Minutes

Arkansas Teacher Retirement System
Board of Trustees

December 9, 2003

The Board of Trustees of the Arkansas Teacher Retirement System met in regular session on Tuesday, December 9, 2003 at 9:30 a.m. The meeting was held in the ATRS Board Room, Arkansas Teacher Retirement Building, 1400 West Third Street, Little Rock, Arkansas.

**Members of the Board Present:**
Linda Parsons, Chair
John Fortenberry, Vice Chair
Monty Betts
Winfred Clardy
Hazel Coleman
Dr. Paul Fair
Ann Harbison
Betty McGuire
Ellen Terry
Jim Wood

**Members of the Board Absent:**
Robert H. "Bunny" Adcock
Tom Courtway
Charles Dyer
Robin Nichols
Gus Wingfield

**Guests Present:**
Lloyd Black, ARTA
Lori Crosley, EnnisKnupp
Stephen Cummings, EnnisKnupp
Bobbye Davis, Dept. of Education
Jay Gadberry, Morgan Stanley
Roda Harlan, Wilbur D. Mills Ed. Co-Op.
Bill Hazel, Eubel Brady & Suttman
Bobby Lester, ARTA
Jim McGuire, Trustee spouse
Brian Murphy, Gabriel Roeder Smith
Linda Riley, ARTA
Press notified, but did not attend

**Staff Present:**
David R. Malone, Executive Director
Julie M. Cabe, Deputy Director
Debbie White
Gail Blair
Nona Comer
Michael Ray
Bernice Smith
George Snyder
Barbara Waldrop
Stephanie Williams

I. Roll Call

Debbie White, ATRS staff member, took roll and recorded the Minutes.

II. Approval of Agenda

The Executive Director advised that Item VI, an Administrative Appeal requested by the Estate of C[redacted] W. P[redacted] would not be necessary because Deputy Director, Julie Cabe had come to an agreement with the affected parties. Winfred Clardy made a motion to approve the amended Agenda. Monty Betts seconded the motion, which passed.

III. Public Comments on Agenda Items

No comments were submitted.

IV. Approval of Minutes

Minutes for *October 6 & 7, November 4 & November 20, 2003* were approved as submitted on a motion made by Mr. Fortenberry, with a second by Jim Wood.

V. Gabriel Roeder Smith-Annual Actuarial Report, *Brian Murphy*

Mr. Murphy presented the preliminary valuation results as of June 30, 2003. *(See attachment 1 of these Minutes).*

VI. Administrative Appeal

Deputy Director, Julie Cabe, gave a brief overview of the resolution on the matter of the Carolyn W. Perkins Estate.

VII. Approval of 2004 Election Vendor

The Executive Director advised that Requests for Bids were taken on the position likely to have the most voters. Since it is unknown whether ATRS will have races in any other position, the Executive Director recommended hiring Voice Retrieval & Information Services, as the low bidder and most qualified bidder. The Executive Director also recommended establishing the contract on the potential number of positions that may be contested, with appropriate deductions taken if races do not develop. Dr. Fair made a motion to grant authority to the Executive Director to contract and work out the details of cost with Voice Retrieval Services of Carrollton, Texas to provide the service. Jim Wood seconded the motion, which was approved.

VIII. International Money Managers Approval

This item of business was taken up on the first day of the December meeting *(see Minutes of 12/8/03).* Wellington and Capital Guardian firms were approved for hiring as non-U.S. equity managers.

IX. Resolution No. 2003-22 - Ray Simon Appreciation

Monty Betts made the motion to approve the Resolution. Betty McGuire seconded the motion, which was unanimously approved.

X. Staff Reports

Departmental reports were sent to the Board prior to the meeting for their review. The Medical Board Reports for November 12, 2003 and October 15, 2003 were presented. Winfred Clardy made a motion to approve the Medical Board reports as presented. Second was by John Fortenberry and the motion passed.

