PAPERS

Pennsylvania Association of Public Employee Retirement Systems
PO Box 61543, Harrisburg, PA 17106-1543

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In This Issue

Membership Renewal Time!

Invoices to current PAPERS members will be issued on or about December 1st. Your 2012 membership entitles representatives of your company or pension plan to participate in PAPERS conferences and the CPPT certification program.

If not already affiliated with PAPERS, becoming a member is easy. Apply online at www.pa-pers.org or by contacting:

PAPERS
PO Box 61543
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There are three categories of PAPERS membership:

- **Participating** ($95) - Public employee retirement systems (pension funds)
- **Associate** ($1,000) - Corporate providers of legal and investment services to pension plans
- **Affiliate** ($500) - Corporate providers of all other services to pension funds.

PAPERS Debuts Online Program

PAPERS is pleased to announce the debut of the CPPT Online Program and we hope you'll be a part of this new and exciting educational opportunity. While the online program was originally conceived as part of the CPPT certification program, these live presentations will also be available for the *entire* PAPERS membership.

The purpose of the PAPERS Online program is two-fold. First, the online program is designed to be a convenient way for the PAPERS membership to continue its educational experience between the organization's semi-annual conferences. From the comfort of their desk, participants will be able to keep up to date with industry trends, news, and valuable information.

Secondly, the online program is designed to supplement CPPT participants' efforts in acquiring course credits towards their certification. Certification must be completed in a three year timeframe and the online program offers participants an opportunity to make up credits from missed conferences or just to further their progress towards certification.

The online sessions are **free** to attend for CPPT participants as well as the general PAPERS membership. This PAPERS Online Program session will be worth 1 (one) CPPT credit with successful completion of a PAPERS CPPT Exam. ***See page 3 for more details about CPPT.***

We will be offering the first online session in the month of December and encourage the membership to attend this PAPERS free educational offering in this new medium. More sessions will be made available before the Spring Forum in 2012.

Thursday, December 1, 2011 – 10:30 a.m. EST

A Discussion of the Proposed Changes to Pension Accounting and Financial Reporting by the Governmental Accounting Standards Board

Speaker – Michael Merlob, *Foster & Foster*

The Governmental Accounting Standards Board (GASB) will be instituting new standards for pension accounting and financial reporting beginning next year. These amendments to the existing pension standards intend to improve how the costs and obligations associated with the pensions that governments provide to their employees are calculated and reported. Michael Merlob will offer insight into what these changes may mean for you and how you should prepare.

To register for the December online session, please visit:

http://www.publicpensionsonline.com/PAPERSOnlineRegistration.html

If you are interested in participating in the online session but are unable to do so at the designated time on December 1st, please contact Sean McKinstry at (774) 241-0497 to arrange for alternative viewing.

From PAPERS' Executive Director

As I review the news on the Public Pension front, I see an industry up to its eyebrows in criticism and conflict. A total of 39 states have adopted Pension Reforms in the form of benefit reductions and contribution increases and still there are articles in major newspapers encouraging a "Race to the Top" to see who can do the best job of destroying public defined benefit pension systems.

At times like this it is important for beneficiaries and trustees to work together to preserve the precious benefits that public employees have worked so long and so hard to earn. Anyone with an ounce of common sense can quickly see that the defined benefit system is the most cost effective way to deliver a secure lifetime pension benefit.

PAPERS can serve as hub to facilitate the distribution of good information and provide a forum to discuss alternatives and develop good solutions to these issues. In order for that to happen you need to join with your fellow practitioners' to work out the solutions. Come join us and add your voice to the discussion.

Jim Perry
PAPERS Executive Director

Thanks to Workshop Sponsors

PAPERS held its 5th annual Fall Workshop in suburban Pittsburgh, Sept. 21, 2011 with approximately 50 persons participating. The generous financial support of these PAPERS corporate (Associate & Affiliate) members made the Fall Workshop possible.

- **AllianceBernstein,** New York, NY
- **Bank of New York Mellon,** Pittsburgh, PA/New York, NY
- **Federated Investors,** Pittsburgh, PA
- **Foster & Foster, Inc.**, Fort Myers, FL
- **Intercontinental Real Estate Corp.**, Boston, MA
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About the PAPERS CPPT Program

The PAPERS **Certified Public Pension Trustee Program** (CPPT) is a certification program endorsed by the PAPERS Board of Directors. The program aims to develop and enhance the role of public pension trustees, pension administrators and staff, as well as industry professionals who work closely with pension systems. The program curriculum will provide participants with two levels of education and industry competency.

