

Report on the STRS Committees and Board Meetings on June 4-5, 2003
By Pat Geyer, CRTA Liaison with STRS

Committee on Corporate Governance

In response to the representatives of the AIDS Healthcare Foundation, Cal STRS wrote a letter to GlaxoSmithKline asking it to lower AIDS drug pricing to poor countries.

In addition, Treasurer Angelides proposed that STRS support corporations that grant less than 5% of the total equity compensation to the top five executives of the company and provide at least a four-year vesting program.

Committee on Benefits and Services

The telephone response time during the month of April was excellent. Almost all calls were answered within one minute. E-mail and correspondence is now answered within four days.

STRS is also planning a workshop for retirees to discuss 403B exit strategies, death benefits, and health costs.

Investment Committee

Cris Ailman, STRS Chief Investment Officer, reported on the STRS liability study. Because of the last two-three years the unfunded liability of STRS will increase. If STRS earns an 8% return STRS funded ratio will drop from 98% funded to 77% funded in 10 years. If STRS earns a 7% return STRS funded ratio will drop from 98% funded to 75% funded in 10 years. Allan Emkin, consultant from PCA, stated that if the future returns remain poor – the only way to get fully funded is to increase contributions from employees and school districts. However, Emkin noted that as short as 20 years ago STRS was only 25% funded. Board member, Carolyn Widener remarked that the STRS may need to look at changing benefits.

Michelle Cunningham reported the Fixed Income department is moving toward STP (Straight Through Processing) where transactions go through electronically which is faster and with less possibility of human error.

Pat Geyer, CRTA Liaison, complimented the committee on their informative reports and requested an opportunity to tour the STRS offices. Michelle Cunningham will follow up on the suggestion.

It was reported that the market value of the STRS fund just passed \$100 billion, which is where it was one year ago. The Committee and audience were presented with a cake to celebrate.

STRS Board Meeting

It was announced that there were 3 candidates for the K-12 STRS Board position, 3 candidates for the K-12 and administrator STRS Board position (go to STRS website for names). Carolyn Widener is the only candidate for the Community College STRS position and is therefore elected. Ballots will be mailed out on October 1 and the results will be counted on December 10.

The actuary reported that the Cash Balance Fund is not fully funded because of the last three poor years. However, it will return to fully funded in 4 to 7 years because the minimum interest requirement is low.

Ed Derman, DCEO, reported on legislation. AB265, which eliminates contributions to the Supplemental Benefit Maintenance Account for the next two years with repayment with interest from 2010 to 2020, has passed the Assembly. The Board reported that **STRS will file a lawsuit in regard to the nonpayment to the SBMA and will inform all members in a future mailing**

Ed Derman announced that STRS will be getting at least the same amount of Elk Hills money as last year. Next the **STRS Board voted to sponsor Assembly Joint Resolution 29 which requests the President and Congress to remove the Government Pension Offset and the Windfall Elimination Provision of the Social Security Act.**

CRTA Past President, Norman Gould, and CRTA President Elect, George Avak spoke in support of AJR 29 and Social Security Reform.

Report on STRS Committee and Board Meetings, including the Client Advisory Meeting, November 5-6, 2003

By Pat Geyer

Subcommittee on Corporate Governance

Pat Geyer did not attend this meeting; however, it was reported that the STRS staff had been directed by the **STRS Board to investigate whether the relationship with Putnam should be terminated in light of the recent news of illegal practices by Putnam.** STRS presently has some \$315 million invested with Putnam. Treasurer Phil Angelides requested that both STRS and PERS dump their Putnam investments.

Investment Committee

The STRS Board will be sending out a RFP (Request for Proposal) for a General Consultant. Presently Allan Emkin holds this position, and it is anticipated that he will reapply. The STRS Board is concerned that there be no potential conflict of interest and that the STRS Board holds to the highest ethical standards. There also will be RFPs for 3 Project Consultants for specific investment jobs. This will give a diversity of opinion.

Nori Lietz of PCA (Pension Consulting Alliance) gave information on Real Estate Policy. Real Estate investments are much more complex. The low risk portfolio (apartments, stores, industrial) remains much the same. However, high risk investments such as joint ventures, private equity, highly leveraged property do not fit the old guidelines, need a flexible policy. (Only a small percent of the STRS Real Estate portfolio is in high risk) More information will be presented at the next session.

A panel presented information on Emerging Markets. **David Fisher of Capital Group International (Los Angeles) reported that emerging markets are incredibly attractive because they will grow the fastest.** Since 1986 emerging markets have earned interest of 7% a year compounded. Key emerging countries are Korea, Taiwan, China, USSR, India, Mexico, Brazil, and possibly South Africa. He suggested that investors should buy stock in companies in emerging markets that have a global exposure. **Rosalind Hewsenian, Wilshire, stated that emerging markets provide additional diversity.**

The Asset/Liability study recommended that STRS keep the asset allocation the same. Possibly the Board might want to invest 1-2% in TIPS (Treasury Securities indexed for inflation). **Assets allocation will not grow the fund to 100% funded. There will have to be an adjustment in contributions.**

As of November 5, the **STRS fund is at \$107 billion.**

Client Advisory Committee Meeting

CRTA members present were Zoe Ann Murray, Ken Hewitt, Dave Walrath, Ed Ely, Pat Geyer.

