge funds are not an asset class, offer rich compensation, have no transparency, use

no benchmark, fail at a rate of about one in 10, make it hard to get your money out when you want, but "other than that, I really do like hedge funds."

That the typical 2 percent and 20 percent fee structure does not make sense was unanimously agreed upon. Should hedge funds charge 20 bps, "just like everything else" because of financial and political risk, investing mostly in publicly traded securities, alpha can be negative sometimes and absolute return isn't always absolute, as Howard would like it? Larry found it hard to argue with some of those points, and talked about the importance of an alignment of interests, especially fee structure. Specifically, URS approaches potential managers as a long-term investor and wants to be compensated as such. Jeff agreed with Howard and Larry that 2 percent and 20 percent is outrageous, and then followed by saying that Alaska Permanent uses

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The World as You Know It is Ending!

Attorneys Terry Mumford and Katrina Clingerman from Ice Miller LLP, titled their presentation “The World as You Know it is Ending!” Terry began by saying the title represented what others outside the public pension community are saying about public plans, and that it didn’t represent her perspective. However, she also noted that many public plans are facing financial pressures. While DB plans are still the most effective means of providing retirement security, for some plans changes are needed to preserve sustainability.

There are a variety of possible solutions, including: (1) changing employer contributions; (2) changing employee contributions; (3) achieving higher investment earnings; and (4) changing benefits. Terry and Katrina’s presentation

examined changing benefits and focused on the laws governing such changes. Terry noted that DB plans should not be so intractable that they cannot change in response to changing circumstances.

Potential Benefit Changes

In response to financial pressures, public pension benefit changes are being made, including: (1) changes in final average compensation; (2) changes in eligibility requirements; (3) anti-spiking provisions; (4) changes in COLAs; and (5) revising return to work provisions, among others. Terry has found that a balanced approach to change is the most successful. If one party feels they have borne more than their fair share, the change may not be sustainable. However, if multiple parties share the burden, it’s more likely to succeed.

There are also a variety of ways to change benefits, including establishing new plans and establishing new tiers within plans. While legislators may want to give existing employees the ability to choose the new tier or plan, Terry warned that the IRS has taken a position against this in contributory systems with picked-up contributions, if the choice would change the level of employee contributions.

Legal Barriers to Benefit Changes

There are also a variety of legal barriers related to public pension benefit changes. The first barriers arise from the state constitutions and the U.S. Constitution. Many state constitutions offer either specific protections of pension benefits or provisions protecting contract rights or vested benefits. If the state constitution does not contain such protections, the U.S. Constitution may provide protection for contract rights.

In addition, it is important to know what the state courts have said. In some cases, state courts have established protections that are not found outside of the cases. If the state courts have not ruled on pension rights, the state court decisions in other states should be examined, particularly if the states have similar constitutions and statutes. However, it is also important to remember that courts in other states may reach different conclusions, even if they have similar legal language.



Paul Zorn, Katrina Clingerman, Terry Mumford

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NASRA Directors' Workshop: Building on Message Themes and Tackling Hardball Questions

The NASRA Directors' Workshop precedes the official opening of the annual conference and provides an opportunity for retirement system administrators to meet with their peers and tackle common issues facing the industry. This year's workshop, facilitated by Special Programs Committee member Chris DeRose, executive director of the Ohio PERS, and was aimed at building on common message themes that have been developed throughout the year.


State system directors discussed how the ever-growing national focus on public pensions has made industry messages more crucial, and developing clear and uniform messages across the industry was the only way to ensure they would resonate. NASRA members shared the progress over the last year of developing common message themes and the ways they are currently being used around the country.

In response to a questionnaire distributed prior to the conference, 83 percent indicated they were using the message themes in such things venues as media interviews, public forums and communications with stakeholder groups. They also have been incorporated into publications, newsletters, websites, clever leave-behinds for legislative visits, and even into videos on how public pensions drive the economy.

Suggestions were made for how message themes might be incorporated into additional materials, such as informative pieces used to counter "studies" on various public pension data points (benefit levels, valuations, etc.). It was suggested that NASRA explore ways to share effective media communications strategies, materials, videos, and tool kits across member systems, and possibly develop a compendium of quick quotable facts from third parties, and a listing of contacts to whom media

can be pointed for a third-party perspective on public pension issues.

Through break out groups, system directors used the message themes to collectively tackle the toughest hardball questions currently facing the industry and reported their responses back to the larger group. NASRA's Keith Brainard wrapped-up the session by taking a stab at using these common responses in a mock press conference. Keith manned the podium, while NASRA members played the role of members of the media (a role some really took to heart), using the materials to respond to the relentless, no-holds-barred questioning.

As in past years, evaluation results indicated this event was one of the most popular sessions for NASRA members, both with regard to content and format. 

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ing environment, and the Roll Call of the States proved to be as popular as ever. Camp NASRA children and youth were reacquainted and enjoyed the Seattle Aquarium and other fun.

These events and more are discussed in this newsletter. Post-session activities were enabled by the downtown location, convenient to abundant shopping, cultural, and entertainment venues.

The NASRA Executive Committee and Associate Advisory

Committee look forward to seeing you at the 2011 NASRA Annual Conference, scheduled for August 5-10 at the Grand Geneva Resort & Spa at Lake Geneva, Wisconsin. 



Golf Tournament

Against the backdrop of the impressive Seattle skyline, 80 brave souls took on the challenge of the West Seattle Golf Course in a scramble format. It was a cool, misty afternoon along the lush green rolling topography. The course was a fair test for all levels of talent. The front nine, surrounded by Longfellow Creek, is relatively flat; the back nine was shorter yet more difficult, with many uneven lies and play more affected by the wind.

The course officially opened in 1940 and is the home of the Seattle Amateur Championship, and served as the site of the 1953 Public Links National Championship.

The golfers were treated to lunch and refreshments during and after the round of golf.

Many players came to Seattle without their golf clubs and rentals were at a premium. Most people played extremely well with loaned and/or borrowed clubs. This environment created opportunities



for conversation, communication and promoted a spirit of camaraderie.

Many thanks to the Commissioner of NASRA Golf 2010, Mr. Jeff Gallahue, for his organizational skills, patience and implementation of penalties for those with too many clubs and those impersonating bona fide golfers! We also want to thank all participants for a day of golf and goodwill.

Congratulations to the winners:

- *Long Drive Winners:* Julie Booth of Accenture and David Bergman of GTS Advisors

- *Closest to the Pin:* Donna Lum of CalPERS and Rick Bouffard of Efinancial
- *Seventh Annual Ray Lillywhite Memorial Trophy:*
 - Owen Davis of Accenture
 - Jim Dodge of TT International
 - Bill Hallmark of Cheiron
 - Chris Hawkins of State Street Global Advisors

Congratulations to all and thanks again to all of our participants. See you in 2011 at Lake Geneva.

*Bill O'Connor,
Todd Veredus Asset Management*



Conference presentations are available online at www.nasra.org.

Loving What You Do— Doing What You Love

Low-Flying Fish Productions, LLC

“**T**T for Dana!” cheered the luncheon crowd of more than 200. Would Dana catch the low-flying fish without smacking her silk blouse or would the hefty chum salmon slip and slide through her fingers?

During the 56th Annual NASRA Conference, the Seattle weather for days looked and felt like a chilly, wet, grey blanket. Given the current economy and uncertain outlook for the capital markets, presentations during the NASRA general sessions were rather grey too . . . until the Presidents’ Luncheon on Sunday.

