Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: *www.pa-pers.org*

Spring 2012 (Vol. 7 No. 1)

In This Issue

Looking Ahead at More PAPERS Opportunities

6th Annual Fall Workshop

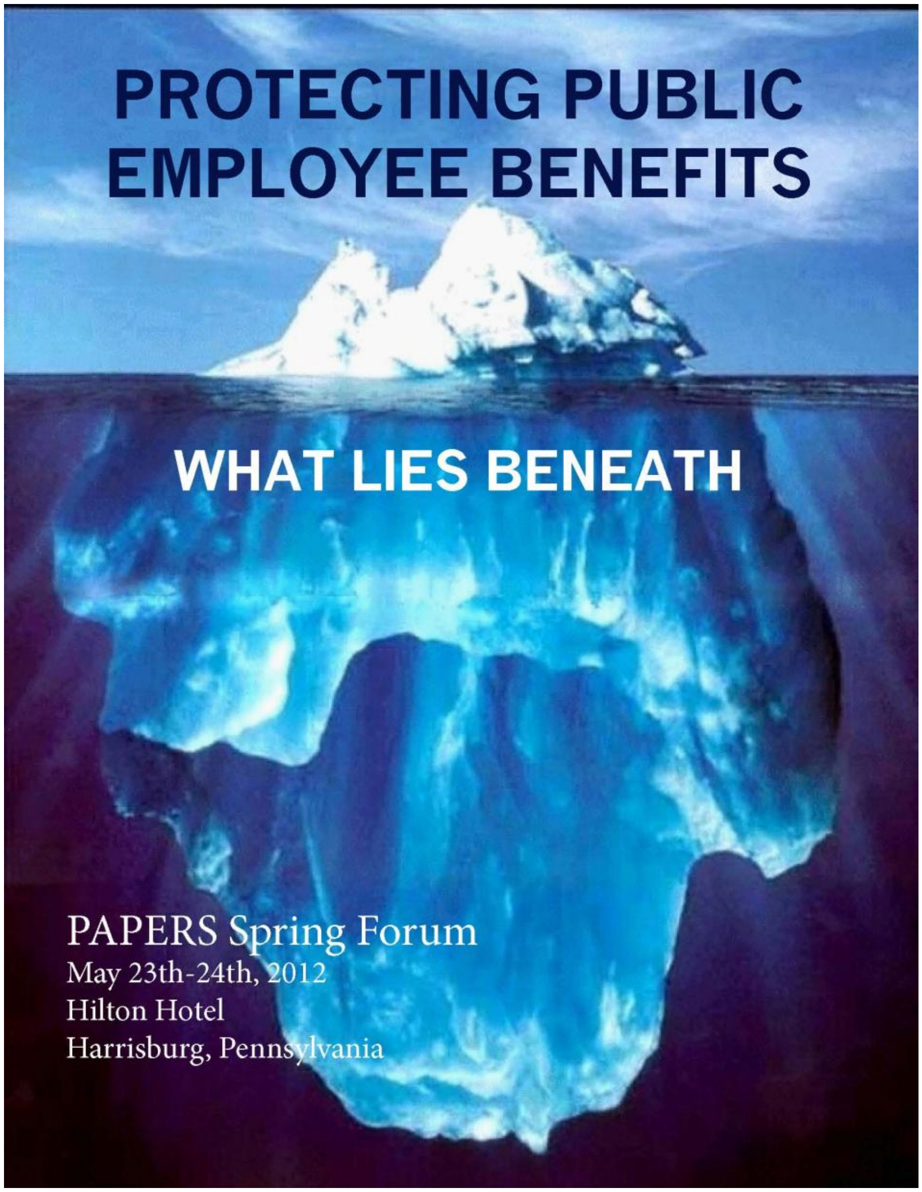
Sept. 19-20, 2012
(Wednesday-Thursday)
Holiday Inn Historic Area
400 Arch Street
Philadelphia, PA

9th Annual PAPERS Forum

May 23-24, 2013
(Thursday-Friday)
Harrisburg Hilton Hotel
One North Second St
Harrisburg, PA

PLAN TO ATTEND............The PAPERS Forum

brings together nearly 150 attendees from Pennsylvania's public pension plans and service providers in one location. The 8th annual Forum takes place May 23-24, 2012 at the Hilton Hotel in downtown Harrisburg.



Inside you'll find the conference registration form on page 10 and hotel lodging/driving directions on page 11. You may also access Forum information and any updates on the PAPERS website (www.pa-pers.org).

PAPERS Online Program Event

Capital Markets 101: Wall Street And The Fed Bring Meaning to Your Life

PAPERS is pleased to announce its third educational offering of the PAPERS Online Program. We hope you'll consider participating in this free educational online presentation Wednesday, April 4th.

Capital Markets 101: Wall Street And The Fed Bring Meaning to Your Life

Speaker – Zane Brown, Fixed Income Strategist and Partner at Lord Abbett

April 4th, 2012 – 10:30AM

Zane Brown's presentation is a high-level overview of the Federal Reserve, Wall Street, Capital Markets, and how they all relate to the management of public pension funds.

Zane E. Brown, Partner, Fixed Income Strategist, is responsible for credit market analysis and strategy, enabling clients to gain context and further understanding about today's credit markets and how they relate to various fixed-income disciplines. He also is responsible for business development in Asia.

Mr. Brown, who has more than 30 years of experience in the financial services industry, joined Lord Abbett in 1992 as an Investment Team Leader, and became a Partner in 1996. During his tenure at Lord Abbett, he has been actively involved in the management of various fixed-income and balanced portfolios. He spent most of the past decade as Director of Fixed Income.

This PAPERS Online Program session will be worth 1 (one) CPPT credit with successful completion of a PAPERS CPPT Exam.

While the PAPERS Online Program is designed to accumulate credits for those participating in the CPPT program; the online sessions is available for the *entire* PAPERS membership. The membership is encouraged to attend this free educational offering whether you're currently enrolled in the CPPT program or not.

