

**MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING**

**Monday, February 4, 2013
11:00 a.m.
1400 West Third Street
Little Rock, AR 72201**

ATTENDEES

Board Members Present

Dr. Richard Abernathy, Chair
Jeff Stubblefield, Vice Chair
Lloyd Black
David Cauldwell
Kathy Clayton
Hazel Coleman
Wes Goodner, designee for Honorable
Martha Shoffner
Peggy Gram, designee for Honorable Charlie
Daniels
Dr. Tom Kimbrell
Danny Knight
Bobby Lester
Susannah Marshall, designee for Candace
Franks
Donna Morey
Robin Nichols
Janelle Riddle

Reporters Present

David Smith, Arkansas Democrat Gazette
Mike Wickline, Arkansas Democrat Gazette

ATRS Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Kay Daniel, Director's Assistant
Dena Dixson, Internal Audit/Risk Mgmt
Laura Gilson, General Counsel
Amy Glavin, Administrative Assistant
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Manju, Dir. Data Processing
Jerry Meyer, Dir. Real Estate
Tammy Porter, Paralegal
Michael Ray, Dir. Member Services
Gaye Swaim, Operations Administrator
Leslie Ward, Dir. Private Equity
Brenda West, Internal Audit/Risk Mgmt

Guests Present

Chris Caldwell, Div. of Legislative Audit
Erika Gee, Attorney General's Office
Randall Harris, Midwest Laborers Employers
Coop Education Trust
Chae Hong, Hewitt EnnisKnupp
Paul House, ARTA
Adrian Kurniadjata, Hewitt EnnisKnupp
Lauren Nicholson, Hewitt EnnisKnupp
Steve Singleton, ARTA
Katherine Vasilos

- I. **Call to Order/Roll Call.** Dr. Abernathy, Chair, called the Board of Trustees meeting to order at 11:01 a.m. Roll call was taken. All members were present.

II. **Motion to Excuse Absences.**

III. **Adoption of Agenda.**

Ms. Nichols moved for adoption of the Agenda. Ms. Morey seconded the motion and the Board unanimously approved the motion.

IV. **Executive Summary.** The Executive Summary was provided for reference with no questions or expansions on the written summary.

V. **Approval of Minutes.**

A. **Minutes of December 5, 2011 – Scrivener's Error.** The approved minutes from the December 5, 2011, Board of Trustees meeting shows the purchase of a 739 acre corn/soybean farm in Warren County, Indiana, as approximately \$15 million. This is incorrect; the purchase price was approximately \$5 million. The minutes have been corrected to reflect the real price and need to be reapproved.

Ms. Morey moved to approve the corrected minutes from the December 5, 2011, Board of Trustees meeting. Mr. Lester seconded the motion, and the Board unanimously approved the motion.

B. **Minutes of November 15, 2012.**

Mr. Knight moved to approve the minutes from the November 15, 2012, Board of Trustees meeting. Mr. Cauldwell seconded the motion, and the Board unanimously approved the motion.

C. **Minutes of December 3, 2012.**

Ms. Nichols moved to approve the minutes from the December 3, 2012, Board of Trustees meeting. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

VI. **Staff Empowerment.** Mr. Hopkins explained to the Board that each year the ATRS Board authorizes ATRS staff to transact certain business to set the specific powers of the executive director and to appoint the executive director to manage and delegate operational duties to the limited liability companies that ATRS uses to manage its investments and Arkansas related property.

A. **Authority to Transact Business.** This is the standard Board resolution to authorize staff to take action and limit authority of staff with the same authority and restrictions as in previous years.

1. **Resolution 2013-01.**

Ms. Coleman *moved to adopt* Resolution 2013-01, granting authority George Hopkins, Executive Director; Gail Bolden, Deputy Director; and G. Wayne Greathouse, Associate Director of Investments authority to transact investment business on behalf of the ATRS Board of Trustees. Ms. Morey *seconded the motion*, and the Board *unanimously approved the motion*.

B. Specific Powers of Executive Director. This is the standard Board resolution to authorize specific powers of the Executive Director as in previous years.

1. **Resolution 2013-02.**

Mr. Stubblefield *moved to adopt* Resolution 2013-02, authorizing and empowering the Executive Director's actions on behalf of the ATRS Board of Trustees. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*.

C. Authorization to Transact Business, Appointment of ATRS as Manager of LLC's.

1. **Resolution 2013-03.**

Ms. Nichols *moved to adopt* Resolution 2013-03, authorizing the ATRS Executive Director or his delegates to transact business and perform all duties relating to the management of ATRS LLC's. Ms. Gram *seconded the motion*, and the Board *unanimously adopted the resolution*.

VII. Authority to Reimburse Trustee Expenses for 2013. Mr. Hopkins explained the trustee reimbursement resolution. Every year, a resolution is adopted by the Board to reimburse Trustees for expenses such as long distance telephone calls, postage, and out of pocket expense associated with employing substitute personnel while performing official Board duties.

A. Resolution 2013-04.

Ms. Morey *moved to adopt* Resolution 2013-04, authorizing ATRS to reimburse ATRS Trustees for miscellaneous expenses and losses in salary resulting from Board of Trustees meeting attendance or other

official Board duties. Ms. Coleman seconded the *motion*, and the Board *unanimously adopted the resolution*.