Seattle is known for many things: great coffee, the great outdoors and fresh seafood. During lunch, former NASRA presidents and conference luncheon participants were served (tossed) extra large fresh salmon – bare handed. The flying fish definitely brought levity and good-hearted laughter to all with several insightful pointers about success and team building.

Pike Place Fish Market, located in Seattle’s Public Market just a few blocks from the conference hotel, is a world famous fish market. The luncheon speaker, Jim Bergquist of Creative Business Futures, a management consultant who has worked with the “World Famous” Pike Place Fish Market for over 20 years, told the story of the fish market going from the verge of bankruptcy to world fame. The success story



JJ Milder with members of the Low-Flying Fish Club

stems from creativity, out-of-the-box thinking and rallying team members to “take a stand” rather than simply getting buy-in (a weak position not worth pursuing when striving to achieve ambitious goals).

Two of the Pike Place fish mongers—Dickie and Jason—entered the ballroom tossing two extra large chum salmon all for the ready for every luncheon attendee to have a hands-on experience. Lunch attendees were split into two teams winding and curving around the ballroom to compete in a fish race. The challenge: pass the salmon as quickly as possible. The winning team’s prize: a big fishy hug from a losing team member. Immediately after, napkins were grabbed and lemon wedges squeezed over fishy, scaly hands but

the room roared with laughter and high energy.

So what’s the point? Success and the rewards of working together come from the “technology of being.” Humans are fundamentally creative beings. Bring creativity into the workplace by looking for what inspires and what gets people excited. Enlist each team member to take a stand, have a stake in achieving shared goals. Groups don’t create—individuals do.

You and your organizations might not be seeking to be world famous—Pike Place Fish Market’s 1st goal (accomplished). Or to be in the movies, the fish market’s 2nd goal (also accomplished), but goals can be achieved by creating the future from the future and inviting

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Overcoming Short-termism: A Call for a More Responsible Approach to Investment and Business Management

Jack Ehnes, CEO, California State Teachers Retirement System opened the session by providing a statement and issuing a challenge. Institutional investors represent a 76 percent share in ownership of the Fortune 1000 companies. Pension fund managers say, “We think long-term. We are long-term investors. We call for sustainable capitalism. We provide programs and guidelines that encourage our managers, board, and staff to produce sustainable long-term results.”

Jack’s challenge: Do pension fund managers incorporate environmental, social and geopolitical risk factors in our investment decisions? Do managers provide a framework for sustainability that guides portfolio decisions? Do managers provide long-term value creation in a long-term responsible manner? His conclusion: we don’t.

Jack Ehnes, Judith Samuelson, Dennak Murphy, and Mindy Lubber, the presenters at the NASRA session on Overcoming Short-termism, were unanimous: “It’s time to walk the talk!”

They challenged pension fund managers to look at environmental, social, and geo-political factors that direct financial decisions toward sustainable long-term investments. Their message was that while pension funds have long-term financial responsibilities, funds are caught in short-term thinking,



From left: Jack Ehnes, Judith Samuelson, Dennak Murphy, Mindy Lubber, John Gorham

short-term rewards, short-term result expectations, and short-term compensation plans.

Captives on a Short-Term Carousel

Dennak Murphy, Director Real Estate, Service Employees International Union, spoke first. “We do not act like long-term investors. We say we are in it for the long haul – for better or worse, and in sickness and in health. But the reality is that we exist in a short-term financial investment merry-go-round, a carousel that quickly spins with ever-increasing complexity and speed.” He also noted this is a merry-go-round that we don’t control.

Pension fund resources need to be focused on broad economic growth over the long haul. We need to think more broadly in that

we need to define new spaces and new horizons on our terms. These spaces would include things like infrastructure, healthcare facilities, in-house private equity, and real estate. We also need to promote corporate governance. Pension funds need to create processes to act and debate on overcoming short termism. In this debate we need to bring in out-of-the-box thinkers—the new Wall Street type folks—not the managers we currently have. And of course we need to put money into the process.

Business at the Table

Judith Samuelson, executive director of the Aspen Institute, gave an example of a cruise liner that was physically reconfigured to secretly hide the fact that it dumped waste as it cruised along

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Future of Plan Design From An Actuarial Perspective—Funding Strategies

Given the Conference’s theme “Roadmap to Sustainability”, one might argue the presentations by Gene Kalwarski and Robert McCrory were where the rubber meets the road. Both speakers provided insights into how the current pension crisis came about; the risks inherent to defined benefit plans; and, challenging perspectives on how to tame risk—to face instability and to ensure the long-term sustainability of public pension plans.

For seasoned executive directors, it may seem like the current downturn was only the latest of many they have experienced in their careers. Gene Kalwarski reminded us that this downturn was different due to the maturity and sophistication of the plans. With higher asset levels; higher allocations to risky assets; higher benefit levels; more competition for public dollars and negative cash flows, the impact of the 2008 market downturn was magnified. Unfortu-

nately, it is ever more challenging to return to pre-crash funding levels and employer contribution rates due to those factors.

The solution? Gene focused on better identification and understanding of a broader array of risk than normally considered. He identified negative cash flow as the greatest misunderstood risk facing DB plans today, because plan sponsors are primarily focused on investment return targets and not actuarial experience measurements which take into consideration the dollar-weighted returns.

His recommended strategies including applying better risk measures; increasing the transparency of risk and revamping the traditional actuarial model of reporting and analysis. Those traditional actuarial models lull one into focusing on averages without planning for the volatility built into these plans. Other potential strategies including limiting

the ratio of equity assets to payroll and/or immunizing liabilities for retirees through use of fixed income or less risky assets. Probably the most interesting strategy identified was that of funding targets based on the ratio of equities to fixed income in your portfolio. If a plan is heavily weighted in equities, it should allow funding levels to exceed 100%, then ride out the market volatility. For example, with a 70/30 equity debt mix, a 150% funding target may need to be set. With a 30/70 ratio, a 100% funding goal might suffice.

Bob McCrory provided a fresh reminder of the unstable dynamics of pension plans and the actuarial fantasy plan administrators and Boards all find comfort in: that over time assets will tote out to projected costs. Apparently, pension plan behavior is as messy and as unpredictable as the universe. Some of the meteors heading towards earth: actuarial cost is not level; the chance of exceeding twice the current cost is at least 25% higher as funding improves; the impact of financial market variation is proportional to the ratio of assets to payroll; and as plans mature, they become less stable and more volatile!

The prospects for failure are real and they can take several forms: assets falling to zero; costs becoming unaffordable; losing political consensus and intergenerational equity.

Bob threw plans a lifeline by setting forth a STABLE funding alternative. As with any lifeline, one has to work to be saved. At least this



From left: Tom Cavanaugh, Robert McCrory, Gene Kalwarski, Louis Kosiba

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Fiscal Chaos? Employment Based Pensions Still the Key to Retirement Readiness— Dallas Salisbury

Mr. Salisbury began his presentation by laying out the main sustainability driver for retirement systems: the political environment within which public pension systems exist, which is fundamentally different from the private sector. An example of this is the ongoing public debate between the economics community and actuarial community. This debate is reflected in standards established by the Financial Accounting Standards Board (FASB) and the Government Accounting Standards Board (GASB). Over the past few decades, the views of economists and financial analysts have tended to prevail over the actuaries.