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. From the comfort of your 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.

For more information about the PAPERS CPPT Program or to register please visit www.pa-pers.org.

The online sessions are **free** for CPPT participants as well as the general PAPERS membership.

To register for the April 4th online session please visit:

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

From the PAPERS Executive Director

Recently a rather shocking headline from the National Council on Teacher Retirement (NCTR) grabbed my attention: **"Time is running out to make changes to the normal retirement age".** The article was written by Leigh Snell, Federal Relations Director for NCTR. We have received permission to publish Leigh's article in our newsletter (starting below and continuing through Page 6) to make you aware what is coming from the IRS and Treasury Department on the issue of *Normal Retirement Age*. This could affect your plan's qualified status and its tax status.

Membership in PAPERS makes resources available to our members on many retirement related issues that are not always readily available from other sources. So sign-up and take advantage of the benefits we have to offer. Membership includes one free admission to our Spring Forum and Fall Workshop for each Participating Member retirement system.

You'll find all the details about PAPERS' 8th annual Spring Forum, May 34-24, 2012, throughout this newsletter. I look forward to seeing you at the Forum and at other future PAPERS events.

Jim Perry

PAPERS Executive Director

The following is reprinted with permission from the National Council on Teacher Retirement

What's Happening with Normal Retirement Age Regs? An Update

As things currently stand, in just over 10 months, governmental pension plans will be required to comply with regulations issued in final form by the Internal Revenue Service (IRS) in 2007 dealing with distributions from a pension plan upon attainment of normal retirement age. The IRS and Treasury have stated for the last several years that they would address serious public plan concerns with these regulations as they relate to the use of service as a component in determining the earliest age or date when a participant can retire with an unreduced benefit. However, despite very recent assurances that this long-awaited "fix" was imminent, there still has yet to be a formal release issued. Many state legislatures are already meeting, and if changes are required to be made, time is running out. While it is still hoped this issue can be resolved through the regulatory channel at Treasury and the IRS -- thus obviating the need for state changes -- Federal legislation has now been introduced in the House of Representatives to resolve the problem. But there is no guarantee that Congress will act on such legislation before the end of this year.

Background

These so-called Normal Retirement Age (NRA) regulations were made applicable to private plans immediately upon their issuance in May of 2007, but public plans were given two years to make any necessary amendments to their laws and regulations. Thus, the NRA regulations were originally to have been effective for plan years beginning on or after January 1, 2009, for governmental pension systems. This effective date has been extended twice, and is now set to take effect for plan years beginning on or after January 1, 2013.

The IRS regulations reflect a change made by the Pension Protection Act (PPA) of 2006 that provides an exception to the general plan qualification rule that pension benefits can be paid only after retirement. This PPA exception permits a pension plan to commence payment of retirement benefits to an employee who is not separated from employment at the time of such distribution (known as an "in-service distribution") as long as the employee has attained age 62.

However, the IRS also used this opportunity to (1) "clarify" that a pension plan is also permitted to make such in-service distributions after the participant has attained "normal retirement age;" and (2) provide rules on how low a plan's normal retirement age is permitted to be.

Specifically, the new regulations require a pension plan's normal retirement age to be an age that is "not earlier than the earliest age that is reasonably representative of the typical retirement age for the industry in which the covered workforce is employed." This is an effort by the IRS to prevent a normal retirement age from being set so low as to be a subterfuge to avoid the qualification requirements that, essentially, the benefit be truly related to retirement.

Several safe harbors are also provided in the regulations:

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What's Happening with… *(continued from page 3)*

- *a normal retirement age of 62 or later (or age 50 or later, in the case of a plan in which substantially all of the participants are qualified public safety employees) is deemed to pass muster;*
- *a normal retirement age lower than 55 (or 50 in the case of public employees) is presumed not to satisfy the requirement unless shown otherwise on the basis of facts and circumstances;*
- *a normal retirement age that is at least 55 but below 62 is presumed to be acceptable based on a "good faith determination of the typical retirement age for the industry in which the covered workforce is employed that is made by the employer."*

Significantly, the 2007 regulations do not provide a safe harbor (or other guidance) with respect to a normal retirement age that is conditioned (directly or indirectly) on the completion of a stated number of years of service, as is the case with many if not most public plans. In a notice (IRS Notice 2007-69) issued in August of 2007, the IRS and Treasury explained that the reason for this is because they expect that a private sector plan under which a participant's normal retirement age changes to an earlier date upon completion of a stated number of years of service typically will not satisfy the ERISA vesting rules (found in Section 411 of the Internal Revenue Code).

But what about public plans? While the IRS noted at the time that sponsors of governmental plans were not subject to these Section 411 vesting rules, they nevertheless asked governmental plans to submit comments on whether normal retirement age under such a governmental plan may be based on years of service.

Specifically, they asked for comments on:

- *whether and how a pension plan with a normal retirement age conditioned on the completion of a stated number of years of service satisfies the requirement , in order to be a qualified plan under IRC Section 401(a), that a pension plan be maintained primarily to provide for the payment of definitely determinable benefits after retirement or attainment of normal retirement age; and*
- *how such a plan satisfies the pre-ERISA vesting rules*.

Public Plan Issues

Many governmental plans define normal retirement "age" as more a normal retirement "date." That is, the plan formula provides the time or times when participants qualify for unreduced retirement benefits under the plan, often based wholly or partly on years of service.

If the IRS decides that the use of a normal retirement age conditioned (directly or indirectly) on the completion of a stated number of years of service does not meet the plan qualification standards described in IRC Section 401(a) and/or does not meet the pre-ERISA vesting rules, then all governmental pension plans will be required to specifically define a normal retirement age as a single "age." This could prove to be very difficult to do, particularly when a participant can reach normal retirement age by satisfying one of several age and service combinations. Selecting an age that is higher than the lowest age would likely impair the constitutionally protected rights of the participants to any benefit conditioned on normal retirement. Selecting an age that is lower than the highest age could impact the actuarial cost of the plan.