- VIII. **Authorization for 2013 Board Travel and Expense Reimbursement.** Mr. Hopkins explained the Board travel and expense reimbursement resolution. Every year, a resolution is adopted by the Board to reimburse Trustees for travel expenses incurred for performing official Board duties during the calendar year.

A. **Resolution 2013-05.**

Ms. Riddle *moved to adopt* Resolution 2013-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties. Ms. Coleman *seconded the motion*, and the Board *unanimously adopted the resolution*.

- IX. **2012-2013 Employer Contribution Rate.** Mr. Hopkins explained the 2012-2013 employer contribution rate resolution. Every year, a resolution is adopted by the Board to set the employer contribution rate prospectively for each fiscal year. The rate is based upon actuarial valuation and legislative restrictions. Based upon the actuarial status of ATRS, it would not be prudent for ATRS to change the contribution rate for the coming fiscal year that begins on July 1, 2013.

A. **Resolution 2013-06.**

Ms. Coleman *moved to adopt* Resolution 2013-06, establishing the employer contribution rate at the statutory maximum of 14% for the fiscal year starting July 1, 2013. Mr. Lester *seconded the motion*, and the Board *unanimously adopted the resolution*.

- X. **2013 Board of Trustees Election Update.** Mr. Hopkins gave an update on the 2013 Board of Trustees election. The ATRS Board has four elections scheduled for four trustee positions, which will begin service on July 1, 2013. There are qualified candidates who have filed for election to these positions. Position #1 Member Trustee has one unopposed candidate. Position #3 Member Trustee has two qualified candidates. Position #4 Member Trustee has three qualified candidates. Position #10 Retirant Trustee has two qualified candidates.

A. **Board Election Vendor.**

1. **Resolution 2013-07.**

Dr. Kimbrell *moved to adopt* Resolution 2013-07, approving the selection of VR Election Services as the 2013 Board of Trustees

election vendor. Ms. Nichols seconded the motion, and the Board unanimously adopted the resolution.

XI. **Actuarial Valuations.** Mr. Hopkins presented the yearly actuarial valuation reports from ATRS actuaries Gabriel, Roeder, Smith & Company (GRS). These reports are prepared by the actuaries concerning the valuation of liabilities to active and inactive members along with the valuation of liabilities for annuities being paid to current retirees and current beneficiaries. The ATRS Board of Trustees is required, as a ministerial function, to adopt this report to make the projected liabilities determined by the actuary as the official ATRS liabilities by the ATRS Board's acceptance and filing of these liability reports.

A. **Active & Inactive Members.** This report reflects the liabilities owed by ATRS to active members and inactive members. Active members include all those who are currently employed with an ATRS employer and continue to accrue service credit. Inactive members include those who are vested but no longer active and would be entitled to a benefit at a point in the future when they reach an appropriate age.

Ms. Nichols moved to approve the Active & Inactive Members Actuarial Valuation report from Gabriel, Roeder, Smith & Company. Mr. Knight seconded the motion, and the Board unanimously approved the motion.

B. **Annuities Being Paid to Retirees & Beneficiaries.** These liabilities reflect the liabilities to ATRS retirees, beneficiaries, survivors, and incapacitated children.

Ms. Nichols moved to approve the Annuities Being Paid to Retirees & Beneficiaries Actuarial Valuation report from Gabriel, Roeder, Smith & Company. Mr. Knight seconded the motion, and the Board unanimously approved the motion.

XII. **Report of Member Interest Waived under A.C.A. Sec. 24-7-205.** Mr. Hopkins presented the member interest amount waived report. ATRS waives interest on members when there is a dispute between ATRS and the member as to whether ATRS made a mistake or otherwise did not do all that was required on the member's account. There were no waivers to report.

XIII. **Report of Employer Interest and Penalties Waived under A.C.A Sec. 24-7-411.** Mr. Hopkins presented the employer interest and penalties waived report. ATRS may waive employer interest and penalties when reports/payments are late or have issues due to new bookkeeper, sickness, etc. ATRS has recently been converting from a paper report to an electronic report. ATRS staff is