To illustrate his point, Mr. Salisbury referenced an early 80s presentation by Zvi Bodie, professor at Boston University, who made a case for pensions being 100% bond immunized and always marked to market. The audience, he added, was far from amused. Bodie ended up being labeled as radical and it was generally believed that no one would bring this theory into the pension



Eddie Solis

world. In the private sector, he continued, this is now the accounting world for private pensions. Failure to embrace this philosophy, Salisbury said, is a reason why the private sector defined benefit is dead or dying. Fiscal economists have a dominant presence in today's policymaking. The move toward mark to market is inevitable but there may be room for compromise and adjustment. The fate of public pensions today may depend on the decisions made in this environment.

Two more components of sustainability are the need to identify the appropriate parties in the establishment of retirement policy, and the determination of a target. Retirement policy must involve not only the systems and their participants, but also elected officials, who must meet the needs of a larger, broader constituency.

Salisbury feels that the climate for pensions has improved in spite of fiscal chaos, but he noted the important role of financial planning. Studies support his optimism that most American's retirement prospects are getting better, not worse. Factors such as longer working careers and retirement transition though part-time employment are part of that conclusion. Although the media may portray longer



Dallas Salisbury

working lives as a new phenomenon, the data proves otherwise. But today, he emphasized, people are working longer because they have to. The change has been gradual and many states' systems have taken actions that extend how long people work before getting benefits.

His points regarding financial planning emphasized an inability to save more, a "short-termism." Most Americans are focused on "this pay period;" families live from paycheck to paycheck with inadequate savings to carry them through a personal financial crisis. This data, according to Salisbury, is also not new.

This short-term outlook illustrates the importance of employer-funded retirement plans providing income security: most Americans don't have free cash to save to supplement

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GASB Update: The Postemployment Benefits Project

The Governmental Accounting Standards Board (GASB) is considering major changes to rules for accounting and financial reporting for pensions and other postemployment benefits. Moderator Pat Robertson, Mississippi PERS, and presenters Paul Angelo, The Segal Company, and Jim Rizzo, Gabriel, Roeder, Smith & Company, provided conference attendees with an update on GASB's project and a summary of the Preliminary Views document recently released.

Mr. Rizzo opened with a brief history of the project. Statements 25 and 27 were issued in 1994, and GASB revisits standards periodically in light of new thought and to improve standards. Research for this project began in 2006. GASB issued an Invitation to Comment and held hearings in 2009, then released its Preliminary Views document (PV) in June 2010. The PV is not final, but rather is an expression of what GASB is thinking now and is designed to put forward high-level, conceptual ideas. GASB will hold hearings regarding the PV in October, and an Exposure Draft is scheduled for release in 2011. The final pension standards are anticipated in June 2012.

The PV is focused on the standard for employers only; retirement plans will provide information necessary for preparation of employer financial statements.

Mr. Rizzo summarized the three biggest changes in the PV as employer balance sheet changes,



From left: Tina Leiss, Paul Angelo, James Rizzo, Pat Robertson

decoupling of accounting from funding, and financial statement volatility. The entire unfunded actuarial accrued liability will move to the employer's balance sheet. The net pension obligation will no longer be on the balance sheet, leaving no accountability for short-term funding responsibilities. The expensing methodology will bear no relationship to reasonable funding methods, thereby decoupling accounting from funding. Volatility in financial statements will result from the use of market value of assets instead of a smoothed value for the unfunded liability number. Volatility will also result from expensing rules due to immediate recognition of some asset swings and changes in inactive liabilities.

The employer's balance sheet will show a new number, the Net Pension Liability (NPL). Mr. Angelo

stated that the NPL is the employer's actuarial accrued liability using the entry age normal method minus market value of assets.

Mr. Angelo explained there will be no change in the discount rate for employers making actuarially sound contributions. If current assets with expected future contributions will be sufficient to pay projected benefits, the discount rate will be the long-term expected rate of return. This projection is like a cash-flow study to the end of the plan using future contributions and expected earnings. If the projection shows that the plan will run out of assets prior to the payment of all benefits, the discount rate will be a blended rate, somewhere between the long-term expected rate of return and a high quality government bond index rate. The plan's

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The Economic Outlook

Dr. Kelly talks about “the facts, the possible and the probable as it relates to today’s economy. What I want to do this morning is talk to you about where we see things in the economy right now.”

He told the audience that the need for an unbiased picture of where things are today is tremendously important. We live in this incredibly sour environment, and as we listen to the financial media, all we hear is doom and gloom. The news reporters remind me of characters in South Park, with their little round faces with their eye brows wrinkled up so they look very distressed. I can’t remember a time when Americans felt so glum about the economy. This economy is very frustrating it is like an A-plus student getting a C-minus. There are lots of reasons we think we are underperforming our

potential, yet it remains important to maintain an unbiased view of where we’re headed.

Information is divided into three types: the facts, the possible and the probable. Right now there is very little attention being paid to the facts and to the probable, and almost all of the attention is being focused on what possibly could go wrong. It is important to also think about what could go right as well as what could go wrong.

So Dr. Kelly discussed five areas where he thinks there is a real debate right now and a real disconnect between what people think and what the facts and the possibilities are.

- Double dip recession
- Anguish in Washington, D.C.
- Inflation vs. Deflation
- European Debt Crisis
- Volatility and its effect on individual investors and the market

Kelly said that as he talks to people around the country he senses a fear about the ability of the economy to survive in light of the policies being developed in Washington. Dr. Kelly then went through a series of charts he provided as handouts to explain why he thinks a double dip recession is more of a possibility than a probability. The only time we have had a double dip recession was when Paul Volcker drove interest rates to over 22 percent. Because the economy grew at a below normal rate after this recession, there is still plenty of potential to fuel a recovery. Kelly reminded the audience of the four horseman of recession: autos, home building, business equipment spending and the change in inventories. Those four sectors account for less than 20 percent of the economic growth in the long run but they account for 140 percent of the output loss in a typical recession. They accounted for 115 percent of the output loss in this recovery and they also contributed to 97 percent of the recovery so far. It is very hard to get these sectors to collapse if they are already in the basement, which creates the immunity from a double dip recession. Normal salvage and new vehicle purchases are enough to keep the auto market from collapse. Housing starts are similarly affected by demographics. Even if new housing starts totally stopped the home building industry would still survive. Replacement of burned out or demolished homes would generate demand for over



Jim Perry and Dr. David Kelly

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instantly 26. He was hired for more odd jobs and made more money; but he still couldn't make enough money to get by.

He obtained a Pan Am Pilot's uniform; he cleverly commandeered a passable Pan Am airline ID; and, then, it was estimated, that Frank flew over 1 million miles on 250 commercial flights in a 2 year period not as a pilot, but as a pilot in transit via the 'jump seat'; and, never on a Pan Am flight. Frank figured out how to cash checks at hotels and at airports as this was a service available to airline personnel wherever they traveled. At the age of 18, a 'John Doe' warrant was issued for him for interstate transportation of fraudulent checks saying he was 30 years old; the FBI did not know his real identity. He escaped to Atlanta and posed as a doctor. He ventured to Louisiana, where he passed the

bar exam with a forged law degree and went to work for the state attorney general. He devised a scheme to collect the daily receipts from the airlines and car rental agencies while disguised as a bank guard.

From the time he began at age 16 until the time he was caught at the age of 21, Frank Abagnale cashed \$2.5 million in fraudulent checks in every state and 26 foreign countries over a five year period. He was clever, he was smart, and he was resourceful. But he was not brilliant, Frank states, "because if I was brilliant, I wouldn't have done anything illegal".