Furthermore, even where there may be a true normal retirement "age," if it is less than age 62, then the safe harbors that the IRS provides will be inadequate in many ways. For example, it is very unclear how "the typical retirement age for the industry in which the covered workforce is employed" would be applied in the diverse public sector setting.

NCTR and NASRA filed lengthy formal comments with the IRS in December of 2007 in response to these issues, underscoring that governmental pension plan sponsors have, for many decades, conditioned eligibility for normal retirement benefits on the completion of a stated number of years of service and many have defined normal retirement age as the time the participant becomes eligible for normal retirement. Indeed, prior to these new regulations, there was no reason to believe that such a practice was prohibited, at least for governmental plans, and in the past, the IRS has routinely approved service-based normal retirement ages through the determination letter process.

NCTR, NASRA and other public sector organizations have also held numerous meetings with the Treasury Department and the IRS over the last several years to discuss the issues with the regulations as currently drafted, the most recent of which was on January 26, 2012.

Current Status

Treasury and the IRS continue to say that a resolution of the issues involving the NRA regulations is "imminent." Furthermore, in our last meeting with them, they suggested that they thought the public sector would be generally pleased with the outcome, although no details were shared as to what that outcome might look like.

Here is a somewhat educated guess. First, in response to increased pressure to complete the processing of determination letters from Cycles C and E, some of which are apparently being held up over this matter, a statement could be forthcoming that will allow the issuance of such letters with the understanding that,

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What's Happening with… *(continued from page 4)*

This article written by and used with permission of Mr. Leigh Snell (left), Federal Relations Director for the National Council on Teacher Retirement (NCTR).

based on a final resolution of the regulations, results could be different going forward. For example, the log-jam might be broken for all but plans with NRAs based wholly on service, (perhaps with an exception for public safety plans)?

Then, revised regulations applicable to governmental plans would be issued for comment, with an extension of the effective date of 1/1/2013 in order to accommodate this process. The reason for this prediction is that in answer to repeated inquiries, we have been told that whatever is proposed will not be in final form, as were the regulations for the public sector in 2007, and that comments would be sought.

In the meantime, there is now legislation introduced in Congress that would address this issue as well. The legislation is HR 3561, the Small Business Pension Promotion Act of 2011, introduced by Congressmen Ron Kind (D-WI), Jim Gerlach (R-PA), and Richard Neal (D-MA) on December 5, 2011. All three are members of the House Ways and Means Committee, to which the bill has been referred.

The legislation is primarily designed to adjust regulations for required distributions from employee pensions, allowing certain deductions for contributions to individual retirement accounts (IRAs), and permitting companies to contribute more to pension plans without penalties. Congressman Kind describes it as helping to "put our small businesses on a level playing field with larger corporations by providing small business employees access to retirement and pension accounts as well as tax deductions related to those accounts, in the same sense as those available to larger, corporate employees."

In addition, the legislation contains a provision to address problems with the 2007 NRA regulations as applied to rural electric cooperatives. While NCTR and other public sector organizations continue to hope that our discussions with Treasury and the IRS will lead to a productive regulatory resolution to our concerns in this area, we felt that we could not permit a bipartisan piece of legislation sponsored by three members of the Ways and Means Committee to advance with provisions related to the workings of the normal retirement age regulations that did not also address our specific concerns.

We therefore worked with the three Congressmen's offices to include language dealing with this problem in Section 7(a)(2), "SERVICE-BASED RETIREMENTS IN GOVERNMENTAL PLANS". We also made sure that Treasury and the IRS were aware of our efforts and that we in no way were indicating that we believed that discussions with them should not proceed. In a letter from NCTR and 18 other national organizations to Congressman Kind offering support for his bill, this point was stressed: "Our representatives have been working with the IRS and other Treasury Department officials for the last several years in an effort to favorably resolve this matter, and understand they may soon be modifying the regulation. While we hope the full extent of our concerns will be addressed, nevertheless, with the pending application of the IRS regulations now less than one year away, we greatly appreciate your readying legislation to properly remedy the harmful effects of the pending regulation."

The goal of the governmental plan provision in HR 3561 is to ensure the following:

1. State and local retirement plans may have service-based normal retirement ages, either implied or implicit. Service-based normal retirement ages include, but are not limited to, a specified length of service (i.e., 30 years), combinations of years of service and age (such as the rules of 80 or 90), and requirements that participants reach a specific age and meet a years of service requirement (i.e., reach age 60 with 10 years of service or 65 with five years of service).
2. The Treasury Department must amend its regulations on normal retirement age to:
    a. *Recognize that the definition of normal retirement age for state and local retirement plans is found in state and local law;*
    b. *Provide that a governmental plan with a normal retirement age conditioned on the completion of a stated number of years of service (i) satisfies the requirements of Internal Revenue Service Regulation §1.401(a)-1(b)(1)(i) that a pension plan be maintained primarily to provide for the payment of definitely determinable benefits after retirement or attainment of normal retirement age, and (ii) satisfies the pre-ERISA vesting rules; and*
    c. *Provide that the safe harbor provisions found in the May 2007regulations solely relate to in-service distributions, so as to not supersede the state and local-based definitions of normal retirement age, and must additionally recognize the unique nature of state and local retirement plans and their workforces.*

In summary, although time is running short, it does appear that the Treasury Department and the IRS are

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What's Happening with… *(continued from page 5)*

aware of the legislative pressures facing public plans, and will soon release for comment proposed new regulations dealing with the meaning of "normal retirement age" as applied to governmental plans. It may well be that this release will be accompanied by another extension of the application of the regulations in order to accommodate this process. While it is still unclear as to what the new regulations will contain, Treasury has been provided with the language of the Kind bill, and has also been provided with the above "plain English" description of what the public sector intends to accomplish with this language. While they did not state agreement with it, they did not react negatively.