XI. Adjournment

No other business was taken into consideration by the Board and the meeting was adjourned by mutual consent.

Debbie White

*Debbie White,* Project Analyst

D R Malone

*David R. Malone,* Executive Director

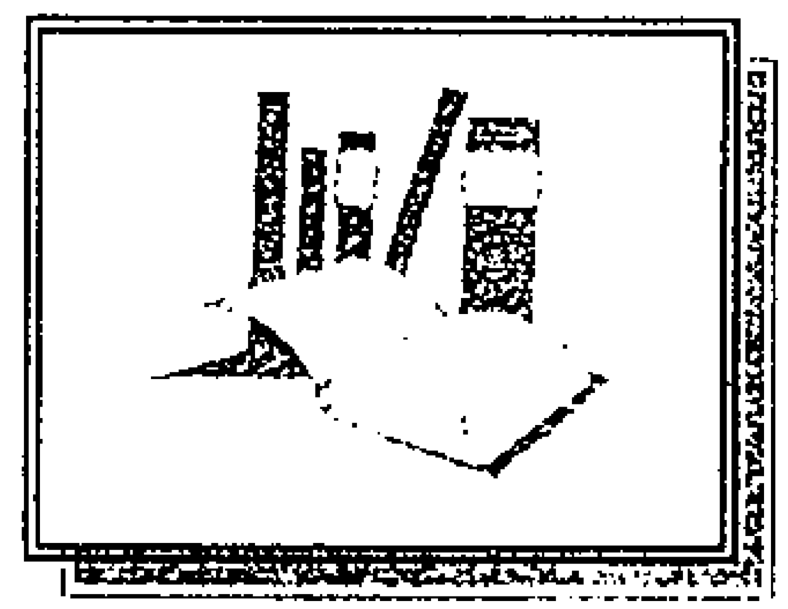
Linda Parsons

*Linda Parsons,* Chair

Date of Approval 2-3-04

Attachment 1

# Arkansas Teacher Retirement System



## Preliminary Valuation Results as of June 30, 2003

*December 9, 2003*

Prepared by Brian B. Murphy and Judith A. Kermans

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas72201

# RESOLUTION

**No. 2003-18**

Revisions of ATRS Committee Charters

***BE IT RESOLVED*** that the Board of Trustees of the Arkansas Teacher Retirement System adopts the amended ATRS policies on Committee Charters as presented in attachment 9, pages **64-70** of the agenda binder, to be effective October 20, 2003;

***FURTHER RESOLVED*** that the Executive Director of ATRS or his designee is authorized to promulgate and implement the amended policies;

***FURTHER RESOLVED*** that in promulgating these amendments, the Executive Director of ATRS or his designee is authorized to make technical corrections when necessary.

Adopted this 7th day of October, 2003

Linda Parsons

LINDA PARSONS, *Chair*
*Arkansas Teacher Retirement System*

# Purpose of this Discussion

- Review
  - 2002 Valuation
  - Expected 2003 results
  - Benefit and Contribution Changes
  - Actual 2003 valuation results
  - Possible Employer Contribution for 2004/05 School Year
  - Outlook for future
- Listen to Board

# Recap of the 2002 Valuation

| | | 2002 |
|---|---|---|
| 1) | Accrued Liabilties | $9,061 |
| 2) | Funding Value | 8,328 |
| 3) | UAAL | $ 733 |
| | - % Funded (2)/(1): | 92% |
| 1) | Employer Contribution Rate | 12.00% |
| 2) | Normal Cost | 9.82% |
| 3) | UAAL (1) - (2): | 2.18% |
| | Amortization years | 38 |
| | Employer Rate for 30 Years | 12.30% |