At the age of 21 while in France, he was recognized, arrested and served a grueling six months in a French prison, then was extradited to Sweden to serve another 6 month sentence. At the age of 22, he was extradited to the United States to serve a 12-year sentence. After 4

years, at the age of 26, he was paroled to the FBI to finish serving out his sentence. Frank said he was in some really dark places!

Frank has been with the FBI for 35 years, 27 years more than his legal requirement. He is now one of the world's most respected authorities on forgery, embezzlement and secure documents. He has turned down 3 pardons from three sitting U.S. Presidents. According to Frank, "I do not believe a piece of paper will excuse my actions, only my actions will."

Frank has been married for 33 years and credits his wife with turning his life around. He is the proud father of three grown sons and the author of five books. His latest book published in 2007 was *Stealing Your Life* and deals with identify theft in America. Frank answers all of his own emails and can be reached at www.abagnale.com.

Marcia Stempien, BNY 


NATIONAL TRENDS continued from page 3

public pension plans are a major target of Federal initiatives, especially given the importance of the approaching election cycle. It became quickly apparent that NASRA serves an essential function by educating legislators and helping them develop an understanding of the facts of how DB plans operate and the true state of affairs. Jeannine emphasized the importance of rebutting the alarmism that has pervaded discussion of public pensions during past several years, and communicating the need for a "patient and metered response." None of the Federal

initiatives presently in discussion directly threaten the existence of the defined benefit community, but she made clear that states and cities face dire budgetary concerns that will not just go away. With "the facts on our side," Jeannine stressed the need to continue to "debunk the urban legends" that pervade about the defined benefit community.

Jeannine also emphasized the size of the challenge before us in cutting through the inundation of fright-peddling and scare tactics by those whose interests may not be aligned with public employers, taxpayers, or other public pension community stakeholders.

Prior to attending Keith and Jeannine's speech, one might have believed that today's fiscal and political environments would have rendered their session far more depressing. To the contrary, Keith and Jeannine left NASRA members and associates with reasons for optimism. It is clear that yes, there are some alarming trends, and there is much work to be done. Hopefully, with the resources working on behalf of the public pension community, the "DB plan doomsday" will not arrive any time soon. After all, "the facts are on our side."

David Bergman,
GTS Advisors 



SHORT-TERMISM continued from page 9

the Alaskan coastline. In the short-term, it lightened the ship and saved the company fuel costs. Ultimately they were ruining what they were selling—the physical beauty of the coast.

Her thesis was that without business at the table as part of the problem solving effort, we cannot attack and solve the most difficult challenges facing the long-term health of our society – environment, poverty and climate change. Businesses need to work on salary structures and tax incentives that promote and reward long-term thinking as well as long-term results. Not all shareholders are alike; we need to amplify the voice of the long-term shareholder, in other words the pensioners and the pension funds. This is a leadership issue with pension funds representing the public will and the employees. It is a complex management challenge with pension funds at the apex of a triangle.

Sustainable Pensions

Mindy Lubber, president of Ceres, stated that the environmental risks we face today and will face in the very near future are just as relevant as the financial risk we

face in investing. These risks must be tied together, a very difficult task, but they can not be done in a piecemeal fashion. Insurance companies have already recognized the risk of climate change and are managing with that risk in mind.

In the 21st century, corporate governance matters. It leads to sustainable goals because it takes into account corporate enterprise risks. Pension funds have the responsibility to drive the process of sustainability. We have to exist to be long-term investors. As Nike says “just do it.”

On the Global Front

On the global front, several other countries have already adopted sustainable rules for corporate behavior. The United States is trailing in this arena. Our businesses need to organize to make sufficient progress and catch up with the rest of the world.

Compensation Tied to Long Term Goals

Jack discussed the challenge of staff compensation. Currently annual short-term records drive most compensation decisions. He stressed the need for pension funds to develop and reward staff members based on long-term performance goals which align

compensation with the investment ideas of sustainability. This can be a difficult subject to broach with boards, but a necessary one.

A New Paradigm

So how do pension funds change their paradigms to ensure sound, fiscally responsible, long-term focused decisions? How do funds set goals, ideas, attitudes, and investment postures that provide long-term sustainability? The panelists offered several considerations:

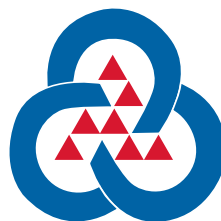
Pension fund staff and board members have to come up with a viable plan to determine what their funds need to be sustainable. This requires total buy-in.

Pension funds have to demand that investment managers align their goals with the funds – not the other way around.

Pension funds have to invest in businesses that provide strong models and proven performance of sustainability and environmental responsibility.

Pension funds have to demand that politicians provide financial and tax incentives that provide sustainable platforms and programs.

*John A. Gorham
Cornerstone Real Estate Advisors*



WORLD ENDING continued from page 5

Katrina Clingerman discussed how one would analyze a proposed benefit change, provided that the state's constitution, statutes, and court cases would allow it. The first step involves understanding the terms of the contract. That is, understanding specifically how applicable state and/or local laws protect the benefits, with regard to: (1) what benefits are protected; and (2) what groups of employees are protected.

She also emphasized the importance of understanding the point at which the contract is formed, which varies from state to state. In some states the contract is formed immediately when the employee is employed. In other states, it is formed when the employee becomes a participant in the plan, or when the participant vests. In still other states, the contract is formed when the employee retires.

It is also important to determine whether the state has a "reservation of rights" provision, under which it reserves the right to change the contract. She noted that the U.S. Supreme Court has recognized "reservation of rights" provisions for 200 years, but that the reservation has to be specific when affecting the rights that a third party has accrued under the contract.

Moreover, if the change is substantial and results in impairment, there will likely be a requirement to determine whether it is "reasonable and necessary." In making this determination, it is important to understand how the terms are defined. In addition, if the change is made unilaterally, it will likely be necessary to demonstrate that there are compelling reasons to justify the unilateral change.

Federal Barriers to Change

While the anti-cutback provisions of the Internal Revenue Code do not apply to governmental plans, the pre-ERISA vesting rules do, and may have an impact on the changes that can be made. The pre-ERISA vesting rules require 100% vesting of a participant's interest when the participant reaches normal retirement age. Moreover, the rules require 100% vesting of accrued benefits (to the extent the plan is funded) upon partial or complete termination of the plan or discontinuance of contributions.

The Fiduciary Role in Benefit Changes


While the employer's role in benefit changes relates to the design of benefits, the plan trustee's fiduciary role is independent from the employer's. The duty of the trustee

runs to the plan participants and consists of the "duty of diligence" and the "duty of impartiality." With regard to benefit changes, the "duty of diligence" requires fiduciaries to understand the facts, laws, related options, and the likelihood of success. The "duty of impartiality" requires fiduciaries to balance the interests of all plan participants, including active employees and retirees.

Practical Lessons Learned

Terry concluded by discussing the following practical lessons learned to date:

- The problem must be fully understood and communicated in a clear way.
- The solution must also be clearly understood and communicated. Moreover, it must be reasonable and fair.
- While studying other states is useful, the solution must relate to your state's facts and laws.
- The problem needs to be solved, even if the solution raises a possible lawsuit.
- Politicians and judges read the newspapers. Present your solutions in the public forum.

*Paul Zorn,
Gabriel, Roeder, Smith & Co* 

LOVING continued from page 8

each person to take personal responsibility for the future.

The world famous Pike Place Fish Market vision statement says it all: "All of us can come together

and benefit from generating bold visions of the future. You have an opportunity to positively empower people...create a powerful vision for yourself and others in your community. Inspiring greatness in others."