Difficult tea leaves to read, but it does appear that there could soon be movement on this front, and if there is not, or if it falls far short of what has been discussed over the last several years, legislation is now in the hopper that would address the problem. While it will be difficult for such a bill to advance this year as a free-standing bill due to the impact of the fall elections on the legislative process, it should be reintroduced in the 113th Congress, when tax reform legislation is likely to advance, regardless of the outcome in November.

Become a Member of PAPERS

A current year PAPERS membership is required for attendance at the Spring Forum and/or Fall Workshop and to receive credits in the CPE and/or CPPT programs.

Public employee retirement systems (pension funds) can apply to become Participating Members; each Participating Membership includes one complimentary admission to both the Spring Forum and the Fall Workshop. Corporate providers of service to pension plans can apply to become Associate or Affiliate Members online at www.pa-pers.org or by contacting:

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PAPERS Pennsylvania Association of Public Employee Retirement Systems

8th Annual Spring Forum Program Agenda

Wednesday, May 23 – Thursday, May 24, 2012
The Hilton Hotel, Harrisburg, Pennsylvania

Protecting Public Employee Benefits: What Lies Beneath?

Tuesday, May 22nd

6:30 PM – 8:00 PM	**Conference Registration**

Wednesday, May 23rd

7:00 AM- 5:00 PM	**Conference Registration**
7:15 AM- 8:00 AM	**Continental Breakfast**
8:15 AM- 8:45 AM	**PAPERS Welcome**.................................. James Perry, *PAPERS Executive Director* **CPPT Program Overview**................Peter Hapgood, *Public Pensions Inc. President*
8:45 AM– 9:30 AM	*(Tentatively)* **Views from the State Treasurer's Office** Speaker ..... The Honorable Rob McCord, *Commonwealth of Pennsylvania Treasurer*
9:30 AM–10:30 AM	**Pennsylvania Public Pension Political Climate** Discussion Leader.................. Jim Allen, *PA Municipal Retirement System Secretary* Panelists .... Krista Rogers, *Lycoming County Controller* Brian Beader, *Mercer County Commissioner* Craig Ebersole, *Lancaster County Treasurer*
10:30 AM–10:45 AM	**Morning Break**
10:45 AM-11:30 AM	**Defined Benefits…Providing Retirement Security** Discussion Leader.......................Rosemary Kelley, *Broadridge Investor Services VP* Panelists ....Timothy Johnson, *Allegheny County Trustee* Richard Fornicola, *Centre County Treasurer* Frederick Volp, *Atlantic Asset Management VP*
11:30 AM-12:15 PM	**New Trustee Orientation: Things Every Trustee Should Know** Speakers...Jeff Clay, *PSERS Executive Director* Daniel Aronowitz, *Euclid Specialty Managers Managing Principal*
12:15PM - 1:15 PM	**Lunch**
1:15 PM – 2:00 PM	**Economic Overview** Speaker ....Ty Nutt, *Delaware Investments Large Cap Value Equity Team*

Spring Forum Program Agenda *(continued)*

2:00 PM – 3:00 PM **Managing a Pension Portfolio: Global Asset Allocation**
Discussion Leader................Michael Shone, CPA, *Pierce-Park Consulting President*
Panelists ....Wai Lee, *Neuberger-Berman Managing Director & CIO*
Oscar Pulido, *Black Rock Managing Director*
Stephen Kolano, CFA, *BNY Mellon Investment Analyst*

3:00 PM – 3:15 PM **Afternoon Break**

3:15 PM – 4:00 PM **The Marriage of Bank of America and Merrill Lynch**
Speakers..................... Darren Check, Esq., *Kessler Topaz Meltzer & Check Partner*
Jonathan Davidson, Esq., *Kessler Topaz Meltzer & Check Associate*

4:00 PM – 4:45 PM **Global Real Estate REITS and Private Equity**
Speaker(s) .... Meredith Despins, *NAREIT Vice President*
....Fraser Hughes, *Public Real Estate Association Director*

5:00 PM - 6:00 PM **Cocktail Hour**

Thursday, May 24th

7:15 AM -12:00 PM **Conference Registration**

7:15 AM - 8:00 AM **Continental Breakfast**

8:15 AM - 9:15 AM **City & County Retirement Board Issues**
Discussion Leader..Ed Cernic, *Cambria County Controller*
Speakers...*To be announced*

9:15 AM-10:30 AM **Quest for Superior Returns in Fixed Income**
Speaker ....Sean McCrea, *Ryan Labs President*

10:30 AM-10:45 AM **Morning Break**

10:45 AM-12:00 AM **Portfolio Construction …What's Hot & What's Not**
Discussion Leader..*To be announced*
Panelists: ....
Dividend Oriented Investments... Linda Bakhshian, CPA, *Federated Investors VP*
Emerging Markets ....*Alliance Bernstein; to be announced*
Investment Manager...*To be announced*

12:00 PM- 1:00 PM **Closing Luncheon**

As of 3/22/2012; Subject to change

More about the PAPERS Forum

Who Should Attend:

- Pension Fund Staff and Board of Trustees
- Public Pension Investment Officers, Portfolio Managers
- Investment Consultants, Asset Managers, Banks, Other Pension Service Providers

Why You Should Attend:

- Learn how other pension fund executives are strategizing for the coming year to deal with the current economic turmoil.
- Enjoy a highly interactive and educational program specifically tailored for institutional investors in Pennsylvania.
- Meet your peers, hear their firsthand experiences and share your ideas.
- Network with asset managers, service providers, consultants and asset managers.
- Take advantage of the panelists' presentations provided in the conference hand-out materials.
- Analyze various potential innovative investment opportunities available to pension funds.
- Earns credits for Continuing Professional Education credits and/or the Certified Public Pension Trustee (CPPT) program.