- pleased to report that ATRS is in the process of converting most ATRS employers from a paper check contribution payment to an electronic funds transfer (EFT) payment. There were no waivers to report.
- XIV. **Report of the 89th General Assembly for 2013.** The 89th General Assembly is now in session for 2013. ATRS has a 22 bill package
- XV. **Audit Committee Report.** Ms. Nichols, Chair, gave a report on the Audit Committee meeting.
- A. **Resignation of Dale E. Coy.** Mr. Dale Coy, Audit Committee Chair, resigned from the Audit Committee. Internal Audit is preparing a list of candidates for the Audit Committee to choose from to fill in the vacant position.
- B. **Election of Audit Committee Chair.** Ms. Robin Nichols was elected Chair of the Audit Committee. Mr. Shane Benbrook was elected Vice Chair of the Audit Committee.
- C. **Audit Committee Update.** Due to the payroll department being inadequately staffed during the summer of 2012, Ms. West and Ms. Dena Dixson provided temporary assistance to the affected areas. Ms. Dixson has previous experience with the payroll department.
- D. **Internal Audit Report: Review Member History Adjustment Process.** Internal audit discovered inaccurate histories being assigned to member accounts and that the history adjustment process is not completed in a timely manner. The findings have been sent to the heads of the payroll and accounting departments and their responses will be presented at the next Audit Committee meeting.
- XVI. **Investment Committee Report.** Ms. Nichols, Chair, gave a report on the Investment Committee meeting.
- A. **Arkansas Real Estate Update.**
1. **Woodland Heights Update on Operations and Occupancy.** Occupancy is still at 73%. A new bus is being purchased for a net price of \$43,000 after a trade-in allowance of \$5,800. The management staff has advised this purchase due to reliability issues with the existing bus.
 2. **Farmland Update on Current Farms and Addition of Two Farms.** ATRS closed on two properties in December of 2012. The first was a 436 acre organic citrus farm in Polk County, Florida, for a total cost of \$5,802,866 or \$14,364 per acre. This is the first ATRS farm devoted to

permanent crops. The second was an 892 acre row crop farm in Des Arc, AR known locally as the James Miller Farm. The purchase price for the farm was \$3,030,355 which equals \$3,363 per acre. ATRS total farm acreage is 12,274 or approximately 19 square miles with a total value just shy of \$51 million.

3. **Victory Building Update on Operations and Occupancy.** Maintenance continues on the parking deck without disrupting parking. The lighting retrofit saved ATRS \$1300 in January 2013. Occupancy is approximately 95%.
4. **Timberland Update on Timberland and Markets.** Since 2010, ATRS has added \$65 million in timberland to the portfolio. Pulp wood and saw timber prices are rising as the housing market improves. There is no update regarding Regions selling the RMK Timberland unit.

B. Recommendation to Invest \$60 Million as a 20% Equity Owner in Big River Steel. Big River Steel, LLC (BRS) intends to build a \$1.1 billion mini-steel mill in Osceola, Arkansas and ATRS has the opportunity to become a 20% equity owner in the BRS mill with a \$60 million investment. Arkansas Economic Development Commission contracted Delta Trust to perform due diligence on the project with the caveat that state agencies could use the results. The mill will bring in approximately 525 jobs to Arkansas, with an average wage of approximately \$75,000, with a large bulk of the employees being recruited from the surrounding area. It will be built by a German company known as SMS, a leading manufacturer of steel mills and will be the most energy efficient and environmentally friendly steel mill in the world. A very important aspect of the mill will be its ability to produce advanced high strength steel, a variety of steel that currently has limited availability and greater future demand.

If approved by the General Assembly, the state incentives for this project will include start-up costs, making the ATRS investment value greater. Conservative estimates by Delta Trust and ATRS staff show a 20% - 30% return. The Investment Committee recommended a commitment of \$60 million to become a 20% equity owner in Big River Steel.

1. Resolution 2013-08.

Ms. Nichols moved to adopt Resolution 2013-08, approving the recommendation to invest \$60 million as a 20% equity owner in Big River Steel, LLC. Dr. Kimbrell seconded the motion and the motion adopted the resolution by majority vote. Ms. Riddle voted no.

C. General Investment Consultant Update – Hewitt EnnisKnupp.

1. **Preliminary Portfolio Performance Update for the Quarter Ended December 31, 2012.** Positive economic data and a lessening of Eurozone debt crisis worries helped during the fourth quarter, but the impending fiscal cliff kept risk appetites in check. Mid cap outperformed both small cap and large cap during the fourth quarter. Value outperformed growth across all capitalization segments of the market during the quarter.

The total fund was up 2.2% for the quarter, outperforming its benchmark of 1.9% as all asset classes outperformed their benchmark for the quarter.

2. **Wellington Opportunistic Equity Termination Recommendation.** HEK and ATRS staff have become concerned regarding the consistency of Wellington's investment process as well as the risk management procedures strategy. After due diligence performed by HEK, Wellington was given a "sell" rating.

The Investment Committee recommended terminating Wellington Opportunistic Equity fund and having an approved transition manager reallocate funds to one of the existing global indexes.

a. **Resolution 2013-09.**

Ms. Nichols moved to adopt Resolution 2013-09, approving the recommendation to terminate the Wellington Opportunistic Equity fund and have an approved transition manager reallocate funds to one of the existing global indexes. Mr. Stubblefield seconded the motion, and the Board unanimously adopted the resolution.

D. Real Estate Investment Consultant Update – Hewitt EnnisKnupp.

1. **Portfolio Performance Update for the Quarter Ended September 30, 2012.** The portfolio was at 2.6% for the quarter, exceeding its benchmark by 30 basis points. The ATRS real estate portfolio is just slightly under its target allocation, but additional real estate commitments over the next several years will help the portfolio reach its target allocation.

E. Private Equity Investment Consultant Update – Franklin Park.

1. **Private Equity Portfolio Review for the Quarter Ended September 30, 2012.** The net IRR for the aggregate portfolio since inception was 8.9%, with a committed capital of approximately \$2.8 billion. The percent change in portfolio value for the quarter was 2.7%.