And, let's hope the fish market team achieves their 3rd goal—to create world peace and prosperity for all.

*JJ Milder,
Callan Associates, Inc.* 



GASB UPDATE continued from page 12

funded status will not be used to determine the discount rate.

For cost-sharing plans, Mr. Angelo continued, the PV states that the NPL is a liability of all employers collectively. Employers will include their proportionate share of the NPL on their balance sheets. The system will determine the NPL and allocate it among the employers. However, GASB has not set forth the allocation method and is seeking input on alternative methods.

Under the PV, there will be a new expense number. Mr. Angelo explained that the new expense number is so volatile it will not be a viable basis on which to determine contributions. The expense cost is

calculated using the entry age normal method and the assumed interest on the NPL minus the expected investment gains on the market value of assets plus (or minus) immediate expensing of cumulative deviations of investment returns, to the extent they exceed 15 percent of market value of assets, immediate expensing of all NPL changes for inactives, and short amortized expensing of all NPL changes for actives.

The expense number essentially uses infinite smoothing of returns within a 15 percent corridor and no smoothing outside the corridor. Liability changes will be recognized over remaining service life. Liability changes for inactives will be recognized immediately. Recognition for active members will include weight-

ing toward members closer to retirement with larger liabilities and shorter service lives. Sample calculations indicate a plan with average future service of 15 to 20 years may have a weighted average as short as seven to ten years to amortize liability changes for active members. As with the NPL, cost-sharing employers will include their proportionate share of the collective expense as their own expense.

Mr. Rizzo detailed extra work that will be necessary. The actuary will prepare a funding report to determine contributions and an accounting report for employers. Both Mr. Rizzo and Mr. Angelo emphasized the PV is not final and time remains for comments.

Tina Leiss, Nevada PERS 

HEDGE FUNDS continued from page 4

funds of funds and therefore pays 3 percent and 20 percent (followed by much laughter). Jeff also picked up on the risk of managers going under and said that the plan was invested in Lehman, AIG and General Motors, all of which would be gone without government support. Adding that plan investments such as public companies, small caps and venture capital all go under too, one of Jeff's key points was that there are hedge fund managers with an investment skill that add value to the portfolio.

Could public plans bring hedge fund expertise in-house, similar to the endowment model at large institutions? Another topic all of the panelists could agree on – this is likely too difficult to accomplish.

One of the biggest challenges would be recruiting and retaining talent given an inability to compensate true alpha generators, as even Harvard's endowment ultimately realized. The other major challenge: staff, CIO, Board and legislative buy-in to such a decision, particularly because of the turnover in these positions. Seeing both of these challenges as practically insurmountable were agreed upon by all.

In wrapping up the session, Tim commented how the 60/30/10 allocation model doesn't feel like it works and asked if hedge funds are mainstream or slipstream. Here, the audience gleaned some words of wisdom from each panelist. Howard conceded that not all choosers of hedge funds are wrong; there are some good ones. Larry told his peers in the audience that if they

invest in hedge funds, great, and if not, it's more capacity for him. Jeff said that 60/30/10 is a bet on growth and prosperity, primarily in the US, and although we hope it works, it doesn't always.

Thanks to the clarity, conviction, disagreement and humor of the panelists and their able moderator, NASRA attendees were not disappointed early this Sunday morning. The big takeaway, if there was one, was that "one size fits all" clearly does not apply to hedge funds and "build, buy or stay away" is something each plan should consider in the context of its own asset allocation and analysis.

David A. Burke,
Arrowhawk Capital Partners 

Managing Risk in a Changing Environment

Gary Bader (Alaska Retirement Investment Board) believes that our largest macroeconomic risk stems from rising levels of national indebtedness, as the U.S. debt/GNP ratio now stands at 87%. Although inflation is not currently a problem, Gary views it as a major potential risk, especially if foreign bond buyers lose confidence in the U.S.

The fund's approach is not exotic, but seeks to reduce volatility while addressing the possibility of rising inflation. Specific strategies include:

- Farmland (now \$500 million)
- Covered call writing
- Convertibles
- Avoid highly-leveraged commingled vehicles (unless they're the only way to access an asset class)
- International investments
- Lower fixed-income exposure, concentrated in intermediate Treasuries

Bob Maynard (Public Employee Retirement System of Idaho)

strives to be simple, focused, and transparent. Asset mix is roughly 70% equity, 30% fixed; its objective is to earn capital market returns. Specialized strategies include emerging markets, TIPS, private equity, real estate, and private debt. Transparency is vital; all investment vehicles are required to have daily pricing.

The fund's greatest risk is not staying in the market – not because of a bad tactical call, but because of political pressures. If markets recover, as they always have, the plan should be fully funded in 4–5 years.

Ken Lambert (Public Employees' Retirement System of Nevada) shares da Vinci's view that "simplicity is the ultimate sophistication." Two key drivers of success:

- Credibility—because there are lots of eyes on any public system
- Consistency—because sticking with any investment strategy is critical to its success

A public fund should expect to be criticized, but can choose what it might be criticized for. Ken is willing to be criticized for being too simple, too low-cost, and too conservative. He's willing to lag his peer group in up markets and aims to lose less in down markets. This has worked well: in bad times, Nevada has typically recorded top-decile returns, and is above-median overall. Among all 50 states, Nevada has had the lowest standard deviation of returns for the last 20 years.

More than 100% of the fund's value-added comes from rebalancing. In early 2009, e.g., Ken moved \$2 billion from bonds into stocks. This move has been hugely profitable and could only occur because of the credibility that had been built up over the years.

David Villa (State of Wisconsin Investment Board) described Wisconsin's unique approach.

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From left: David Villa, Gary Bader, Ken Lambert, Robert Maynard, and Michael O'Leary



Roll Call of the States

The continuing economic downturn, as well as the resulting budget pressures experienced by state governments across the nation, ensured that pension reform and funding issues were once again among the main topics discussed during the annual Roll Call of the States. Fund directors have spent the year struggling with funding issues and legislative efforts to change benefits, while also seeking to juggle increased workloads for staff in light of furloughs and record numbers of retirement applications.

Following are highlights from the Roll Call of the States. For the complete reports submitted by each fund, please visit the Restricted Access section of the NASRA website.

Pension Reform and Sustainability

Sustainability was a theme throughout the presentations by fund directors. The market downturn affected the funded status of all plans and state legislators are clearly paying attention to the news media's coverage of those who question whether public pensions are sustainable.

Driven by the challenging economic times and the resulting shortfalls in state budgets, many legislatures have begun seriously examining the funded status of, and benefits provided by, state public pensions. This has led to proposals, study committees and enacted legislation in many states. At least a half-dozen states, including Alabama, Iowa, Maryland and North Carolina, as well as the

Commonwealth of Puerto Rico, reported that commissions or committees have been or are in the process of examining the state pension system. The study committees have generally been tasked with reviewing the funding, benefits and sustainability of the relevant systems.

Other states have moved beyond study committees and have taken action. Funds from Illinois, Missouri, Nevada, Texas and Virginia, among others, reported that their state legislative bodies have already enacted new tiers within the system for all new hires after a specified date in 2010 or 2011. Others, including Colorado and Minnesota, have taken action to reduce or eliminate COLAs for existing retirees, adjust retirement eligibility for existing employees, and limit the ability to adopt new benefits unless certain conditions regarding funding are satisfied.