Sponsorship Levels

Gold $5,000

- Named sponsor of meal function
- 4 complimentary registrations
- Recognition in program
- Complimentary exhibit space

Silver Exhibitor..................................$3,000

- 2 complimentary registrations
- Recognition in program
- Complimentary exhibit space

Silver...$2,500

- 2 complimentary registrations
- Recognition in program

Special Thanks to our Sponsors

(as of 3/21/2012)

Gold Sponsors

- **Kessler Topaz Meltzer Check, LLP**
  280 King of Prussia Rd
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Silver Exhibitors

- **Euclid Specialty Managers**
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  Fairfax, VA 22301

Silver Sponsors

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  New York, NY 10105
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  One Mellon Center, 500 Grant Street
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- **Broadridge Financial Solutions**
  116 Devon Road
  Albertson, NY 11507
- **Delaware Investments**
  2005 Market Street, 37th Floor
  Philadelphia, PA 19103
- **Federated Investors**
  1101 Liberty Ave
  Pittsburgh, PA 15222
- **Lord, Abbett & Co.**
  90 Hudson Street
  Jersey City, NJ 07302
- **Neuberger Berman**
  605 Third Avenue, 3rd Floor
  New York, NY 10158
- **Ryan Labs Asset Management**
  500 Fifth Avenue, Suite 2560
  New York, NY 10110

PAPERS' corporate sponsors provide financial support beyond regular conference registration fees and annual membership dues. Additional sponsorship opportunities for the 2012 PAPERS Forum are still available by contacting PAPERS Executive Director Jim Perry *(717-651-0792 or perryja1@comcast.net)* today for more details.

Registration for 8th Annual PAPERS Forum

May 23-24, 2012 at The Hilton Hotel in downtown Harrisburg, PA

Each individual attending must submit a separate registration form.

Conference Registration Deadline - May 1, 2012

Please check appropriate category:

- ❑ **Pension Plan Representatives** – Current (2012) PAPERS Participating Membership required
  - First individual from pension plan – complimentary
  - Each additional individual - $75
- ❑ **Service Provider Representatives** - *Firms providing investment management and legal services*
  Current (2012) PAPERS Associate Membership required
  - Each individual from organization - $750
- ❑ **Service Provider Representatives** - *Firms providing consulting services, exclusive of investment/legal*
  Current (2012) PAPERS Affiliate Membership required
  - Each individual from organization - $375
- ❑ **Gold Sponsors**
  Current (2012) PAPERS Membership required
  - Four complimentary registrations
  - Each additional registration - $750
- ❑ **Silver Sponsors & Silver Exhibitors**
  Current (2012) PAPERS Membership required
  - Two complimentary registrations
  - Each additional registration - $750

Individual's name ____

Preferred name for name tag ____

Representing (name of pension plan or company) ______________________________

Mailing address ____

City, State, Zip ____

Telephone number (______) _____-_________ E-mail address ______________________________

Please indicate all Forum events that you plan to attend. This information is needed so arrangements for adequate seating & meals can be made.

Wednesday, May 23, 2012
- ❑ Continental breakfast
- ❑ Morning sessions
- ❑ Lunch
- ❑ Afternoon sessions
- ❑ Cocktail reception

Thursday, May 24, 2012
- ❑ Continental breakfast
- ❑ Morning sessions
- ❑ Lunch
- ❑ Afternoon sessions

___ **Check if interested in CPPT (Certified Public Pension Trustee) Program**

Full payment of any fees due must be included with this registration.

You may pay the registration fee either by check or electronically through PayPal.

1. ***To pay by check.*** Please make check payable to: **PAPERS** and return with this application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
2. ***To use PayPal.*** Please access the PAPERS website (www.pa-pers.org) and click on "Spring Forum". Select the appropriate type of registration from the drop down box and follow the directions to have PayPal transfer the applicable fees automatically from your bank account to PAPERS. In addition to PayPal payment, you must also submit this registration form. Your completed conference registration form may either be mailed to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** or scanned, saved and e-mailed to: ***douglas.b@verizon.net.***

The PAPERS Forum group rate for overnight lodging of $124 plus tax at The Harrisburg Hilton is guaranteed only for reservations made on or before 4/22/2012.

2012 PAPERS Forum

Directions/Hotel Information

The 2012 PAPERS Forum returns to the Harrisburg Hilton on Market Square in downtown Harrisburg. The hotel is conveniently located at One North Second Street just steps away from Harrisburg's "Restaurant Row".

From New York/New Jersey
Take the George Washington Bridge to I-80 West, take 287 South to I-78 West to I-81 South, Exit 66. Take Front Street south approximately 5.5 miles to Market Street. Turn left onto Market Street; the hotel entrance is one block on the left just after crossing Second St.

From Philadelphia
Take PA Turnpike 76 West, get off at Exit 247, take I-283 North to I-83 south to Exit 43 (Second Street-Capitol complex). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

From Baltimore/Washington
Take I-83 North to Exit 43 (Second Street-Capitol complex). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

From Pittsburgh
Take PA Turnpike 76 to Exit 242, Take I-83 north to Exit 43 (Second Street-Capitol complex). At the fourth traffic light, turn right onto Market Street and the hotel entrance is on the left.

Parking - To access the Walnut Street Parking Garage connected to the hotel, travel on Market Street just past the hotel, turn left onto Court Street and follow the signs to enter the garage.

If you're interested in overnight lodging for the Forum

Harrisburg Hilton Hotel

One North Second Street (Market Square), Harrisburg, PA

Single or double rate - $124/night plus tax

The 8th annual PAPERS Forum will begin with breakfast on Wednesday, May 23, 2012 and continue through early afternoon on Thursday, May 24, 2012. PAPERS has arranged a special room rate for attendees at the Forum who desire overnight lodging on May 22nd and/or 23rd. **The group rate of $124 per night can only be guaranteed if reservations are made on or before April 22, 2012.**

To make room reservations on-line, click on the following link to PAPERS Forum hotel reservations: http://www.hilton.com/en/hi/groups/personalized/M/MDTHHHF-PAP-20120522/index.jhtml?WT.mc_id=POG

To make room reservations by phone, please call the Harrisburg Hilton at 717-233-6000 and ask for group code **PAP**.