Following a core curriculum, the certification program requires participating in 36 course credits over a three year period of time.

CPPT participants gain credits by participating in the various educational offerings of PAPERS. PAPERS hosts a Spring Forum, a Fall Workshop, and the PAPERS Online Program offerings. After each conference or online session, participants will be tested on the information presented at the educational offering.

PAPERS has many relationships with leaders in all facets of the industry who offer their knowledge and expertise. These professionals are well qualified to instruct the PAPERS membership in an educational setting. The PAPERS CPPT Program will cover a well-balanced curriculum with a focus on the following areas:

- Asset Allocation & Investment Strategies
- Communications & Media Programs
- Fiduciary & Compliance Standards
- Legal Issues/Board Policies & Practices
- Pension Fundamentals
- Pension Funding & Plan Design
- Public Pension Industry Trends & Issues

A one-time registration fee of $300 is required for enrollment in CPPT. The fee covers a portion of the cost of administration, materials and instruction and the balance is funded by PAPERS as a service to its membership.

For more information and to register for the PAPERS CPPT Program, please visit:

http://pa-pers.org/newweb/cert.html

See page 1 of this newsletter for information about the first CPPT on-line program that takes place on December 1, 2011. The program is not limited to CPPT participants; it is open to all PAPERS members but advance registration is required.

Save These Dates

Upcoming PAPERS Conferences

May 23-24, 2012
(Wednesday-Thursday)
8th PAPERS Forum
Harrisburg Hilton Hotel

Sept. 23-23, 2012
(Tuesday-Wednesday)
6th PAPERS Fall Workshop
Downtown Philadelphia
(Hotel to be announced)

May 23-24, 2013
(Thursday-Friday)
9th PAPERS Forum
The Harrisburg Hilton

PAPERS' corporate sponsors provide financial support beyond regular conference registration fees and annual membership dues. Sponsors receive priority for speaking opportunities at PAPERS' conferences.

Contact PAPERS Executive Director Jim Perry *(717-651-0792 or perryja1@comcast.net)* today for more details about the various levels of support your company can provide.

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- Complimentary exhibit space

Silver.. $2,500

- 2 complimentary registrations
- Recognition in program

Fall Workshop Sponsorship

Sponsor... $2,500

- 2 complimentary registrations
- Recognition in program

Excerpt from Renaissance Capital's 3Q11 Global IPO Market Review

By: Stephanie Chang, Senior Research Analyst, Renaissance Capital LLC, Greenwich, CT

3Q Global Issuance Falls Precipitously As Volatility Spikes

A late summer lull combined with persistent market volatility led to a steep decline in global IPO activity in the 3Q11, making it the least active quarter of global issuance since the 3Q09. Deal flow slowed to a trickle by mid-August, with 72% of total proceeds raised during the first six weeks of the quarter. Many IPOs were put on hold as companies elected to wait out market turbulence. This included several large deals, which led to a meaningful 14% decline in average deal size from the 2Q11. Global IPO performance turned negative for the 3Q11 (-4%) as the markets struggled through the ongoing European debt crisis and a weak US economy. However, the global IPO pipeline grew to record proportions and now contains 336 private companies that are expected to raise nearly $180 billion.