2. **Franklin Park's Participation in Co-Investment Fund.** ATRS currently has approximately \$45 million in existing commitments to FP Co-Invest, a vehicle managed by Franklin Park that makes direct investments in companies alongside of private equity fund managers. Franklin Park proposes to make a 1% commitment alongside ATRS in FP Co-Invest as it will further strengthen the alignment of interest between Franklin Park and ATRS. The exposure of ATRS to existing deals will be diluted by 1%, with ATRS owning 99% of the existing investments and Franklin Park owning 1%.

- a. **Resolution 2013-10.**

Ms. Nichols moved to adopt Resolution 2013-10, allowing Franklin Park to invest 1% into the Franklin Park Co-Investment Fund, L.P. alongside ATRS. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

- XVII. **Operations Committee Report.** Mr. Lester, Chair, gave a report on the Operations Committee meeting.

A. **Final Approval of Rules.**

1. **Policy 11-1 Survivor Benefits.** ATRS staff reviewed ATRS rules and regulations and found an inconsistency in the definition of "dependent child" with Arkansas law. In order to make ATRS rules more consistent with Arkansas law, ATRS staff recommended changing the definition of "dependent child" to "either a natural child of the member or a child who has been made a child of the member by applicable court action before the death of the member". This rule change has already been approved by the Board, has gone through the 30 day public comment period without comment, and was approved by the Rules and Regulations Subcommittee of the Arkansas Legislative Council on December 18, 2012. The Board must approve the rule a final time to incorporate the revisions into policy.

- a. **Resolution 2013-11.**

Mr. Lester moved to adopt Resolution 2013-11, approving Policy 11-1 for the final time to incorporate the revisions into policy. Mr. Black seconded the motion, and the Board unanimously approved the motion.

- B. **Opportunity for Board to Review Its Internal Rules for Additions, Amendments, or Deletions.** Mr. Lester discussed a proposal to extend the

term of the Board of Trustees Chair as ATRS is currently in a critical position regarding legislation and actuarially required changes and does not need to have an upheaval in leadership at this time. There were two options to choose from. The first option changes the Chair from one two year term to two two year terms. The second option adds an exception that the Chair would be allowed to serve a second additional two year term if the Operation Committee recommends such to the Board of Trustees by a majority vote and the Chair receives a majority vote from the Board of Trustees.

Mr. Lester *moved to approve the recommendation of Option #1 to amend the rules to reflect an extension of the Board of Trustees Chair term to two years. Mr. Knight seconded the motion, and the Board unanimously approved the motion.*

C. ATRS Bills.

1. **Senate Bill 76: ATRS Appropriation for 2013-2014.** The ATRS appropriation bill has already been reviewed by Governor Beebe and by the General Assembly in the fall budget hearings. The appropriation bill authorizes the payment of retirement benefits, and the administrative costs of operating ATRS.
2. **Senate Bill 110: Clarify the Meaning of Manifest Injustice.** This bill gives the Board and, through delegation, the executive director, the ability to better help members and other benefit participants when a member makes a mistake or otherwise takes action that causes great harm. The standard for assisting the member under manifest injustice requires a high standard, however, currently many mistakes by members cannot be corrected at all. This rule gives ATRS greater ability to help an innocent member under very strict circumstances. Under certain circumstances the law could be also applied to help an employer.
3. **Senate Bill 111: Prudent Investor Rule.** This bill still requires ATRS to go through a strict procurement process to enter into investment contracts and other highly specialized contracts with consultants and actuaries. However, once a contract is established, the state's automatic termination requirements after seven years would not apply since ATRS often keeps investment managers for decades with highly favorable fees that could be lost in a mandatory rebidding process. Plus, ATRS constantly monitors these contracts and frequently will terminate an under-performing manager without regard to a contract's duration. The ATRS Board would use prudent investor standards to establish the terms of any extension of a properly procured contract.

4. **Senate Bill 112: Allow ATRS Board to Issue Rules to Align with IRS.** ATRS must comply with many IRS requirements, restrictions, and duties. At times, a restriction or requirement may be eliminated or lessened. This bill will allow the ATRS Board to quickly modify the impact on its members to lessen the impact of such restrictions and requirements. The intent of this bill is to give the Board authority to limit the impact of IRS regulations on members' rights and benefits.
5. **Senate Bill 113: Compel Payment of Delinquent Employer Contributions.** Historically, ATRS has had little problem in collecting employer and member contributions from ATRS employers. With the addition of charter schools that often are operated with a different organizational structure from a standard public school, ATRS has had difficulty collecting contributions at times and has seen members impacted by nonpayment of both employer contributions and even member contributions that were withheld and not remitted to ATRS by the employer. This bill gives ATRS limited authority to obtain payment from the Department of Education from funds due from any public school or charter school.
6. **Senate Bill 116: Limit the Use of a Reciprocal System's Calculation of FAS.** ATRS members are subject to a three year final average salary calculation upon retirement. ATRS will currently use a reciprocal system's final average salary for a member with service in ATRS and another Arkansas public retirement system if the other system's final average salary is higher. At times, ATRS is relying upon a member's one-year salary from another system to give a member a higher benefit from ATRS. This bill would only use the reciprocal system's final average salary if it were based upon the same number of years as the ATRS calculation. If less, ATRS would still give credit for the higher salary in the other system, but use that salary in combination with ATRS' salary using the ATRS final average salary formula. This is much fairer to the membership as a whole and prevents a circumstance where a member could literally double their retirement benefit in one year by working for an employer in another Arkansas public retirement system at twice the member's former salary.
7. **Senate Bill 123: Set Member Contribution Rate Between 6% and 8%.** This bill gives the ATRS Board limited authority to raise the contribution rate above 6% with a hard ceiling of 8% and only as necessary to address a critical funding issue. The bill also authorizes the ATRS Board to reduce the contribution rate back to 6% as soon as possible if it is ever raised. The ATRS Board hopes never to use the authority to raise the contribution rate. The ATRS Board believes it is better for the ATRS Board to have a "buffet" list of items to have in response to actuarial needs instead of