For more information (driving maps, parking information and hotel details), click on Hilton Harrisburg.

When The Deal Goes Down:

Holding Corporate Boards Accountable in Mergers and Acquisitions

By: Andrew D. Abramowitz

Spector Roseman Kodroff & Willis, P.C.

If the recession has taught us anything, it is that investors must be vigilant. They must constantly be looking over the shoulders of company management to ensure that their investments are being used as advertised. That is, after all, why public companies are required to make routine filings with the Securities and Exchange Commission, disclosing all material information to the investment community. If we are going to entrust corporations with our money, we are entitled to know as much about their financial performance, future prospects, and other developments as possible. Investors – in particular, public pension funds – have been enormously successful over the past decade or so in recovering monies and devising meaningful corporate governance mechanisms where management has not been fully transparent.

But what about instances in which a company merges with or is acquired by another company? When that happens, investors are supposed to be provided with all pertinent information about the transaction in a proxy statement. The proxy statement is designed to help shareholders cast an informed vote either for or against the transaction by explaining a number of factors: why the company's board of directors has agreed to the merger, how the transaction developed and was approved by the board, whether the board deems the deal to be fair to the shareholders and in their best interests, when the shareholder vote will take place, and – often considered the most important element – what the shareholders will receive in return.

In recent years, it has become fairly common for large investors – again, including many public pension funds – to challenge some of these mergers and acquisitions on the bases that: (1) the corporate board breached its fiduciary duties to shareholders by agreeing to an inadequate merger price and not obtaining the best deal available; and/or (2) the proxy statement failed to disclose key information about the deal that shareholders must know in order to decide whether or not to support it. These lawsuits have proven highly valuable. In many cases, they have forced the board to secure a higher premium, thus obtaining a better bargain for the shareholders. Even more often, these suits have resulted in the company agreeing to supplement the proxy statement and disclose more information so that the shareholders can better assess the deal.

Last year's merger between Atheros Communications and Qualcomm presents a useful example. In that transaction, Qualcomm sought to acquire each share of Atheros for $45.00 in cash. Certain large shareholders of Atheros brought suit and moved to temporarily enjoin the transaction on the grounds that, among other things, the proxy statement did not fully the inform Atheros shareholders about the merger.

The Delaware Court of Chancery agreed and found the proxy lacking in two respects. First, the Atheros board did not adequately disclose the contingent nature of the fee to be paid to its financial advisors, the very people hired to render an opinion on the fairness of the transaction. The Court found that representing to shareholders that a "substantial" portion of the advisor fee was contingent upon the approval of the deal was misleading, given that ***almost all*** of the fee was contingent upon approval. This was a highly important point, as it spoke directly to the incentives and potential conflicts of interest that the financial advisor might have in rendering its opinion. Second, the Court found that the proxy did not adequately disclose the time frame in which the Atheros CEO began to negotiate post-merger employment with Qualcomm – another factor that spoke toward incentives and potential conflicts.

The institutional investors that came forward and led the charge against Atheros' board delivered a valuable service. As many analysts have observed, that case has changed the way in which companies now disclose the contingent nature of the financial advisor's pay. In effect, the suit has created a standard practice of providing more information to shareholders – which represents another win in the ultimate battle for transparency.

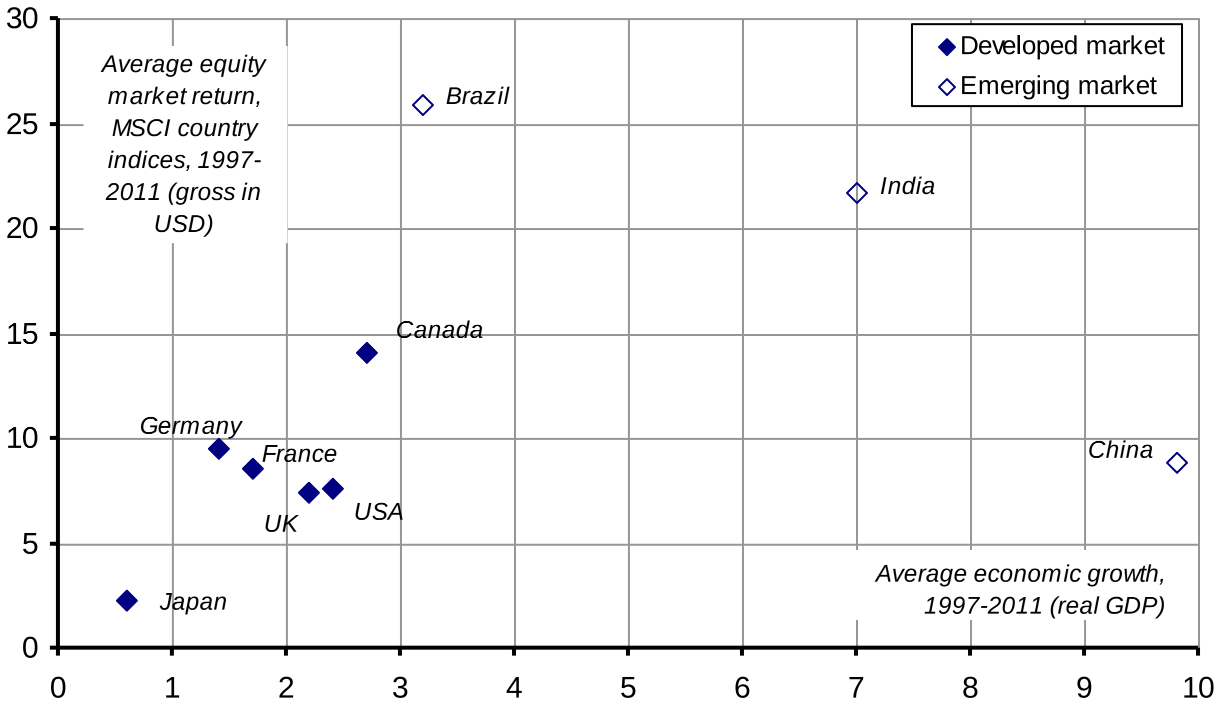
Economic Growth and Equity Markets

By: Chris Gowlland, CFA, *Vice President, Senior Quantitative Analyst, Delaware Investments*