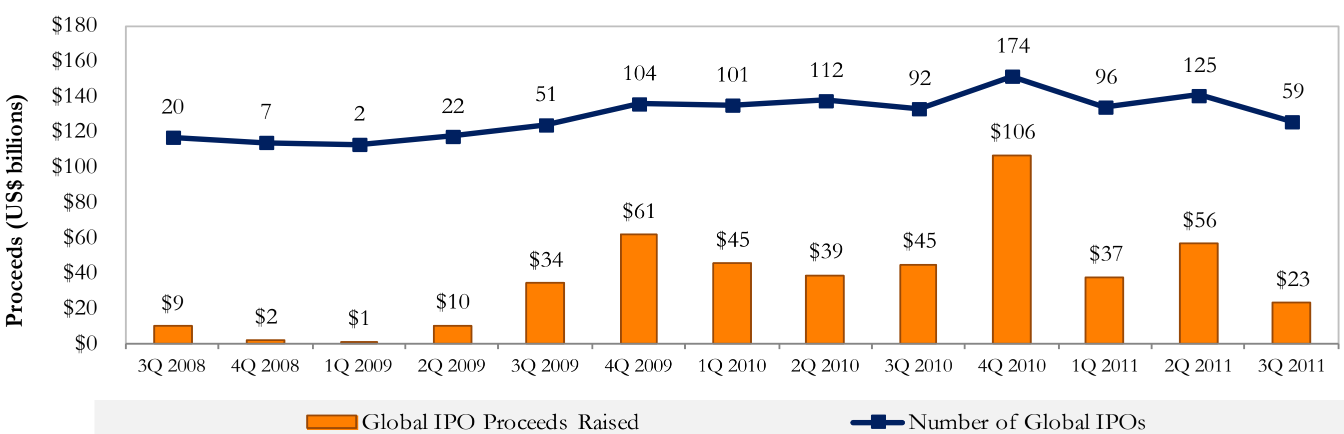
Key takeaways:

- 59 global IPOs raise $23 billion in the 3Q11, down 49% year-over-year
- Global returns declined to -4% due to macroeconomic headwinds
- 18 US IPOs raise $3.5 billion, down 33% year-over-year
- Consumer and technology IPOs dominate US performance
- Global IPO pipeline continues to build, with 336 companies hoping to raise $180 billion

Key Global IPO Statistics

	3Q 2010	2Q 2011	3Q 2011	Δ*
Number of Deals	92	125	59	-36%
Proceeds Raised (US$)	$44.5b	$56.3b	$22.9b	-49%
Average Deal Size (US$)	$483.9m	$450.6m	$388.1m	-20%
Performance				
FTSE Renaissance Global IPO Index†	10.9%	0.3%	-25.1%	
MSCI ACWI	13.8%	-0.5%	-18.9%	

Source: RenaissanceCapital.com. Global statistics include IPOs with a deal size of at least $100 million and exclude closed-end funds and SPACs. *Calculated year-over-year.
†FTSE Renaissance Global IPO Index does not include China A share offerings.



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Global IPO Market Review *(continued from page 4)*

For a full copy of the report, please contact Stephanie Chang at (203) 622-2978 or via e-mail at schang@renaissancecapital.com, or visit the PAPERS library.

About Renaissance Capital

Founded in 1991 and headquartered in Greenwich, CT, Renaissance Capital is the global leader in providing institutional research and investment management services focused on IPOs and newly public companies.

The Firm provides research, valuation and analytical tools to institutional investors for purposes of assessing upcoming IPOs and the IPO market. In 2003, the Firm was retained by Citi, Credit Suisse, Goldman Sachs, Morgan Stanley, JP Morgan and other brokerage firms to provide the independent research they needed on newly public companies to fulfill their obligations under the SEC Global Research Settlement.

Renaissance Capital maintains the FTSE Renaissance Global IPO Index Series, which is designed to track the activity and performance of the IPO market worldwide. These IPO Indices enable investors to obtain structured access to IPO returns. The Firm also provides IPO focused investment management services, including managing separate accounts for institutional investors and advising the Global IPO Plus Fund (NASDAQ Symbol: IPOSX), the only mutual fund available to individual investors that focuses on newly public companies.

The Firm is a Registered Investment Advisor with 1940 Act compliance expertise. Renaissance Capital is also a certified Women's Business Enterprise and a FINRA-member Broker/Dealer.

Public Pension Funding Policy After GASB Changes

By: David T. Kausch, FSA, EA, MAAA

David Kausch is Chief Actuary of Gabriel Roeder Smith and Company (GRS). David is a Fellow in the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries and has a Ph.D. from the University of Michigan.

The Governmental Accounting Standards Board (GASB) is nearing completion of new accounting standards for public sector pension plans which will replace GASB Nos. 25 and 27. Early in the process, the GASB articulated its position that accounting is separate and different from funding and that its focus is on accounting only. This is a big change because it means the end of the Annual Required Contribution (ARC) which has become a de facto funding standard for most Public Employee Retirement Systems (PERS). So without the ARC, what is an appropriate funding policy?