being powerless to make adjustments to protect the long term financial soundness of ATRS which leaves the responsibility on others. This bill would only increase the contribution rate as required.

Mr. Lester moved to instruct ATRS staff to draft an amendment to Senate Bill 123 to change the maximum 8% contribution rate to 7%. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

8. **Senate Bill 129: Specify that an Appeal of a Decision of the Board of Trustees Shall Be Filed in Pulaski County.** ATRS now has an active appeal process established by the ATRS Board a few years ago. Appeals are now being filed in circuit courts across Arkansas. ATRS does not wish to add legal staff in order to handle the litigation of ATRS administrative appeals in circuit courts throughout the state. The retirement information and ATRS staff are all in Pulaski County; therefore, ATRS is seeking the right to use Pulaski County as the location where appeals from the ATRS Board are litigated. Several state agencies have this provision for this same reason.
9. **Senate Bill 130: Allow the Board of Trustees to Increase or Decrease the Stipend Benefit as Actuarially Appropriate.** In 1999, almost all the public retirement systems in Arkansas were given authority to pay a stipend. ATRS still has a stipend, although some have eliminated it. This bill would allow the ATRS Board to lower the stipend below the current \$75 level if needed due to the financial condition of ATRS and to raise it back to \$75 if it were ever lowered. The ATRS Board hopes that the stipend will remain at \$75 without being cut, but understands that it needs to have flexibility in various ways to address any critical funding issues. This bill would only increase or decrease the stipend as required.
10. **Senate Bill 160: Modify the Definition of Salary and Clarify Calculation of Service Credit.** This bill is aimed at narrowing the definition of salary to wages earned. It would eliminate nonmonetary compensation such as housing, vehicles, perks, and allowances. In addition, it clarifies how contract buyouts and judgments may be used as salary. This prevents confusion and often large payments by employers for payments in litigation. Importantly, it helps members and employers by allowing a terminated employee and or the employer to purchase service for the "terminated time". This is only available for claims that the wrongful termination results in resolution of that claim by a mutual agreement or successful litigation. This prevents difficult damage calculations in court, encourages parties to resolve these cases when retirement benefits become a sticking point, prevents harm to a member

whose termination prevented service credit from growing, and limits an employer's liability to restore the member's rights in the retirement system.

Mr. Lester moved to instruct ATRS staff to draft an amendment to Senate Bill 160 allowing the Board of Trustees to define salary as needed. Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

11. **Senate Bill 162: Address Employer Contributions Under ATRS.** ATRS has not had an employer contribution rate increase in several years. In 2005, the General Assembly froze the ATRS employer contribution rate at a maximum of 14%. Due to the financial crisis and the resulting stock market disruption, the ATRS employer rate has been less than what is required to maintain a 30 year amortization to pay unfunded liabilities of the System. For example, since July 1, 2008, the APERS employer contribution rate as of July 1, 2013, will have increased 3.87% while the ATRS employer contribution rate has increased 0.0%. This bill would increase the ceiling for the employer rate to 15%. In addition, ATRS could only remain above 14% if the amortization period remains over 30 years. While the employer contribution rate is above 14%, ATRS could not enhance any benefits. Very importantly, any contribution increase would not be paid directly by the ATRS employers under this bill, rather, any contribution above 14% for public schools would be paid from a line item on the Department of Education's budget since ATRS expects any rate above 14% to be a temporary increase. If funds are not available in 2013-2014, ATRS at least requests the ability to increase contribution rates on July 1, 2015 in order that any actuarial needs of ATRS not be totally borne by ATRS members just like the state has allowed the other retirement systems to limit member cuts by increasing the employer contribution rate to help stabilize the other trust funds after the devastating financial crisis in 2008-2009. This bill would only increase the employer contribution rate as required.
12. **Senate Bill 163: Treat Percentage of Plan Benefit Equally in T-DROP.** When a member enters T-DROP, the member has a 1% reduction for every contributory year and reciprocal year of service credit. However, noncontributory service credit is only reduced by 0.6%. This bill makes a simple change to make all years of service credit a standard 1% reduction for administrative ease and to take away an incentive for members to remain noncontributory. This bill ensures that all members, regardless of the type of service credit, are treated the same.
13. **Senate Bill 164: Establish a Mandatory or Voluntary Buyout Plan for Inactive Members.** This bill would give the ATRS Board authority to

develop buyout plans for inactive members. ATRS has over 11,000 inactive vested members. ATRS carries a liability of \$700 million dollars for these inactive vested members. Many inactive members have only noncontributory service credit and would like the opportunity to be paid money for surrendering the members' interest in ATRS to either help with family finances or to roll into a retirement account. This bill will allow the ATRS Board to create a win-win for inactive members and the ATRS Board by allowing inactive members to obtain value for service credit that could become worthless while at the same time ATRS is removing actuarial liability at a good discount. The legislation would allow the Board to also have some mandatory aspects in a buyout plan in very narrow instances. Based upon staff contact, this should be a popular program once it is established by the Board if authorized by this bill.