In recent years, many investors have become increasingly enthusiastic about emerging market equities, as evidenced by the steady flow of assets into actively managed portfolios as well as into passive vehicles such as exchange traded funds. Part of the reason for this flurry of interest in emerging market equities is the commonly held perception that buying these securities allows investors to participate in higher rates of economic growth than are available in more developed economies.

However, a careful look at the data on economic growth and equity markets over the past 15 years suggests that this view may be overly simplistic. As shown in the scatter plot below, emerging market economies have indeed grown faster than developed market economies during this period, but faster economic growth has not been consistently associated with stronger equity returns. China, for instance, had the fastest rate of economic growth, but shareholder returns were no better than for the majority of large developed markets. Conversely, Brazil's economic growth was barely higher than most developed markets, but it delivered equity market returns that were well above those of China or India.

GDP growth rates and equity market returns, based on data from 1997 to 2011



Notes: data are from Bloomberg, FactSet, and MSCI; equity market returns are based on respective MSCI country indices (gross returns in U.S. dollars); GDP is an abbreviation for Gross Domestic Product

There are also some surprises if we look just at developed markets. From 1997 to 2011, Japan had the slowest economic growth and the worst equity market returns, while Canada had the fastest economic growth and the strongest equity market returns. But in the middle of the pack, the relationship is somewhat less clear cut. France and Germany experienced slower economic growth than the U.K. or the U.S., but provided stronger shareholder returns in U.S. dollar terms. (Focusing on returns in local currencies rather than in U.S. dollars changes the numbers slightly, but the overall pattern remains in place. Similarly, shifting from average annual rates of growth to compound annual growth does not alter the general result.)

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Economic Growth and Equity Markets *(continued from page 13)*

These results indicate that over the past 15 years, equity investors who put money into countries with higher rates of economic growth were not always rewarded by higher shareholder returns. But would this also be true for investing over a longer time period?

Professor Jay Ritter of the University of Florida published an interesting article[1] in 2005 that looked at this question, focusing on 16 countries from 1900 to 2002. There are some problems with data availability, and the only country in his data universe that is currently considered to be an emerging market is South Africa. (Japan would probably have been considered an emerging market until at least the 1930s, but arguably switched over to developed market status sometime in the 1950s or 1960s.) His results indicate that higher economic growth is *not* associated with stronger equity returns. Indeed, he finds that countries with the highest rates of economic growth, measured in terms of real gross domestic product growth per capita, have often generated lower returns for equity investors.

Ritter acknowledges that this result may seem surprising. However, he makes three points that can help explain this apparent paradox. First, economic growth has generally resulted from higher savings rates and increasing labor force participation, but it may be difficult for shareholders to derive any direct benefit from these conditions. Second, a substantial proportion of economic growth may be associated with newly created companies, but it is often difficult for conventional investors to gain exposure to these companies which are typically small and non-public. Third, valuations in high-growth countries will probably already reflect investors' expectation of stronger performance, thus undercutting the scope for such investments to deliver superior returns.

The relationships shown in the scatter plot above, together with Ritter's theoretical and empirical results, suggest that investors should feel at least slightly wary of any asset allocation recommendations that are based on expected rates of economic growth. In our view, most investors will find that a portfolio which is broadly diversified by geography will by definition have less exposure to any single market, and consequently may also offer lower vulnerability to drastic swings in performance.

Chris Gowlland, CFA joined Delaware Investments in May 2007 and is a senior quantitative analyst for the firm's equity department and a co-portfolio manager, with Dr. Sharon Hill, for the international growth style in the firm's four multi-asset class portfolios. He is also the quantitative analyst for those multi-asset class portfolios.

[1] Economic growth and equity returns. *Pacific-Basin Finance Journal*, volume 13 number 5, November 2005, pages 489-503.

A Case for Additional Regulation of the Use of Derivatives by Mutual Funds

By: Timothy N. Mathews, Esq., and Benjamin F. Johns, Esq., Chimicles & Tikellis LLP

In August 2011, the Securities and Exchange Commission announced that it was seeking public comments on whether additional regulation is needed concerning the use of derivatives by mutual funds. Derivatives can significantly increase the risks associated with mutual fund investments which, in some cases, may not be clear to investors. For example, in conducting an investigation for our clients in 2009, we discovered two mutual funds marketed as conservative "core" bond funds that were leveraged up to 163% by selling huge amounts of Credit Default Swap protection, which was not apparent from the face of their prospectuses.

Credit Default Swaps (CDSs) are a type of derivative that became a household name after they brought insurer AIG and the wider financial system to the brink of collapse in 2008. A CDS is like an insurance contract on bonds. The buyer of CDS protection makes a series of payments (like insurance premiums) in exchange for the CDS seller's agreement to compensate the buyer in the event the bond defaults. Unlike most insurance, however, the CDS buyer need not actually own the bond to purchase the protection.

It is not unusual for mutual funds to engage in some CDS trading, and doing so can be a healthy way to hedge risk. Our investigation revealed, however, that these two conservative "core" bond mutual funds went on a CDS selling spree beginning in 2007 that ultimately caused huge losses to investors. In the course of just twelve months, one of these mutual funds increased the amount of CDS protection it sold by 480%, selling a total of $3.1 billion of CDS protection. This was equivalent to about 55% of the fund's total assets. In essence, over a short time those mutual funds had become bond insurers.