# Projected Results vs. Actual Results for 2003 ($ millions)

## All Based on "Old" Benefits

| | Valuation as of June 30, 2003: | **Projected 1/15/2003** | **Actual Result** |
|---|---|---|---|
| 1) | Accrued Liabilties | $9,704 | $9,672 |
| 2) | Funding Value | 8,289 | 8,263 |
| 3) | UAAL | $ 1,415 | $ 1,409 |
| | - % Funded (2)/(1): | 85% | 85% |
| 1) | Employer Contribution Rate | 12.00% | 12.00% |
| 2) | Normal Cost | 9.82% | 9.80% |
| 3) | UAAL (1) - (2): | 2.18% | 2.20% |
| | Amortization years | Cannot be Financed | |
| | Employer Rate for 30 Years | 14.50% | 14.45% |
| | Employer Rate for 50 Years | 13.50% | 13.47% |



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# Development of Funding Value of Assets 2003

| Year Ended June 30,2003 | Projected 1/15/2003 | Actual Result |
|---|---|---|
| A. Funding Value Beginning of Year | $8,328,451,257 | **8,328,451,257** |
| B. Market Value End of Year | 7,125,011,512 | **7,050,355,544** |
| C. Market Value Beginning of Year | 7,084,325,012 | **7,084,325,012** |
| D. Non-Investment Net Cash Flow | (100,000,000) | **(109,466,730)** |
| E. Investment Return | | |
| E1. Market Total: B - C - D | 140,686,500 | **75,497,262** |
| E2. Amount for Immediate Recognition (8%) | 662,276,101 | **661,897,431** |
| E3. Amount for Phased-In Recognition: E1-E2 | (521,589,601) | **(586,400,169)** |
| F. Phased-In Recognition of Investment Return | | |
| F1. Current Year: 0.25 x E3 | $(130,397,400) | **$(146,600,042)** |
| F2. First Prior Year | (278,403,354) | **(278,403,354)** |
| F3. Second Prior Year | (216,296,533) | **(216,296,533)** |
| F4. Third Prior Year | 23,676,886 | **23,676,886** |
| **F5. Total Recognized Investment Gain** | **(601,420,401)** | **(617,623,043)** |
| G. Funding Value End of Year: A + D + E2 + F5 | 8,289,306,956 | **8,263,258,915** |
| H. Ratio of Funding Value to Market Value | 116 % | **117 %** |
| I. Market Rate of Return | 2.00 % | **1.07 %** |

# Discussion

- Virtually every retirement system, including ATRS had disappointing investment performance for the year ended 6/30/2002.
- Results for year ended 6/30/2003 have improved over prior year levels, but are still generally below assumed rates. Actual June 30, 2003 results were very close to the results that were projected on January 15, 2003.
- Results in most systems for 7/1/2003 to present have been good, with some systems already having earned 8% or so.
- The Board and Legislature have enacted certain benefit revisions and an employer rate increase that have had the effect of reducing the amortization period.



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# Benefit/Contribution Changes

- Full Reduction for TDROP beyond age 65 and 30 years of service for future TDROPs.
- Full Employer Contribution for all future TDROPs. 12% Employer Contribution for Present TDROPs phased in gradually through 2011.
- Employer rate increased to 13% for 2003/04 and up to 14% for 2004/05 if necessary for 30 years.
- No $75 Retiree health subsidy for TDROP (but present TDROPs can keep past subsidy)
- Interest on TDROP accounts to be 2% less than system rate of return, but always between 2% and 6%.
- Deposits and interest to TDROP stop after 10 years in TDROP
- School Employees in APERS can transfer to ATRS prior to retirement, but must have 5 years of ATRS service to get $75 retiree health subsidy. All retirees must have 5 years of service in order to get subsidy.
- Employer contributions for 2004/05 and beyond to be made on current salary.
- No benefit enhancements until later of July 2, 2005 and time when amortization period is below 30 years.