In this era of heightened due diligence for PERS Boards, a formal, written funding policy can help. The GASB changes present a good opportunity for public pension plans to examine and formalize their funding policies. PERS funding rules vary by state so there is no universal funding policy; however there are features common to most PERS funding policies. In addition, organizations issue guidelines on PERS funding, e.g., GFOA's Best Practice for Sustainable Funding Practices of Defined Benefit Pension Plans.

Funding Policy Features

Typically, the most basic features of a sound funding policy include the following:

- Intergenerational equity Employer contributions should remain approximately level as a percentage of payroll over time.
- Contributions determined by actuarial valuations Employer contributions should be the normal cost plus an amortization of any unfunded actuarial accrued liability. For the GASB ARC, the maximum amortization period is 30 years.

Funding Challenges Posed by the New Standards

Are these features sufficient? The proposed GASB standards shed some light on this question in an unexpected way. Among the changes is the use of a blended discount rate for underfunded plans, which is determined by projecting benefits and contributions until the last benefit for current members is expected to be paid. In addition, the new GASB projection requires a closed projection even if the funding policy is designed for an open, going-concern plan. In most cases, a 30-year open amortization will be actuarially sound for an open, going-concern plan and is expected to keep the fund sustained indefinitely. But, the GASB projection will very likely show a depletion of assets when an underfunded plan uses a 30-year open amortization. Closing the amortization period is a simple way to strengthen a funding policy.

Other Ways to Strengthen PERS' Funding Policies

- As mentioned, close the amortization period to no more than 30-years for an open, going-concern plan – or shorter for closed or poorly funded plans.
- Adopt separate and shorter closed amortizations for benefit increases. Benefit decreases may need to be amortized over longer periods especially in an underfunded plan.
- Maintain a minimum floor of employer contributions such as the normal cost or the normal cost plus a small margin.
- Incrementally phase in increases and decreases in employer contribution rates to reduce volatility.

These are some of the broader issues Boards may consider for a sound funding policy. Ask your actuary!

Investing in Emerging Markets Local Currency Debt

By: Daniel Wood, Fund Manager
Rexiter Capital Management Limited

In recent years there has been a vast expansion in the availability of local currency bonds offered by emerging market governments. Historically, emerging market sovereign issuers have raised funding in the international capital markets by issuing US dollar or other hard currency denominated bonds. However, improving balance sheets, institutional structures and less populist, more market friendly policy has increased international investors' confidence in emerging market currencies. This has helped to enable many developing countries to build domestic liquid yield curves, out to 30 years in some cases. And, as the asset class develops, the investor base continues to deepen.

The relatively high yields, significant diversification benefits and historically strong risk-adjusted returns available in emerging markets local currency bonds are beginning to attract more attention from global investors. However, unlike emerging markets equities, which are becoming an increasingly significant component of institutional investors' asset allocations, this asset class is still under-represented in global portfolios. There are, in fact, many reasons as to why emerging market debt deserves closer attention.

Emerging Markets Increasingly Drive Global Growth

Many emerging countries have spent the past decade improving international reserve positions, cutting external debt levels and improving productivity growth. These measures have dramatically decreased emerging markets exposure to external risks and ensured that financing imbalances no longer leave them vulnerable to the type of pressures that have previously caused emerging market crises.

The extension and deepening of local currency yield curves has also had a large part to play in improving the availability of credit in developing markets. Pension fund reform has ensured that there are a rapidly expanding group of domestic investors that are natural buyers of government debt issued in local currency. These improvements mean that emerging markets are no longer the problem, but may actually form part of the solution to any global growth crisis. Growth within emerging markets has been double that of developed countries for eight straight years and this is likely to continue into the foreseeable future. Therefore, we believe emerging markets are in a strong position to continue as the driver of global growth for the next decade and beyond.

Strong Historical Risk-Adjusted Returns

Emerging market local currency debt seeks to offer investors the potential for both strong risk-adjusted returns and lower correlations than more traditional asset classes. Emerging markets local currency debt's absolute return from December 2002 (the inception of the benchmark) to October 30, 2010 is 14.03%. This compares favorably with a return of 10.44% in high-yield corporate bonds, 3.81% in US equities and 5.42% with high-grade corporate bonds.

Conclusion

A structural transition is taking place. Developing countries are changing their international debt from hard currency (primarily dollar denominated) to home currency denominated bonds. This is creating a new and exciting asset class.

It appears now is the time for international investors to consider the potential benefits of this new and dynamic asset class.

