

# PENSION FUNDS IN CRISIS

## The *THREE* Pillars of Solution

### Legislation • Structure • Investments



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*Executive Director*  
PENSION BENEFIT  
GUARANTY  
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*Senior Research Associate*  
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NOVEMBER 1 - 2, 2005  
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# WELCOME...

DEAR COLLEAGUE,

Developed in direct response to the challenges most often cited by senior investment and policy executives of public and corporate pension plans, Pension Funds in Crisis: The THREE Pillars of Solutions will uniquely address the three issues at the heart of the pension funding crisis: legislation, structure and investments.

The combined public and corporate pension fund shortfall is approximated at \$1 trillion. This large funding gap has prompted the government and pension community to examine ways of relieving the under-funded plans. Legislation is being debated in the House and Senate, alternative investment options are being considered and structural changes have been proposed with the hope of reducing this shortfall. Pension, investment and legislative leaders will share and examine the most pertinent issues, best practices, and ultimate solutions to the challenges facing the pension community today.

An unmatched speaking faculty of policy and investment experts, advisors and influencers will share their experiences and tackle the most pressing issues:

- New and Pending Government Legislation
- Challenges Facing the Defined Benefit System
- Liability-Driven Investing
- The DB - DC Debate
- Plan Sponsor Case Studies
- Pension Reform and Shareholder Activism
- Privatization & Social Security Reform
- Reducing Pension Liabilities with Investment Earnings and Other Revenue Streams

We look forward to seeing you in Washington, DC this November.



Jane A. Staunton, Executive Vice President  
STRATEGIC RESEARCH INSTITUTE

## 5 EASY WAYS TO REGISTER

### DISCOUNTS

**Group Discounts:** If you send 2 delegates to this conference at the Standard, Full registration rate, the 3rd and subsequent attendees receive a \$200 discount.

**Qualified Plan Sponsor Rate** \$495 (subject to approval): Pay this one-time fee in order to join the SRI Institutional Investor Alumni Club and become eligible for complimentary registration to other relevant SRI events.

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Payments may be made by company check, American Express, Visa, MasterCard, Discover or Diner's Club. Please make checks payable to: Strategic Research Institute LP and be sure to write the registrant's name on the face of the check along with the conference code CZ105. Payments must be received fifteen (15) business days (October 10, 2005) prior to attendance at the conference. If registering AFTER October 10, 2005, a credit card payment will be required.

**CANCELLATIONS:** All cancellations will be subject to a \$227 administration fee. In order to receive a prompt refund, your notice of cancellation must be received in writing (by letter or fax) no later than October 10, 2005. We regret refunds will not be issued after this date. The registration fee may be transferred to you or another member of your organization for any Strategic Research Institute conference during the next twelve months. If you plan to send a substitute in your place, please notify us as soon as possible so that materials and presentations can be made. In the event of a conference cancellation, Strategic Research Institute, assumes no liability for non-refundable transportation costs, hotel accommodations, or additional costs incurred by registrants.

**HOTEL ACCOMMODATIONS:** We have reserved a limited block of rooms with the hotel at a special discounted rate for our attendees and speakers. To secure your accommodations, please contact the hotel at least four weeks in advance and indicate you will be attending the Strategic Research Institute conference November 1-2, 2005. PLEASE BOOK YOUR ROOM BY OCTOBER 5, 2005 TO ENSURE AVAILABILITY AT THE CONFERENCE RATE.

**SUGGESTED DRESS:** Business Casual

**VENUE:** The Westin Grand  
2350 M Street N.W., Washington, DC 20037  
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**CONTINUING LEGAL EDUCATION CREDITS (CLE):** This program may qualify for credits upon approval from the State Bar Associations. Please note, applying for CLE credits is the sole responsibility of the conference attendee. If requested, a certificate of attendance will be sent to you upon your successful completion of the program.