Selling huge amounts of CDS protection also meant that these bond funds were highly leveraged, which multiplies the risks to investors. One of the funds was leveraged 163%, meaning for every $1 invested by investors, $1.63 was put at risk.

Unfortunately, this investment strategy may not have been clear to investors. The only way to determine the actual magnitude of the funds' CDS positions was to extract data from the notes to financial statements, and then manually calculate their total CDS exposure. Moreover, there was no warning to investors about a change in investment strategy when the funds initially went on their CDS sprees in 2007.

Not surprisingly, these bond funds lost collectively over a billion dollars of value between October 2008 and October 2009, performing far worse than their category averages.

Twenty three percent of U.S. household financial assets reside in mutual funds, totaling over $13 trillion. A mutual fund's investment strategies should be made clear in its prospectus and annual reports, without requiring financial data extraction and calculation to determine what is really at risk. This is just one example why additional regulation of the use of derivatives by mutual funds is needed. Until then, investors should be careful to understand their mutual fund investments.

Five Factors Behind 2011's Volatility and the Implications for 2012

By: Lord Abbett Partners

- Zane Brown, Fixed Income Strategist,
- Milton Ezrati, Senior Economist and Market Strategist

Investors endured stomach-turning conditions in late 2011 as the S&P 500® Index swung by 2% or more in nearly one-third of the trading days in the second half of the year, only to end unchanged from 2010.

Despite the calm in early 2012, questions remain about the factors behind 2011's turbulence and where these factors might reemerge this year.

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Five Factors Behind…

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"Risk On / Risk Off": A Legacy of the Financial Crisis

"Risk on/risk off" has become part of the lexicon amid investors' simultaneous tendency to avoid or embrace risk, which has translated into increased correlation levels during volatile periods.

Indeed, correlation among the largest-capitalization stocks jumped to 0.77 at the end of November 2011, more than double the 0.30 reading from six months earlier. Volatility measures increased during this period as well.

With investors quick to anticipate renewed volatility following the 2008–09 financial crisis, "this has led to periods of indiscriminate selling across asset classes," said Zane Brown, Lord Abbett Partner and Fixed Income Strategist. As a result, some investors have used index-tracking products, such as exchange-traded funds, that have also encountered scrutiny for increasing correlation levels.

Expecting the Unexpected

Over the past few years, investors have come to expect the unexpected, and "uncertainty can also contribute to swings in asset prices," said Milton Ezrati, Lord Abbett Partner, Senior Economist and Market Strategist.

Political uncertainty should remain elevated in 2012 given November's U.S. presidential election, and other potential leadership changes, including those in France, Russia, and China.

In addition, investors still must consider whether the eurozone will remain intact with a single currency, how the European economy will respond to austerity measures, and how potential contraction in the region's economy will affect global economic growth.

An Inherently Leveraged Financial System

One frequently cited contributor to the financial crisis was excessive leverage, and high leverage levels can still have significant consequences.

When MF Global collapsed in 2011, it had a leverage ratio of 30 to 1, which was similar to Lehman Brothers' in 2008, meaning that $30 of assets were supported by only $1 of equity.

The deleveraging process among European institutions, in particular, appears significant as they may need to delever by up to €4.5 trillion over the next five years.

Emphasis on Capital

Deleveraging can also support institutions' capital-raising initiatives in 2012, and asset sales from deleveraging can contribute to volatility by affecting the supply/demand dynamic within a market.

The need to bolster capital may also mean that some banks retrench, which Royal Bank of Scotland Group recently said it would do by exiting the equity trading and M&A businesses. The voids left by shrinking banks could temporarily affect the market-making activities in the various markets.

Transformed Trading Environment

As equity trading has become more commoditized, new entrants, such as high-frequency traders (HFT), have emerged.

These high-speed traders can abruptly curtail their market presence, which occurred during the "Flash Crash" of May 6, 2010. Conversely, HFT activity can also increase during volatile periods as their trading volume reportedly surged by about 300% following the U.S. credit rating downgrade.

Although HFT may intensify day-to-day volatility, "its presence is unlikely to influence the market's long-term direction," said Ezrati.

This point also pertains to the broader volatility trend, considering that it is a relative measure based on time. Indeed, when 2011 is viewed as a whole, the flat performance of the S&P 500 Index is docile compared with prior years. Therefore, understanding factors that contribute to volatility can provide much-needed perspective, not only on the outlook for 2012, but also on the markets' longer-term performance.

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Following a core curriculum, the certification program requires participating in 36 hours of course credits over a three year period of time. Course credits can be attained by attending the Spring Forum, the Fall Workshop, PAPERS Online Sessions, or some combination of the three. Participants must successfully pass an exam following each educational offering. Upon course completion, the participant will be awarded the Pennsylvania Certified Public Pension Trustee designation.

- A minimum of 18 hours must be obtained by attending course offerings at the PAPERS Annual Spring Forum.
- Up to 18 hours may be obtained by attending the PAPERS Annual Fall Workshop
- The PAPERS Online Program are meant to supplement missed credits throughout the program. Participants can earn up to 8 credits per year and a maximum of 18 credits through the duration of the CPPT program.

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Fall Workshop - Potential to earn up to 10 credits at a single workshop with successful completion of a follow up certification exam

PAPERS Online Program - You can earn a single credit by participating in an online session and successfully completing a follow up certification exam. There will be eight online sessions per year allowing participants to earn up to 8 credits per year. Please note that a participant is limited to earning a maximum of 18 credits through the online program.

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There will be a multiple choice certification exam after each educational offering. Testing is done online and graded on a pass/fail system. A passing grade is defined as 70% correct answers. You must successfully pass the certification exam within two weeks following the educational offering in order to obtain the projected credits for that event.

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Please visit the PAPERS website (www.pa-pers.org) and follow instructions provided on the PAPERS CPPT registration form. You may then email or mail the completed form to Sean McKinstry.

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