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Investing in Emerging Markets *(continued from page 7)*

This material is for your private information. The views expressed in this material are the views of Daniel Wood through the period ended October 6, 2011 and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. **Past performance is not a guarantee of future results.**

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries. Bond funds contain interest rate risk (as interest rates rise bond prices usually fall); the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

NEW STUDY FINDS PENSIONS ARE PREFERRED RETIREMENT PLAN

New Public Sector Employees Overwhelmingly Select Pensions Over Individual Retirement Accounts; Pension Cost Efficiencies Cited as Key Advantage

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The National Institute on Retirement Security is a not-for-profit, non-partisan organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy through national research and education programs. Located in Washington, D.C., NIRS has a diverse membership of organizations interested in retirement security including financial services firms, retirement plan sponsors and service providers, and trade associations among others. More information is available www.nirsonline.org.

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Milliman is among the world's largest independent actuarial and consulting firms. Founded in 1947 as Milliman & Robertson, the company currently has 53 offices in key locations worldwide. Milliman employs more than 2,500 people. The firm has consulting practices in healthcare, employee benefits, property & casualty insurance, life insurance and financial services. Milliman serves the full spectrum of business, financial, government, union, education and nonprofit organizations. For further information, visit milliman.com.

Milliman

SEPTEMBER 29, 2011, Washington, D.C. — A new study of the retirement plan choice in the public sector finds that defined benefit (DB) pensions are strongly preferred over 401(k)-type defined contribution (DC) individual accounts. The study analyzes seven state retirement systems that offer a choice between DB and DC plans to find that the DB uptake rate ranges from 98 to 75 percent. The percentage of new employees choosing DC plans ranges from 2 to 25 percent for the plans studied.

In recent years, a few states have offered public employees a choice between primary DB and DC plans. The new study, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers,* analyzes the choices made by employees and finds that:

- When given the choice between a primary DB or DC plan, public employees overwhelmingly choose the DB pension plan.
- DB pensions are more cost efficient than DC accounts due to higher investment returns and longevity risk pooling.
- DC accounts lack supplemental benefits such as death and disability protection. These can still be provided, but require extra contributions outside the DC plan which are therefore not deposited into the members' accounts.
- When states look at shifting from a DB pension to DC accounts, such a shift does not close funding shortfalls and can increase retirement costs.
- A "hybrid" plan for new employees in Utah provides a unique case study in that it has capped the pension funding risk to the employer and shifted risk to employees.

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New Study Finds Pensions are Preferred *(continued from page 8)*

The seven plans offering DB and DC choice that were analyzed for the study include Colorado Public Employees' Retirement Association, Florida Retirement System, Montana Public Employee Retirement Administration, North Dakota Public Employees Retirement System, Ohio Public Employees Retirement System, State Teachers Retirement System of Ohio, and South Carolina Retirement Systems. The new hire elections for these plans are summarized as follows.

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado Public Employees' Retirement Association	88%	12%	Not offered
Florida Retirement System	75%	25%	Not offered
Montana Public Employee Retirement Administration	97%	3%	Not offered
North Dakota Public Employees Retirement System**	98%	2%	Not offered
Ohio Public Employees Retirement System	95%	4%	1%
State Teachers Retirement System of Ohio	89%	9%	2%
South Carolina Retirement Systems	82%	18%	Not offered

"Not offered" means enrollment in a combined DB/DC plan is not offered.
***Data for Colorado, North Dakota, and Ohio PERS are for January 2010 through December 2010.**
Data for Florida, Montana, STRS Ohio, and South Carolina are for July 2010 through June 2011.
**** One new employee out of the 63 eligible joined the North Dakota DC plan in 2010.**

"Beyond the seven states analyzed that offer DB-DC choice, the experiences of Nebraska and West Virginia offer additional insight," said report co-author Mark Olleman, consulting actuary and principal with Milliman, Inc. "Both states chose to put new hires in a DC plan, and then later changed to DB. Nebraska offered some employees hired between 1964 and 2003 only a DC plan, but also maintained a DB plan for other employees. Over 20 years, the average investment return in the DB plan was 11 percent, and the average return in the DC plans was between 6 and 7 percent."