### CPE CREDITS

Program Level: Overview  
CPE Credits Available: 17  
Course Offering: Group Live  
No Prerequisite Required

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# TUESDAY, NOVEMBER 1, 2005

7:30 **REGISTRATION AND CONTINENTAL BREAKFAST**

8:30 **CHAIRPERSON'S WELCOME**

8:45

## **THE STATE OF THE INDUSTRY ADDRESS: THE NEW LEGISLATIVE ENVIRONMENT**

Review of new and pending government legislation for increased transparency, reporting and funding requirements

**The Honorable John Boehner (R-OH) (invited), Chairman**  
**HOUSE COMMITTEE ON EDUCATION AND WORKFORCE**

9:15

## **THE VIEW FROM 20,000 FEET**

Reflection and thoughts on a rapidly changing world of pension management and regulation

**Michael Peskin, Managing Director**  
**MORGAN STANLEY**

10:00 **REFRESHMENT BREAK**

10:30

## **THE STATE TREASURERS' PERSPECTIVE**

The public plans' shortfall carries state budgetary implications since defined benefit plans are guaranteed to employees. This raises several questions including: Will state residents be the ones making up the shortfall through tax increases? Will tax increases force corporations out of state? What impact will suggested structural changes, such as moving from defined benefit (DB) to defined contribution (DC), have on corporate reform? Who should be accountable for the public employees' retirement systems?

**Jeb Spaulding, State Treasurer**  
**STATE OF VERMONT**

**Denise L. Nappier, State Treasurer (invited)**  
**STATE OF CONNECTICUT**

11:15

## **CHALLENGES FACING THE DEFINED BENEFIT SYSTEM**

- Challenges facing the DB plans and the Retirement System
- Solvency and funding issues for the PBGC
- Will the US government be able to avoid an expensive bailout?
- Pending legislation
- Impact of declining number of DB plans on the PBGC guarantees
- Proposed premium increases

**Bradley D. Belt, Executive Director**  
**PENSION BENEFIT GUARANTY CORPORATION**

12:00

## **STATE OF THE INDUSTRY PANEL: THE THREE PILLARS OF SOLUTIONS**

A roundtable discussion with industry leaders on the issues and solutions for each pillar: legislation, structural reform and investments

**Dallas L. Salisbury, President & CEO**  
**EMPLOYEE BENEFIT RESEARCH INSTITUTE**

**Julia Lynn Coronado, Senior Research Associate**  
**WATSON WYATT WORLDWIDE**

12:45 **LUNCHEON: A NEW, NEW DEAL**

**FEATURED SPEAKER:**

**Laurence J. Kotlikoff, Co-author of *The Coming Generational Storm*, Professor of Economics, BOSTON UNIVERSITY**  
**Research Associate, NATIONAL BUREAU OF ECONOMIC RESEARCH**

2:15

## **THE DB – DC DEBATE**

Does shifting from defined benefit schemes to defined contribution really secure beneficiaries retirement or just alleviate the employer's burden? Are cash-balance balance plans the happy medium and what's their legal status? DC plans, although growing, are not without problems and challenges of their own including low participation rates and low deferral rates that will still leave employees short of a decent balance for retirement. Are DC plans really more expensive and will they ultimately save state and local governments money in the long run?

**MODERATOR:**

**Frank P.L. Minard, Investment Committee Member**  
**INSTITUTE FOR ELECTRICAL AND ELECTRONIC ENGINEERS**

**Kimberly G. Walker, President**  
**QWEST ASSET MANAGEMENT COMPANY**  
**Chair, COMMITTEE ON INVESTMENT OF EMPLOYEE BENEFIT ASSETS (CIEBA)**

**Raymond Wallace, Trustee**  
**VIRGINIA RETIREMENT SYSTEM BOARD OF TRUSTEES**  
**AUDIT & COMPLIANCE COMMITTEE, CHAIRMAN**

**Grover G. Norquist, President**  
**AMERICANS FOR TAX REFORM**

3:00

## **PENSION REFORM: IS IT THE TROJAN HORSE TO SHUT DOWN SHAREHOLDER ACTIVISM?**

Is the defense of the defined benefit schemes just a backdoor effort to curtail shareholder activism?