Mr. Lester moved to instruct ATRS staff to draft an amendment to Senate Bill 164 to remove the word "mandatory". Mr. Stubblefield seconded the motion, and the Board unanimously approved the motion.

14. **Senate Bill 174: Enrollment of New College Employees into ATRS.** After July 1, 2011, some colleges no longer allow new employees to participate in ATRS. Some colleges do allow new employees to participate in ATRS. This bill loosens the requirement for a new employee of participating colleges to become an ATRS member. Currently, a member has to have five years of ATRS service credit to select ATRS when hired by a participating college. This bill will allow a new employee without any service credit in ATRS to become a member and provides a special one-time program to allow those originally prohibited from becoming a member of ATRS, due to the five-year rule, to become members and purchase service credit from July 1, 2011, or their hire date, whichever is later.
15. **Senate Bill 197: Correction of Errors on a Member's Account When the Member Owes a Balance to ATRS.** This bill is designed to help members who for various reasons owe for mandatory contributions before the member can retire from ATRS. These sums have been previously billed to the member without the member finding a way to pay the contributions. Under the current law, until the contributions are paid, the member's retirement application cannot be processed. This bill will allow the ATRS Board to set up a process for the member to either pay the contribution or to allow the member to waive the service credit in the fiscal year involved to allow the member to retire without the financial burden of paying an often large sum caused by the original contributions due and 8% compound interest over many years.

- 16. House Bill 1135: Allow Eligible Survivors to Receive ATRS Benefits the Date Application is Filed.** ATRS works very hard to contact the family of a deceased member immediately after death. In most instances, ATRS becomes aware of a member's death in less than a week after death. Most families know that ATRS pays a death benefit which causes a lot of contact with ATRS. More importantly, ATRS uses specialized services, including state wide obituaries to track deaths daily. ATRS also uses state wide and national data bases on a frequent basis to find any that may otherwise have been missed. Due to specialized issues, occasionally ATRS has a family that will not file for survivor benefits due to some other payment program or some other potential advantage. Often, after a long period of time, an application is filed resulting in a lump sum amount for several years of survivor benefits. This bill provides that benefits are only paid from the date of application to discourage large lump sum payments outside normal administrative processes.
- 17. House Bill 1136: Clarify Disability Retirement Requirements and Eligibility.** This bill requires that a member have five years of service credit in ATRS in order to be paid an ATRS disability benefit. Under current law, ATRS would pay a disability benefit to a member with one-quarter year of service credit if the member had at least 4.75 years of service credit in a reciprocal Arkansas public retirement system. This bill would ensure that members obtaining ATRS disability benefits have a stronger connection to the System in order to receive a potential lifetime benefit from the System. This bill also only pays benefits back to the time of a disability application instead of allowing a member to have a year or more of benefits paid between the time of last work and the application as occurs now. Most programs only pay to the date of application and ATRS would also have that provision if this bill passes.
- 18. House Bill 1137: Allow ATRS Current Salary to Be Used in Final Average Salary Calculation for Members Retiring Other Than the First Day of the Calendar Quarter.** Certain limitations exist when a member retires in the middle of a fiscal year. It is possible to earn a full year of service credit in ATRS in six months. The law is written to discourage members from reaching that one year of service credit and retiring in the middle of a school year and leaving students without the benefit of the same teacher for the rest of the year. For service credit, a member can only get service credit for the percent of the fiscal year actually worked. Members retiring on January 1 can only get one-half year of service credit, even if a full year has been earned. The current law allows a last year's salary to be used to calculate final average salary only if a member retires at the beginning of a quarter. This actually penalizes a

member who completes a school year in May and retires on June 1. This bill recognizes the unintended consequence and eliminates salary as the basis for ensuring a member stays through the school year of the member's last year of employment. This protects members and actually helps schools when a member can be just as benefitted by retiring on June 1 instead of April 1 and not leaving a classroom open the last six weeks of school as the current law indirectly encourages.

19. **House Bill 1188: Technical Corrections.** This bill makes no substantive change but clarifies language to prevent confusion and to delete duplicated provisions.
20. **House Bill 1194: Allow Board of Trustees to Adjust Service Credit Multipliers.** This is a bill to give the ATRS Board authority to decrease the multiplier for contributory and noncontributory service for future years of service credit earned. All service credit earned through June 30, 2013, would be locked in at the current very strong rates for multipliers. Even if the Board had to reduce a multiplier, this not only allows the multiplier to be increased back to the original level, but it also allows the Board to increase the multipliers earned in previous years at a lower level to the highest level authorized. The wording of this bill further establishes the ATRS Board's intent to not cut benefits or the accrual of benefits unless absolutely necessary and even it becomes necessary, the Board seeks authority to reinstate any cut that is no longer necessary.