Return to Work and "Double Dipping" and Other "Abuses"

Another theme during the directors' presentations was avoiding "abuses" in the system, including the issue of re-employment during retirement. This ability to retire, begin receiving a pension benefit, and then return to work with the same employer is frequently referred to as "double dipping" in the media and, to judge by the presentations, was a popular target for reform. Approximately a dozen states reported that limitations on returning to work after retirement were adopted or strengthened during the past year. One of the most popular changes

was to impose, or increase, a waiting period after retirement during which a retiree would not be permitted to return to work and continue to receive a pension benefit. Montana PERA and North Carolina reported that employers are required to provide a report or certification upon a retiree's return to work, and North Carolina can penalize employers who fail to comply. Other states have sought to reduce the economic impact of working during retirement by suspending benefits during re-employment, requiring contributions during employment, or even imposing a surcharge on employers who allow retirees to return to work. Georgia reported that all legislation to deal with "abuses" passed. Louisiana and Nevada reported success with anti-spiking measures and Michigan MERS is working on plan design to deal with both spiking and return to work issues.

Increased Workload for Fund Staff

Many fund directors mentioned the difficulty of managing their staff's workload, which has increased substantially. In some instances, including Indiana, the increase was the result of significantly increased retirement applications. For instance, the Michigan Office of Retirement Services was faced with 17,000 retirement applications in three weeks due to an early retirement incentive program. Arizona, Virginia and West Virginia also mentioned facing record numbers of retire-

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Solving the Health Care Crisis

Senator Daschle spoke on the recent, sweeping health care reform law. He called this a transformational time in our history and compared it to the passage of Social Security, the creation of the Federal Reserve and Medicare legislation. The new law will have a profound impact on every American.

Senator Daschle stated that many things have not changed. The United States is the only country without a health care “system,” but instead has a health care “market.” This market is a blend of government and private industry. The US market is the opposite of most other countries. Most countries have health and wellness as the base of their health care pyramid, where the US has expensive treatment as their main focus.

He stated that there are many areas of agreement regarding health care. Everyone agrees that it is a serious cost problem with a cost of about \$8,000 per year for every taxpayer. He explained that, when he was born, it represented about 4 percent of the country’s Gross Domestic Product (GDP)—it was 8 percent when his children were born—and today has risen to around 16 percent of GDP and is headed for 32 percent. The nation doesn’t have a good handle on health care costs and who pays for it. There is agreement that there is a health care access problem. Every year, 26,000 people die because they don’t have insurance and half the prescriptions written go unfilled. There is also a quality problem in the US health care market. The focus is on technol-

ogy with no real system or use of best practices.

Senator Daschle believes there is consensus regarding the cause of the problem. The health care market lacks transparency and we can’t fix what we can’t see. It is estimated that about 25 percent of the cost is spent on unnecessary care, and that the care is profit driven. The US market is driven by a fee for service model which can reward expensive care. Too little money is spent on care coordination, and we have a lack of best practices—too much money spent on illness and too little spent on prevention. He believes there is also agreement on the goals the US should try to achieve – high performance and high value. We must strive to improve access and quality at a reduced cost.

There are still many areas of disagreement. One of the biggest disagreements is the role of government in health care. In most societies, government provides 80-90 percent of health care coverage. In the US, it is closer to 50/50 percent. The issues have become deeply partisan and very complex. The US will spend \$35 trillion on health care in the next ten years, and it will be important to determine who gets what in that process.



Tom Daschle and Dave Bergstrom

He indicated that the recent legislation contained three main components: 1) insurance reform to deal with the issue of access, 2) payment reform to deal with cost, and 3) delivery reform to deal with quality. Because of the size and complexity of the changes, implementation will be incremental, and it must be done right to make the program successful. The insurance reform includes early retirement re-insurance, plans required to cover young adults under their parents plan until age 26, incrementally closes the Medicare Part D donut hole by 2020, and sets up health care cooperatives and exchanges by the year 2014. By 2016, interstate sales will be allowable. In 2018, a tax will be placed on high cost plans. To address the cost concerns, we will move to a system driven “by results” rather than “a fee for service” model and have better access to medical

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Senior Staff Workshop

Building on the success of last year's inaugural Senior Staff Workshop, Deputy Directors and other senior staff met Saturday morning to discuss a variety of timely retirement system topics from an operational perspective. The session featured five short presentations followed by active participation from the group.

Julie Reneau, Director of Benefits with the Ohio Public Employees Retirement System presented an updated review regarding Maintaining a Motivated and Productive Workforce in an environment of budget cuts, furloughs, and small/no salary increases. Julie discussed low-cost and no-cost programs designed to recognize employees and celebrate staff successes. The group discussed creative recognition and team-building programs at their systems, including employees participating together in charitable events on furlough days. This was especially effective in pulling the team together.

Steven Barley, Deputy Director of the Indiana Public Employees' Retirement Fund & Teachers Retirement Fund, presented Social Media – What it is and does it add value in helping improve communications with our memberships? Social Media outlets include Face Book, blogs, twitter, and other means of communicating in virtual communities. The group discussed the trade-off of offering every type of media to reach as many members as possible versus the cost of monitoring these various outlets. There was general agreement that members are increasingly not reading big blocks of text anymore, so we need



Leaders of the senior staff meeting, from left: Dan Duquette, Marcie Frost, Steven Barley, Julie Reneau, Eric Davis, and Jim Potvin

to decide how we will replace “old school” means of communications. Videos and pod casts are making some inroads in this area.

Eric Davis, Deputy Executive Director for the Texas Municipal Retirement System, reviewed the GASB Preliminary Views concepts. There were some differing views in the group regarding the proposed GASB standards, leading to lively discussion. The group looked forward to the more detailed review of this topic later in the conference.

Jim Potvin, Deputy Director for the Employees' Retirement System of Georgia, presented an overview of “Dead Peasant” Insurance Products. As governments struggle to raise funds, a range of different schemes are being considered to fund pensions. While no one in the group had direct experience with this topic, the presentation served as an introduction to a concept that has been discussed in several states.

Marcie Frost, Deputy Director of the Washington State Department

of Retirement Systems, and Dan Duquette, Deputy Executive Director of the Illinois Municipal Retirement Fund, facilitated an Open Forum to discuss other hot topics from the group. Legislative changes, increased use of online self-serve features, and new enterprise processing systems were common themes between the various systems.

The number of senior staff attending the conference (and this session) continues to grow, and this session has proven to very popular with the attendees. The senior staff group thanks the NASRA staff and the Conference Committee for keeping this session as a regular part of the conference agenda.

Dan Duquette,
Illinois MRF 

NIRS—Building on Success

After the luncheon during the Fourth General Session, Beth Almeida, executive director of the National Institute for Retirement Security (“NIRS”), provided remarks to the membership on “NIRS- Building on Success.” Ms. Almeida remarked that she has served in this role for the past three years, as she worked to establish NIRS, and will be leaving the organization at the end of the year. Much has been accomplished and set in place for NIRS, she mentioned, and it is a natural time for her to depart, with a solid foundation in place. A national search firm will be engaged to find and recruit a new executive director.

She expressed thanks for the family atmosphere at NASRA and how much she and NIRS staff have been welcomed by this membership.



Glenda Chambers, NASRA's Executive Director since 2002, has announced her retirement effective with the 2011 annual conference.



Beth Almeida and Carol Drake

As background, Ms. Almeida reviewed the initial commitment from NASRA, the National Council on Teacher Retirement and the Council of Institutional Investors to fill research and knowledge gaps on behalf of public pension funds and institutional investors. These organizations realized that there was a need for reliable research that offered sensible solutions for the public pension community, policy-makers and the media. NIRS was established in 2007 and began identifying the foundation of core research that was needed to support and address topics coming from the academic environment and other outlets.