- Are opponents of defined benefit motivated by opposition to shareholder activism?
- Would a switch to defined contribution impact shareholder activism — how and why?
- Would any such impact be positive or negative? For beneficiaries? For corporations? For capital markets?

**Jay W. Eisenhofer, Esq., Managing Partner**  
**GRANT & EISENHOFER P.A.**

**Jeb Spaulding**  
**VERMONT STATE TREASURER**

**Dan M. Slack, Executive Director (interim)**  
**STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS**

**Neil Weinberg, Senior Editor**  
**FORBES**

**Damon Silvers, Associate General Counsel**  
**AFL-CIO**

3:45 **REFRESHMENT BREAK**

4:00

### **PRIVATIZATION & SOCIAL SECURITY REFORM**

Social Security is a DB plan and the issues facing social security are essentially the same as the issues facing many other DB plans – will there be enough money to cover future beneficiaries?

**James B. Lockhart III, Deputy Commissioner**  
SOCIAL SECURITY ADMINISTRATION

4:45

### **PLAN SPONSOR CASE STUDIES:**

Hear from plan sponsors with real experience with voluntary DB and DC plan choice programs

- Why introduce choice?
- What are the short-term and long-term cost implications?
- Did the switch help with the under-funding issues?
- What were workers' reactions?
- What are the real-world hurdles in choice programs?

**Maryann Motza, Trustee**

COLORADO PERA

**State Social Security Administrator, Public Employees' Social Security Program, COLORADO DEPARTMENT OF LABOR AND EMPLOYMENT**

**Kevin SigRist,**

**Chief of Client Services and Enterprise Risk Management**  
FLORIDA STATE BOARD OF ADMINISTRATION

5:30 **COCKTAIL RECEPTION**

7:00 **PRIVATE DINNER FOR PLAN SPONSORS**

## **WEDNESDAY, NOVEMBER 2, 2005**

8:00 **CONTINENTAL BREAKFAST**

8:45 **CHAIRPERSON'S RECAP OF DAY 1**

9:00

### **TRANSPORTING ALPHA TO ENHANCE PENSION FUND RESULTS**

Portable alpha is an extremely flexible form of financial engineering that can significantly enhance pension fund performance by dissecting returns into underlying components - alpha and beta - and then seeking to optimize each separately. Various implementations may be used to achieve higher expected returns for a given overall mix of asset classes, or facilitate a shift in the asset allocation to reduce volatility or asset-liability mismatch, while simultaneously increasing expected returns. Interest in, and the use of, portable alpha is growing exponentially, with some investment experts believing that it will become a dominant form of investment management in the future. We will discuss the basics of portable alpha, the practical issues of implementing a program, potential benefits and pitfalls, and several real-life examples of highly successful long-term uses of portable alpha.

**Jack Coates, Ph.D., CFA, Managing Director**  
MORGAN STANLEY ALTERNATIVE INVESTMENT PARTNERS

9:45

### **LIABILITY-DRIVEN INVESTING: THE NEW ABCs OF ALM**

- Improved methods for managing and controlling pension funding risks
- Setting strategic asset allocation policy with the liability specifically incorporated into the process using surplus optimization
- Techniques for controlling inflation risks and real interest rate risks
- Translating between accounting and economic measures of pension expense, contributions, normal costs, and liability valuations, in aid of better risk control

10:30 **REFRESHMENT BREAK**

11:00

### **FUNDING PERSPECTIVES**

A panel discussion with a consultant, actuary, and a public and corporate plan sponsor on best practice for a better funding status. Topics include:

- How are your liabilities and funding ratios being calculated?
- How can asset allocation studies help you to a better funding status?
- How often should asset allocation studies be conducted? What are the pitfalls?
- Specific recommendations on how to make the asset allocation process better
- What are the legal constraints on asset allocation practices and the potential impact on returns?