There was no change in state legislation. The Elk Hills appropriation of \$39 million is passed by Congress and on the President's desk for signature.

Ed Derman made a presentation on Social Security Offsets (WEP and GPO). He explained the justifications for the offsets. It is Pat Geyer's opinion that the STRS staff is concerned that the effort to repeal the offsets might result in forcing California teachers into Social Security.

Rick Reed, the STRS Actuary, reported on the Retirement Projection Study. **Until 3 years ago, STRS retirements held steady at about 7,000 a year. For the last two years retirements have jumped to 11,000 a year. It is projected that retirements may peak at 13,000 for the 03-04 school year.** Mr. Reed suggests that the extra retirements may reflect the extra teachers hired to teach the Baby Boomers' children of the 1970's.

Rhonda Webb led the discussion of the joint and survivor option study. It was suggested by some members of the committee that the STRS Board might consider dropping option 3 (joint and 50% to beneficiary), option 4 (joint and 66% to beneficiary) and option 8 (multiple option beneficiaries) because less than 2% of the retirees select each of these options each year.

Teachers Retirement Board

Jack Ehnes, Chief Executive Officer, reported on his meeting on the New York Stock Exchange. The question is can the NYSE be self regulating and still have good business practices? Many of the present changes are good, such as independent Board, smaller Board, public reporting of executive compensation. Should STRS have a role in regulation? **Gary Lynes, STRS Board Chair, stated that the STRS Board needs a policy on STRS role in regulation.**

Since STRS will have so many new Board members in January they will need an expanded education policy for Board members.

Jack Ehnes announced the Governor had appointed Sylvia Saucedo, attorney from Los Angeles, as the Governor's STRS Board member.

Eva Hain, CRTA President, presented the STRS Board with See's Candy and a replica of a check listing the number of volunteer hours contributed by retired teachers. This was in recognition of the week of the retired teacher.

Report on STRS Committee and Board Meeting, 12/3-4/03

By Pat Geyer, CRTA Liaison to STRS

Subcommittee on Corporate Governance

Jack Ehnes reported on two conferences. The National Coalition for Corporate Reform is an informal organization for the purpose of exchanging information. The Climate Risk Conference presented helpful information on climate risk exposure. STRS will support climate change resolutions and consider climate risk when making investments.

Three specialists/traders on the New York Stock Exchange presented a panel discussion on the purpose of a traditional stock exchange compared to an electronic exchange. A specialist makes a market (buys and sells) seldom traded shares; a specialist works to smooth the market: buying when there are too many stocks for sale and selling when there are too few. In addition, we heard about the pros and cons of an exchange from Professor Subrahmanyam of UCLA. In conclusion the NYSE now makes 80% of its trades electronically. Only 20% of the trades are made on the floor of the NYSE. Electronic trading continues to grow at the expense of floor trading.

The STRS Board decided not to seek a seat on the NYSE Board of Directors. There might be a potential conflict with the STRS investment policy, and a seat on the NYSE BOD might be seen as support of present NYSE policy.

Investment Committee

Townsend, PCA, and Callan were the firms interviewed for Real Estate Consultant. **PCA (Pension Consulting Alliance) was selected to continue as Real Estate Consultant.**

The Investment Committee voted to continue with **the same Asset Allocation: 38% US Equities, 20% International Equities, 7% Real Estate, 26% Fixed Income, 8% Alternative Investments and 1% Cash.** The only change might be the addition of **up to 2.5% TIPS** (Treasury Inflation Protected Securities). They also decided to continue the policy of not hedging currencies.

Chris Ailman, Chief Investment Officer, reported that **STRS fund is now at \$108.5 Billion.** That is compared to a low of \$85 Billion and a high of \$116 Billion. The fund is doing better, but there is no way that the investments can grow STRS to 100% funded. **Next spring will be a discussion of a possible change in benefits.** STRS has divested all its investments in Putnam because of the organization's financial misconduct.

Benefits and Services Committee

A new annual statement of account for active and inactive teachers was presented. It listed the amount of the Defined Benefit Account, the Service Credit, Disability and Survivor Benefit coverage, Death Benefit, and the DB Supplemental Account. In addition there was a separate statement of Cash Balance Account program. Pat Geyer suggested that STRS remember the Retired Teacher and consider sending a more detailed account with the 1099R form.

The STRS staff presented information on ways to simplify the structure and administration of CalSTRS benefits. The staff will be looking at ways to simplify in order to reduce errors, reduce costs. Staff will also look at projects that can be combined with other STRS projects to save cost. More specific details will be reported at future meetings.

Teachers' Retirement Board

Jack Ehnes reported that **the results of the election of the 3 STRS Board members representing active teachers and administrators will be posted on the STRS web by December 16.** Present STRS Board members, Karen Russell, Paul Krasnow, and Jay Schenirer, will be leaving the Board.

Ed Derman, Deputy Chief Executive Officer, reported that the **Elk Hills payment legislation was signed by President Bush.** Legislation that would have required STRS to give the IRS information about retirees with earnings not covered by Social Security was defeated. **STRS hopes to get legislation to allow the member to change beneficiary without getting two other signatures on the form.** At the February meeting STRS will have an evaluation of the Federal Medicare Act. **There will be no STRS meeting in January.**