This year, NIRS has continued to provide important research, including a research report on the salaries of state and local public employees, who, in the main, are

paid less than their private sector counterparts. This report exposed another myth that NIRS addressed on behalf of the public sector.

“Inaction is simply not an option,” according to Ms. Almeida. “We must do something.” Given the resources, financial and otherwise, by entities that wish to discredit and end defined benefit plans and public retirement systems, funds and our membership organizations must be involved in the dialogue.

In order to provide a platform for ongoing debate and dialogue, NIRS set up a peer review network and review process with researchers and experts in the pension community in order to review draft reports and ensure that each report could withstand academic and media scrutiny. Each report was released to the NIRS membership before



public release, with the membership given an opportunity for an advance review. Media was offered an opportunity to be briefed on the reports. NIRS developed materials to support the dissemination of the reports by the membership to our own stakeholders and policymakers.

Ms. Almeida mentioned the introduction of webinar services for a series of dialogues on important topics, offered for members, with media involvement. These webinars provide a space to disseminate key messages through the use of new technology tools to reach a wide audience.

NIRS also provides tools for its membership, such as resource guides, education tool kits for retirees, draft press releases, executive summaries and talking points, in conjunction with the release of each report.

Media engagement has been critical, she said. The outreach to stakeholders, policy makers, and interested parties helps keep these important issues in the forefront of the news and provides research to respond to the negative articles about the sustainability of defined benefit plans. NIRS actively seeks ideas to help identify specific research projects and topics. Members-only research has helped immensely, she said, because the public pension community, through NIRS, has a research intense organization at its disposal.

The next phase for the growth of NIRS will be in the area of more prescriptive research. They plan to provide reports on what is working in the public pension community, highlighting the sensible solutions that are providing stability in the defined benefit arena. In early 2011, NIRS will be conducting

opinion research which will be released that year.

After the success of the first annual conference earlier this year in D.C., NIRS is already planning its next conference. On March 7-8, 2011, NIRS will be hosting a conference in Washington, D.C., which will align with NASRA's winter meeting.

Ms. Almeida concluded her remarks by thanking the NIRS Board and NASRA for its support. She will continue to advocate for NIRS and its important work.

Carol Drake
Ohio PERS 

ECONOMIC OUTLOOK continued from p. 13

500,000 units per year. The office equipment sector benefits from similar demand requirements.

With respect to politics, Dr. Kelly said that if you feel things have moved too far toward the left or right just wait awhile and they will swing back the other way. So the effect of politics on investing is short term and should not be considered a serious factor. Don't let your political emotions overcome your investment judgment.

Even though the economy is experiencing a below normal recovery, corporate profits are growing at a very high rate. Dr. Kelly said that he believes that

corporate profits will soon reach an all-time high. Profits are being fueled by low wage growth because workers have no negotiating power in a high unemployment environment.

Looking at Europe, the old analogy about hanging together or hanging separately is the thing that will defuse the risk of a major default by the weak sisters in Europe. Members of the EU must and will work together to solve the economic problems of their partners. They realize that if they let Greece fail that there would be a domino effect on the rest of Europe.

Dr. Kelly said deflation is more of a real risk today than inflation,

and the Fed will hold rates and real yields noninflationary. As a result, there are opportunities in high yield fixed income and municipal bonds.

The biggest problem with the world economy is psychology. People need to have a reason to spend.

Americans are so focused on short term risks that they often forget about the real long term risk, their personal health. You must invest with a long term view to guarantee that you don't outlive your savings.

Jim Perry,
PIMCO 

PLAN DESIGN continued from page 10

approach will break the feast (let's improve our benefits) and famine (high rates and underfunding) cycle.

Simply put, STABLE funding coordinates funding and investment policy by placing "excess" assets (i.e. when a plan is over 100% funded) into bonds thus de-risking the portfolio. One can then match bond cash flows to benefit payments. As the market continues to rise, more of one's

portfolio is immunized. As the market declines (and funding drops below 100%) the process is reversed and assets are moved into the general portfolio (more risky areas).

This is not a "cheap" approach. Funding of 130% is needed to immunize the liabilities attributable to retirees. It may require higher employer contribution rates during "good" years than plans may be familiar with. On the other hand, it does make costs less variable and

improves security to retirees. Because the primary tool is investment policy, this is an approach within a Board's purview, not requiring legislative action.

Many thanks to Gene and Bob for sharing their insights and offering some guidance on the road(map) to sustainability.

Louis Kosiba,
Illinois MRF 

FISCAL CHAOS continued from p. 11

things like Social Security, a reality that needs to be recognized.

Public pension administrators need to communicate the attributes of public pension systems. "If you don't tell your story and talk about the need for sustainability of income, nobody else is going to tell it for you." It is also important to emphasize that, in an economy that depends on consumption, a significant portion of the population without income will produce a negative impact.

Salisbury also discussed the ideological dialogue regarding the superiority of individual means over collective action and the impact of groups around the country who see

no benefit in defined benefit plans. The political approach of such groups as "Americans for Tax Reform" is to express the "unsustainable" nature of such plans. What's in the balance, however, is the difference between a good retirement and a poor or mediocre one. Pension plans that provide collective support are approximately 40% cheaper than if everyone were to self-insure. With a defined benefit plan, everybody knows they won't run out of life before they run out of money.

He remained unapologetic for his paternalism when it comes to old age preparation. People don't always make the best decisions and may lean toward adverse selection. If we have a policy that supports the achievement

of lifetime income security, we must educate the population.

Salisbury closed by reinforcing that the importance of what the members of the public pension community do every day cannot be overstated, and that the debate of pension envy needs to be flipped: public policy should make sure that every American has the prospect of some assurance of income for as long as they live. The answer to achieving this is not to take it away from those who have it. Public pension systems should be seen as the linch pin to long-term life security. They are not the problem, they are the solution.

Eddie Solis
Texas MRS 


SOLVING continued from page 20

records. To improve delivery, the emphasis will be placed on health and wellness, coordinated care, and treatments based on documented best practices.

About 30 percent of the reform work is completed, but it will take

ten years to fully implement. Obstacles to health care reform include poor implementation, legal challenges, state interference, and political threats to repeal the legislation. Senator Daschle acknowledges that mistakes will be made along the way, but that the goal of improved delivery and

quality of health care at a lower cost is very achievable.

Dave Bergstrom,
Minnesota SRS 



2010 Annual Business Meeting

NASRA members gathered on August 11, 2010 in Seattle, Washington for the 56th annual business meeting. The meeting was called to order by President Eric Stanchfield and reports were received from the various committees.

Pat Robertson, Chairman of the Legislative and Resolutions Committee presented two resolutions for consideration by the membership. The first was a resolution on Guiding Principles for Retirement Security and Plan Sustainability, which was approved by the membership and numbered 2010-01. The membership then considered an amendment to resolution number 2007-03 on Public Employee Retirement System Accounting Standards and Actuarial Methodologies. The amendment was approved and the new resolution is numbered 2010-02.

A proposed change to NASRA Constitution Article III, Section

1(a) was explained by Dana Bilyeu, Chairman of the Constitution and Bylaws Committee. The proposal was to change the membership requirements to remove the asset size qualification for a statewide teacher retirement system and to remove the annual increase requirement in the asset size for all members. The previous provision required that statewide systems have assets of \$3 billion in 2005 with an annual increase of 5% per year thereafter. The change requires an asset size of \$3 billion for statewide systems but doesn't include an escalation feature. The membership approved the changes.