**MODERATOR:**

**Robert J. Arnold, Senior Investment Officer**  
NEW YORK STATE COMMON RETIREMENT FUND

**John Cross, CFA, Director**  
GENERAL MOTORS INVESTMENT MANAGEMENT

**Stephen L. Nesbitt, Chief Executive Officer**  
CLIFFWATER LLC

12:00

### **LUNCHEON: PREVENTING PENSION LOSSES WITH TIGHTER SECURITIES REGULATION: REFLECTIONS ON ENRON, WORLDCom,...**

**FEATURED SPEAKER:**

**Joseph P. Borg, Director**  
ALABAMA SECURITIES COMMISSION

1:45

### **MIND THE GAP: USING INVESTMENT EARNINGS AND OTHER REVENUE SOURCES TO REDUCE YOUR PENSION LIABILITY**

Hear public and corporate plan sponsors discuss some of the solutions they have embraced to help offset their funding liabilities.

**Michael Travaglini, Executive Director**  
MASSACHUSETTS PENSION RESERVES INVESTMENT MANAGEMENT BOARD

2:30

### CH-CH-CHANGES

A discussion on the implications of impending changes in regulation, pension credit ratings, accounting standards and funding requirements.

Mark Ugoretz, President (invited)

THE ERISA INDUSTRY COMMITTEE

3:15 REFRESHMENT BREAK

3:30

### RISK MANAGEMENT: PENSIONS & DERIVATIVES

Pension funds are increasingly looking to the \$200 trillion global derivatives market as a way to achieve a variety of asset-liability management goals. When used properly, interest rate, currency, equity and commodity derivative instruments can provide real cost-savings, protect portfolio value or enhance return. In excess or when used inappropriately, the inherent leverage associated with derivatives can lead to large losses, widen a funding gap, sully a fund's reputation and expose trustees to personal liability. Learn about pitfalls associated with the use of derivatives, hidden sources of leverage even when derivatives are not used, common strategies and the fiduciary implications of hedging.

Susan Mangiero, Managing Member & Founder

BVA, LLC AND PENSION GOVERNANCE, LLC

4:15

### CLOSING PANEL: THE WAY FORWARD

Industry leaders will opine on the past two days, weighing pros and cons on the insights provided, consensus and conclusions.

Michael Peskin, Managing Director

MORGAN STANLEY

Julia Lynn Coronado, Senior Research Associate

WATSON WYATT WORLDWIDE

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## WHO SHOULD ATTEND

- Senior investment and policy executives from public and corporate pension plans
- Benefits Officers
- CIOs
- CFOs
- Fiduciaries
- Governance Officers
- Investment Officers
- Legal/Compliance Officers
- Risk Managers
- Treasurers
- Trustees/Board Members
- Accounting Firms
- Actuaries
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- Investment Funds: private equity, hedge funds, real estate and other alternatives
- Law Firms
- Pension Fund Administrators
- Retirement Service Providers

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Grant & Eisenhofer, P.A. is a national litigation boutique that concentrates on federal securities and corporate governance litigation. G&E exclusively represents institutional investors, both public and private, who have been damaged (or wish to avoid damage) by corporate fraud, greed and mismanagement. The firm was named as one of America's Leading Business Lawyers by Chambers and Partners, who reported that G&E "commanded respect for its representation of institutional investors in shareholders' and derivatives actions, and in federal securities fraud litigation."

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Investment Management – With more than two decades of experience in evaluating and implementing alternative investment

programs, including a wide range of portable alpha, hedge fund and private equity strategies, members of Morgan Stanley Alternative Investment Partners (Morgan Stanley AIP) have a time-tested record of excellence and innovation.

Morgan Stanley AIP plays a unique role within Morgan Stanley Investment Management – a global asset manager with more than \$400 billion in assets under management. Our entire focus is on the management of alternative programs through fund of funds and separately managed multi-manager accounts. Our clients benefit from the agility and creativity of a boutique combined with the extensive resources of a global financial services firm.

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If you are interested in showcasing your company to this target market, please call Rita Karsadi at (480)634-8986 or by e-mail: rkarsadi@srinstitute.com for more details.

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