# Preliminary Results of the June 30, 2003 Valuation($ millions) with 13% Contribution Rate and New Benefits (Part of the Story)

| | | |
|---|---|---|
| 1) | Accrued Liabilities | $9,445 |
| 2) | Funding Value | 8,263 |
| 3) | UAAL | 1,182 |
| | - % Funded (2)/(1): | 87% |
| 1) | Employer Contribution Rate | 13.00% |
| 2) | Normal Cost | 9.06% |
| 3) | UAAL (1) - (2): | 3.94% |
| | Amortization years | 29 |



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# The rest of the story

- The schedule in slide 5 means that we are recognizing $8,263 Million in assets, when the Market Value is only $7,050 Million This means that we have $1,213 Million in unrecognized losses.
- The unrecognized losses will be recognized over three future years. As that happens, there will be upward pressure on the contribution rate – amortization years will have a tendency to increase.
- We can get a picture of what the future might hold, by looking at valuation results based upon Market Value of Assets, which is shown on the next slide.

# Preliminary Results of the June 30, 2003 Valuation ($ millions) with 13% Contribution Rate and New Benefits

| | | Asset Value Used | |
|---|---|---|---|
| | | **Funding** | **Market** |
| 1) | Accrued Liabilties | **$9,445** | $9,445 |
| 2) | Funding Value | **8,263** | 7,050 |
| 3) | UAAL | **$ 1,182** | $ 2,395 |
| | - % Funded (2)/(1): | **87%** | 75% |
| 1) | Employer Contribution Rate | **13.00%** | 13.00% |
| 2) | Normal Cost | **9.06%** | 9.06% |
| 3) | UAAL (1) - (2): | **3.94%** | 3.94% |
| | Amortization years | **29** | 150+ |
| | Contribution for 30 Years | | 17.10% |

# Analysis

- Based upon the "Funding Value" of assets, ATRS is at 29 years, and nominally no rate increase is needed for 2004/05. But is that really true??
- There are still unrecognized investment losses that will affect future valuation results. (See slide 5 and 9). *Should some of those losses be recognized now?*
- If all past losses were immediately recognized (most systems would not do this) ATRS would be at over 150 years and a contribution increase would be needed.
- If we get average returns for the next several years, and past losses flow in at the scheduled rate, a rate increase will almost certainly be called for in the next valuation.
- If we get above average returns the needed rate increase could be smaller than suggested on the previous slide.
- Next slide shows projection of 2004 valuation assuming various rates of return.

# Projected 2004 Valuation Results Assuming Various Rates of Return in 2003/04

| | Illustrated Investment Return | 4.00% | 8.00% | 12.00% |
|---|---|---|---|---|
| 1) | Accrued Liabilties | $10,078 | $10,078 | $10,078 |
| 2) | Funding Value | 8,075 | 8,145 | 8,215 |
| 3) | UAAL | $2,003 | $1,933 | $1,863 |
| | - % Funded (2)/(1): | 80% | 81% | 82% |
| 1) | Employer Contribution Rate | 13.00% | 13.00% | 13.00% |
| 2) | Normal Cost | 9.06% | 9.06% | 9.06% |
| 3) | UAAL (1) - (2): | 3.94% | 3.94% | 3.94% |
| | Amortization years | 150+ | 150+ | 150+ |
| | Contribution for 30 years | 15.50% | 15.25% | 15.00% |



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# Comments

- The projections are estimates, based on various assumed market rates of return. The 2003/04 year could be better or worse than shown. It will definitely be different.
- More than a 25% return during 2003/04 would be required to produce 30 years with the 13% contribution rate in the June 30, 2004 valuation.
- So far the investment markets seem to be improving, but a return at the 25% level or above is not likely. Most likely, the June 30, 2004 valuation will call for a contribution rate increase for the 2005/2006 school year.

# Conclusion

- Given the results of the 2003 valuation, the amount of unrecognized investment losses that still exist, and the high probability that the ATRS amortization period will exceed 30 years next year (2004), it would be prudent to increase the employer rate to the 14% of payroll level in accordance with the statute.