The Education Committee reported the ongoing efforts to provide information to our members, other interested groups, the general public and the media. Key examples of these efforts are the weekly NASRA News Clips, webcasts, teleconferences, and public speaking. NASRA staff is also developing a Wikipension website and is reviewing the possible use of social media. It was also reported that the name of the committee has been changed to the Education and Research Committee to reflect the added responsibility of coordinating efforts with the Research Director.

The report on the current financial condition of NASRA was very encouraging.

Copies of the audit for fiscal year ending September 30, 2009 were distributed and it was noted that there were no audit findings. Net operating income for 2009 was \$13,934.

In 2010 NASRA has experienced an increase in the number of Associate Members and conference attendees. NASRA Bylaws limit the number of Associate Members to 200 and we currently have 186, the highest number in the history of the organization. Conference attendees included 213 Associate Members, 55 Members, 143 staff and trustees, and 166 guests. The revenue for 2010 is over budget due to this increased participation and expenses are under the projected budget. As a founding member, with the National Council on Teacher Retirement and the Council of Institutional Investors, NASRA continues to support the National Institute on Retirement Security with an annual financial contribution.

Following a report by Terry Slattery, Chairman of the Nominating Committee, the Members approved the following slate of officers for 2010-2011:

- President: Michael Williamson
- President Elect: Donna Mueller
- 1st Vice President: William Schwartz
- 2nd Vice President: Pat Robertson
- Immediate Past President: Eric Stanchfield

Regional Vice Presidents were elected during the Regional meetings held August 9. Terry announced the



Outgoing NASRA president Eric Stanchfield congratulates new president Michael Williamson

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Camp NASRA Kids

More than two dozen Camp NASRA campers met this year to experience the sights and sounds of Seattle, to catch up with old friends, and to make some new ones. Led again by Sally Chamberlin and with help from Bonnie Phillips, the campers had a blast visiting the Seattle Aquarium and the Science Pacific Museum; viewing an IMAX movie telling about the Hubble space telescope; and touring the Pike Place Market. A ride on the monorail, a feature of the city's 1962 World's Fair, was a cool and memorable experience.

Campers also ate at Ivar's Seafood Bar, where they enjoyed delicious fish and clam chowder and shared their lunch with the hungry, overfed seagulls!

Camp NASRA could not have happened without Ms. Sally and Ms. Bonnie, or without the help of



Camp NASRA Campers

John Raymond and his family; Karl Morgan; and Jeff, Pat, and Patrick Gallahue. Thank you all for helping

make this year's Camp NASRA another success! See you in Lake Geneva!

ROLL CALL continued from page 19


ment applications. In others, it is simply the struggle of handling the normal workload with reduced staff due to cutbacks, layoffs or a hiring freeze. California and Hawaii, among others, have been impacted by mandatory furloughs which reduce the working days of staff every month.

Knowledge transfer was also mentioned as an issue in certain

states, including Arkansas and Idaho.

Fund directors anticipate that many of these issues will continue during the next year. In many of those states which have not yet enacted any pension reform legislation, attempts to do so are expected during the next legislative session. The funding and budget issues which have prompted these efforts are not likely to disappear during the next year. Many directors

mentioned a continued need to address and combat issues of pension envy. Communication and education will be key components as these public funds continue to defend themselves.

Katrina M. Clingerman
Ice Miller LLP 



MANAGING RISK continued from page 18

When a participant retires, the system computes an annuity value for him assuming a 5% earnings rate. If the fund earns more than 5.8%, retirees are paid a dividend; if not, their monthly benefit is reduced (but not lower than the floor established at retirement). Some investment performance risk therefore shifts onto retirees as the fund's liabilities adjust automatically. This helps mitigate the biggest risk faced by public pension funds: the systematic attack on the defined benefit model.

Over the last 120 years, the real return on U.S. equities has averaged 6.7%, although there have been decades when it's been near 0%. The low return periods comprise 50% of the 120-year history. So: the equity risk premium has been a great engine for wealth creation if you live for 120 years; if not, a large part of your retirement income can

depend on when you were born. How can we change the dynamics of the fund so that it's less dependent on the equity risk premium?

From question period

"Liquidity is the best risk control." There is an illiquidity premium in private equity, 100% of which gets paid to the general partners. We're willing for private returns to be equal to public market returns, although with a different pattern. (Bob)

We like private equity from the standpoint of return, corporate governance, and control. Risk-adjusted, private equity looks like levered public equity. (David)

If stocks don't return about 9% annually in the future, we're all in trouble regardless of actuarial assumptions. Equities are poised to do very well; if they don't, it's difficult to see any asset mix that will be successful. (Ken)

Risk parity (i.e. levered bond) strategies are a good way to dimin-

ish reliance on the equity risk premium. (David)

Risk parity is theoretically correct—but if we enter an extended period when leverage doesn't work, the strategy could look bad. (Bob)

Correlations did not go to 1 in the crash—the problem was that investors had different forms of exposure to the same thing. Government bonds, the real diversifier, "worked perfectly." (Bob)

The best-performing public funds look very different but have very similar returns. (For example, Washington has high private equity exposure and Nevada has little.) If you're investing consistently, there are times when your strategy won't look smart. Whatever you do, you must "really own" the strategy – otherwise you'll be tempted to give up when performance disappoints or when criticism gets too loud. (Ken)

Craig Lazzara,
Standard & Poor's 


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following results from those elections:

- Region II: Pamela Pharris, Georgia
- Region III: Anne Wagner, Michigan
- Region IV: Cindy Rougeou, Louisiana
- Region V: Dana Bilyeu, Nevada

The election for the Region I Vice President is scheduled for

2011; Chris DeRose is currently serving in that position.

Under Other Business, Louis Kosiba expressed his appreciation for the contribution that NIRS makes with their research and outreach programs. He encouraged strong support of the organization from the members and associates by becoming a member or educational sustainer. 

Save the Dates

2011 Annual Conference

August 5–10
Grand Geneva Resort
Lake Geneva, Wisconsin

2012 Annual Conference

August 3–8
Resort at Squaw Creek
Olympic Valley, California

NASRA Officers

Michael Williamson (NC),
President
Donna Mueller (IA),
President Elect
William Schwartz (MO),
First Vice President
Pat Robertson (MS),
Second Vice President
Eric Stanchfield (DC),
Immediate Past President

Regional Vice Presidents

Chris DeRose (OH) Region I
Pamela Pharris (GA) Region II
Anne Wagner (MI) Region III
Cynthia Rougeou (LA) Region IV
Dana Bilyeu (NV) Region V

Associate Advisory Committee

Anthony Dote, Chair (Lazard Asset Management), 2011*
Thomas J. Cavanaugh
(Cavanaugh Macdonald Consulting), 2013*

Peter Clerkin (McDonnell Investment Management), 2013*
Jeff Gallahue (KBC Asset Management International), 2013*
Norm Jones (Gabriel, Roeder, Smith & Company), 2013*
Howard Pohl (Becker Burke Associates), 2012*
Liz Smith (Alliance Bernstein), 2012*
Leon Wechsler (L.R. Wechsler, Ltd.), 2012*
Nancy Williams (Ennis Knupp), 2011*

**Year Term Expires*

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The mission of the National Association of State Retirement Administrators is to engage in advocacy, research, and education activities that promote best practices among its member systems and enhance the retirement security of their participants.



NASRA

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