In addition, this bill gives the Board authority to consider establishing rules that would allow the Board to pay a lower multiplier to members in their first 10 years of service, and would also authorize the Board to increase the multiplier after 10 years of service credit. This could encourage retention and address other issues of concern about some members coming to Arkansas only long enough to get vested and obtain a lifetime benefit without a long term commitment to Arkansas. Even if this bill is passed, the Board would not necessarily adopt this rule, but would have the authority to do so.

Finally, this bill limits benefits to what is established by the formula and eliminates complex minimum benefit language from the ATRS law. This bill would only adjust service credit multipliers as required.

21. **House Bill 1198: Authorize Board of Trustees to Create a Tier II Program.** This bill would only apply to members first obtaining service credit after July 1, 2013, or at some later date. The bill authorizes the ATRS Board to modify certain retirement benefit factors for this group of future members. Essentially, the ATRS Board by rule making could make

the adjustments in the benefit factors for new employees subject to the limitations in the bill. In addition, the bill authorizes the ATRS Board to lessen the differences in Tier II over time. For instance, if Tier II initially had a lower multiplier than Tier I, the Board could bring the Tier II up to the Tier I level for the current and past years for a Tier II participant. This bill would only allow the Board to create a Tier II program as required.

22. House Bill 1200: Allow Board of Trustees to Reset COLA Rates.

ATRS has compounded the simple COLA in the past. If it became absolutely necessary, another tool the ATRS Board could consider to bring ATRS back to a 30 year amortization is to reverse a previous compounding of the COLA. Although very complex in administration, it is one benefit change that could be considered and would only affect retirees who had been retired at least one year prior to the compounding. This bill would only allow the Board to reset the COLA rates as required.

D. ATRS Shell Bills.

1. **Senate Bill 136: Benefits.** This is a shell bill that was introduced at the request of ATRS staff in case the need for a new bill becomes apparent.
2. **Senate Bill 172: Benefits.** This is a shell bill that was introduced at the request of ATRS staff in case the need for a new bill becomes apparent.
3. **Senate Bill 229: Investments.** This is a shell bill that was introduced at the request of ATRS staff in case the need for a new bill becomes apparent.
4. **Senate Bill 230: General Provision.** This is a shell bill that was introduced at the request of ATRS staff in case the need for a new bill becomes apparent. There may be a need to draft an amendment to Senate Bill 230 that allows ATRS to prevent the indirect employment of a disability retiree through an LLC by an ATRS covered employer.

Mr. Lester *moved to authorize ATRS staff to draft an amendment to Senate Bill 230, allowing ATRS to prevent the indirect employment of a disability retiree through an LLC by ATRS covered employer if necessary. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.*

5. **House Bill 1199: Teacher Retirement.** This is a shell bill that was introduced at the request of ATRS staff in case the need for a new bill becomes apparent.

E. Other Bills Potentially Impacting ATRS.

1. **Senate Bill 9: Clarify the Definition of Child Under ATRS.** The bill as currently drafted would expand the definition of survivors of active members and T-DROP participants. ATRS pays each survivor 20% of the member's best one year salary up to 60% and thereafter prorates the benefit payable of 60% among all survivors. ATRS has concerns with the bill as currently written and expects that over the next eight years, the number of survivors would double at ATRS. ATRS currently has 627 survivors being paid \$8 million dollars per year. The ATRS Board has not had an opportunity to take a position on this bill. It is difficult to consider increasing the benefit payments to additional survivors at ATRS when, without strong returns in this and the next couple of fiscal years, ATRS might have to consider cutting member benefits and benefit accruals.

ATRS staff had been in discussion with the sponsor of this bill, Senator Joyce Elliott, and proposed changes to the bill that would provide a workable mechanism to expand covered survivors when actuarially appropriate.

Mr. Lester moved to support Senate Bill 9 if the ATRS proposed amendment is accepted and approved. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

2. **Senate Bill 106: Amend the Termination of Active Membership Requirements Under ATRS.** This would give a special exception for retiring ATRS members subject to a termination separation period to begin negotiations to become a working retiree at a public college in Arkansas during the member's termination separation period. The ATRS Board has not taken a position on this legislation. This bill is under current review to determine if the bill would constitute a violation of the IRS in service distribution regulations. ATRS staff has had quality discussions with the sponsor, Senator Missy Irvin, about this bill.
3. **Senate Bill 115: Exclude Retirement Systems From Unclaimed Property.** This bill was requested by APERS and is extra protection if a public retirement system cannot find a member or beneficiary to pay funds on the books of a public retirement system. The funds would not be treated as unclaimed property, but would remain within the trust funds of the retirement system. ATRS feels this bill is beneficial since it prevents a potential loophole in protecting all trust funds from becoming part of the unclaimed property process in Arkansas.