Olleman continued, "West Virginia closed their Teachers' DB plan to new hires in 1991 in response to funding problems and put all new hires in a DC plan. Unfortunately this did not solve the funding problem, and many teachers found it difficult to retire when relying only on the DC plan. West Virginia performed a study, found a given level of benefits could be funded for a lower cost through a DB plan, and put all teachers hired after July 1, 2005, in the DB plan as a cost-saving measure. So both Nebraska and West Virginia found a DC plan did not achieve their goals and changed from DC to DB."

Ilana Boivie, report co-author and economist with the National Institute on Retirement Security, said, "The research is clear that public employees highly value their pension benefits and will choose this retirement plan over an individual DC account. These findings are not surprising and are consistent with NIRS' recent opinion polling earlier that found 83 percent of Americans believe those with pensions are more likely to have a secure retirement."

Boivie added, "Moreover, employers understand that pensions remain the most cost-effective way to fund a retirement benefit, and that switching from pensions to individual accounts can drive up costs for taxpayers. These economic facts coupled with strong employee preferences for pensions suggests that public employers are unlikely to mimic the trend away from pensions that has occurred in the private sector."

The full study is available at www.nirsonline.org and www.milliman.com.

Diverse Director DataSource Begins Accepting Submissions from Potential Board Candidates

SACRAMENTO, CA – The Diverse Director DataSource, a new resource for finding untapped talent to serve on corporate boards, is now open to qualified candidates. Applicants with the skills and experience to be a candidate for a director's seat can submit their profiles at www.GMI3D.com. Once a pool of talent is established, shareowners, companies, diversity groups and other organizations will be able to use the Diverse Director DataSource – "3D" – to recruit potential board directors.

The DataSource was conceived by the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). GovernanceMetrics International (GMI), an independent provider of global corporate governance ratings and research, was commissioned to develop the database earlier this year. It is now owned and maintained by GMI.

"This is a milestone in the development of 3D," said Anne Simpson, CalPERS Senior Portfolio Manager, head of Corporate Governance. "We're inviting people to now submit their information so that GMI can build this powerful resource for supporting board quality through improving diversity. 3D is an innovative resource that opens the door to finding candidates whose fresh ideas and new perspectives can help companies generate lasting, sustainable value and provide a check against the kind of 'group think' that played a significant role in the financial crisis."

"Bringing value to corporate boards through diversity goes beyond race and gender and into a varied range of background, experience and perspective," said Anne Sheehan, CalSTRS director of corporate governance. "Investors looking for ways to increase corporate value will find such voices in the corporate boardroom indispensible to boosting the bottom line."

CalPERS and CalSTRS began work on the Diverse Director DataSource two years ago, following the strong support of California State Controller John Chiang who spearheaded an effort to raise diversity among corporate boards. Chiang is a Board Member of each pension fund. 3D was developed with the help of corporate governance experts, institutional investors, companies, search firms and academics. GMI took ownership and control of it earlier this year.

"With this initiative, the institutional investor community is creating an important opportunity to expand the pool of qualified corporate directors beyond the traditional boundaries," said Douglas Chia, Assistant General Counsel and Corporate Secretary, Johnson & Johnson. "This is a resource for those companies that understand that board diversity will give them certain strategic advantages."

"New America Alliance believes that corporate board and executive diversity is at the heart of maintaining and increasing a company's competitive advantage by inclusion of the broadest possible perspectives represented in the market," said Pilar Avila, Chief Executive Officer of New America Alliance. "As America's leading institutional investors, CalPERS and CalSTRS are providing an invaluable data resource for companies to find diverse board and executive candidates at a time when leadership diversity can make a significant impact to the bottom line."

"Companies face global challenges and need diverse talent on their boards to ensure they have the skills and experience to succeed," said Ira Millstein, Senior Associate Dean for Corporate Governance at the Yale School of Management.

CalPERS is the nation's largest public pension fund with approximately $224 billion in market assets. It administers retirement benefits for 1.6 million active and retired State, public school, and local public agency employees and their families and health benefits for more than 1.3 million members. The average CalPERS pension is $2,220 per month. For more information about CalPERS, visit www.calpers.ca.gov.

CalSTRS, with a portfolio valued at $147 billion, is the largest teachers' pension fund and the second largest public pension fund in the United States. It administers retirement, disability and survivor benefits for California's 852,000 public school educators and their families from the state's 1,600 school districts, county offices of education and community college districts. For more information about CalSTRS, visit www.calstrs.com.