4. **Senate Bill 118: Allow State Sponsored Retirement Systems to Require Qualified Domestic Relation Orders (QDROs) to Pay Benefits (APERS).** This bill was also requested by APERS to ensure that the model QDRO approved by a retirement system must be used. This prevents uncertainty in the application of QDROs for public retirement systems, including ATRS. The ATRS model QDROs is designed to be beneficial to members and not ex-spouses. This bill would ensure that ATRS is not required to vary its model QDRO due to a court ordering a different outcome.
5. **Senate Bill 191: Technical Corrections to Pension Law.** This is a technical correction bill. As of January 30, 2013, ATRS has suggested an amendment to the sponsor to prevent an unintended substantive effect of the bill. Senator Johnson has agreed to amend the bill as requested by ATRS staff. ATRS staff appreciates the quick and positive response by sponsor Senator David Johnson.
6. **Senate Bill 195: Clarify Conditions Under Which ATRS Can Pay a Survivor Benefit to a Minor Without a Guardianship Required.** ATRS currently requires a family to establish a guardianship for the survivor benefits paid to minors by ATRS. This ensures the child actually receives the benefit of the monthly survivor payments. A court approves any expenditure of the funds and requires recordkeeping on the funds to protect the funds from misuse. It also ensures a child receives the benefit of any funds spent. The funds not needed for immediate expenses can be saved for the child's future education or other needs. The court's approval and supervision of funds is currently required under Arkansas law.

This bill would eliminate court approval and supervision of payments to minors. Under the bill, ATRS can pay the benefits to any adult family member of the minor child. If ATRS pays the survivor benefits to an adult family member, then ATRS will not be liable for any misuse or wrongful spending of the child's funds by the adult family member. This is not an ATRS package bill and the ATRS Board has not taken a position on the bill.

7. **House Bill 1176: Concerning Retirement Options for Employees of State Supported Institutions of Higher Education.** This bill was prepared for the University of Arkansas (U of A) System and its member schools. This bill repeals several provisions about college participation in ATRS and APERS. It also directly prohibits the U of A System from becoming post-secondary higher education (PSHE) employers in ATRS at the U of A Systems' request and allows the U of A Systems to set the eligibility requirements for a new hire at the U of A Systems to participate

in APERS. After a cleanup amendment requested by ATRS staff, ATRS staff sees this bill as a quality cleanup bill that has no impact on ATRS since the U of A has not allowed new employees to participate in ATRS since July 1, 2011, due to Act 513 of 2011 that was an ATRS Board proposal.

F. Non-ATRS Shell Bills.

1. **Senate Bill 126: King: Amend the Provisions of Title 24 Concerning ATRS.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
2. **Senate Bill 127: King.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
3. **Senate Bill 128: King.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
4. **Senate Bill 142: Thompson.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
5. **Senate Bill 146: Key.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
6. **Senate Bill 153: Elliott.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
7. **House Bill 1101: Kerr.** Unlike the shell bills above, this shell bill has some language to indicate the focus of the bill. If this shell bill is further developed, it would impact members retiring from any or all DROP plans, including potentially the ATRS T-DROP plan, In addition, the bill appears to potentially require a working retiree of retirement systems to pay a

contribution while the retiree is working. ATRS staff has not obtained information about this bill beyond the wording within the bill itself. ATRS staff is reviewing the information to the extent it is available.

8. **House Bill 1164: Kerr.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
9. **House Bill 1169: Kerr.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
10. **House Bill 1173: Perry.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.
11. **House Bill 1174: Perry.** A shell bill is a bill without enacting language that can be amended at any time to put in favorable or unfavorable provisions affecting ATRS. The sponsor has not provided any guidance as to the purpose of this shell bill.

- G. **Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.** This item has been placed on the agenda to ensure that Trustees have a quality forum to suggest rule changes, law changes, actuarial studies, and other issues that would be appropriate to address as part of improving ATRS operations and benefit structure.

XVIII. **Staff Reports.**

- A. **Medical Committee Reports.** Mr. Ray presented the Medical Committee reports for December 2012 and January 2013. In December 2012, there were 11 applicants, nine were approved, and two were denied. In January 2013, there were 18 applicants, 16 were approved, and two were denied.

Ms. Nichols *moved approve* the December 2012 and January 2013 Medical Committee reports. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion*

XIX. **Other Business.**

- A. **Review of Agency Contracts.** Mr. Hopkins explained that ATRS has numerous contracts up for renewal. Most are annual renewals with no changes. A few may have changes to be negotiated due to the nature of the contract and the services being rendered. Staff requests Board approval to finalize all the contracts with staff authority to negotiate final terms and conditions on contracts subject to additional negotiations.

Ms. Nichols moved to authorize ATRS staff to negotiate final terms and conditions on contracts subject to renewal or additional negotiations. Mr. Lester seconded the motion, and the Board unanimously approved the motion.

- B. **SCTR Conference.** The 2013 SCTR conference will be held in St. Louis, Missouri, April 21-April 24. Ms. Nichols reported that SCTR attendance is on the decline, and if numbers have not gone up this year, they will discontinue holding the SCTR.

XX. **Adjourn.**

Mr. Lester moved to adjourn the Board of Trustees Meeting. Mr. Knight seconded the motion, and the Board unanimously approved the motion.

Meeting adjourned at 11:45 a.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Glavin,
Recorder

Date Approved