MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, June 5, 2017
10:45 a.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair
Danny Knight, Vice Chair
Dr. Richard Abernathy
Lloyd Black
Kathy Clayton
Kelly Davis
Bobby Lester
Hon. Andrea Lea*
Jason Brady, designee for Dennis Milligan
Robin Nichols
Deborah Thompson
Janet Watson*

Board Members Absent
Candace Franks
Johnny Key

Consultants Present
PJ Kelly, AHIC (Aon Hewitt)*
Chae Hong, AHIC (Aon Hewitt)*

Reporters Present
Mike Wickline, AR Democrat Gazette

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Shane Benbrook, Internal Audit/Risk Mgmt.
Curtis Carter, Chief Fiscal Officer
Mitzi Ferguson, Internal Audit/Risk Mgmt.
Laura Gilson, General Counsel
Rod Graves, Assoc. Dir of Operations
Wayne Greathouse, Assoc. Dir of Investments
Clementine Infante, Staff Attorney
Manju, Director of Data Processing
Jerry Meyer, Manager, Real Assets
Kevin Odum, Attorney Specialist
Tammy Porter, Executive Assistant
Michael Ray, Dir., Member Services
Clint Rhoden, Director of Operations
Joe Sithong, Software Support Analyst
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Guest Present
Donna Morey, ARTA.

via teleconference

I. Call to Order/Roll Call. Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 11:15 a.m. Roll call was taken. Ms. Franks and Mr. Key were absent. .

II. Motion to Excuse Absences.

Ms. Nichols *moved* to *excuse* Ms. Franks and Mr. Key from the June 5, 2017 Board of Trustees meeting. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.*

III. Adoption of Agenda

Ms. Nichols *moved* for *adoption* of the Agenda. Mr. Lester s*econded* 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. April 17, 2017 Minutes.

Dr. Abernathy *moved* for *approval* of the Minutes of the Board of Trustees meeting of April 17, 2017. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

B. May 10, 2017 Minutes

Mr. Lester *moved* for *approval* of the Minutes of the Board of Trustees meeting of May 10, 2017. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion*

VI. Report of Member Interest Waived Under A. C. A. Section 24-7-205. Mr. Hopkins presented the member interest amount waived report. ATRS waives interest for 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. Since ATRS has implemented the actuarial cost method for the purchase of service credit, interest waived is slowly disappearing, as well as the number of members who purchase service credit. No member interest was waived this reporting period.

VII. 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 also waive employer interest and penalties when reports or payments are late or have issues due to a new bookkeeper, inclement weather, sickness and other situations that justify a waiver. Six (6) employer penalties and interest were waived for this reporting period for a total amount of **$952.80**.

VIII. Manifest Injustice Report. The Manifest Injustice Committee reviewed four (4) cases. Three (3) claims were not found to be manifest injustice. The final claim was found to be a manifest injustice. The Member attended a bus safety workshop in July, 2016, and was paid an unsolicited Christmas Bonus of $50 near Christmas of 2016. This violated the member's separation period. It was 8 months before the school district reported the $50 payment to ATRS administration. The committee recommended member be responsible for only 2 months of overpaid benefits. Any amount received through September 30, 2016, will be recovered through a reduction in member's lump sum death benefit. The rule on Manifest Injustice requires executive director to report to the ATRS Board on Manifest Injustice claims at least two times per year. This is the first report of 2017. If the ATRS Trustees would like a different format or reporting process, just let ATRS staff know. This report was for information purposes only.

IX. Board Review of Manifest Injustice Finding.

A. West Memphis School District. During the 2015-2016 school year, the Hughes School District was consolidated with the West Memphis School District due to a state mandated consolidation. As a result of the consolidation, West Memphis also assumed an employer contribution liability due to ATRS from the Hughes School District in the amount of $52,747.38 for employer contributions, penalties, and interest. A majority of the amount due was for Hughes employees that are no longer employed and were never employed at the West Memphis School District. A manifest injustice claim was filed by the West Memphis School District to waive employer contributions on behalf of the Hugh School District due as a result of the state mandated consolidation. The ATRS manifest injustice committee recommended that the amount of $52,747.38 the Hughes School District incurred for employer contributions, penalties, and interest prior to the consolidation be waived in total. The executive director has placed this request on the Board agenda for consideration, since the amount exceeds the executive director's authority to waive.

The executive director and staff recommend that the Board waive the $52,747.38 liability the West Memphis School District assumed through no action on their part.

Dr. Abernathy *moved* to *approve* the Recommendation of the Manifest Injustice Committee to waive the $52,747.38 liability the West Memphis School District assumed. **Dr. Abernathy *seconded* the *motion*, and the Board *unanimously approved the motion.***

X. **Audit Committee Report.** Ms. Kelly Davis, Chair, gave a report on the Audit Committee meeting.

A. **Nominees for Vacant At-Large Member Position.** Ms. Brenda West presented the following resumes of nominees for the Vacant At-Large Member Position:

A. June Barron, CPA, CFE.
B. Robert (Rob) Rodgers, CPA CGMA.

The Committee reviewed the nominees resume. The Committee voted to recommend to the Board Ms. June Barron, for the Vacant At-Large Member Position.

Ms. Davis *moved* to *approve* the Recommendation of Ms. June Barron, for the Vacant At-Large Member position, and the Board *unanimously approved the motion.*

B. **Audit Committee Charter.** Act 127 of 2017 gives the Audit Committee of the ATRS Board of Trustees the authority to perform an annual employee evaluation of the Internal Auditor of ATRS, so long as the Board has an Audit Committee. The legislation is considered to be a best practice in that it allows the Internal Auditor to perform their duties without any outside influence. The Audit Committee Charter has been updated to reflect Act 127. Ms. Brenda West presented a proposed copy of the changes to the Audit Committee Charter.

Ms. Davis *moved* to *approve* the Audit Committee Charter, and the Board *unanimously approved the motion.*

C. **Internal Audit Charter.** The International Standards for the Professional Practice of Internal Auditing (Standards) require audit organizations to establish an audit charter that formally defines the organization's purpose, authority, and responsibility. The ATRS Internal Audit Charter presented for approval establishes the Internal Audit position within ATRS, including the Internal Audit Director's functional reporting relationship with the Board of Trustees; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The Standards and the Charter also require Internal Audit staff members to submit Conflict of Interest Statements and Code of Ethics Acknowledgments annually. Signed copies of the Conflict of Interest Statements and Code of Ethics Acknowledgments are included with the 2018 Audit Plan. The Internal Audit Charter was presented to the Audit Committee for approval on June 6, 2016, however the Internal Audit department does not have a signed copy. The Internal Audit is requesting the Committee reaffirm the Internal Audit Charter.

Ms. Davis *moved* to *approve* the Internal Audit Department Charter, and the Board *unanimously approved the motion.*

D. **Audit Plan for FY2018.** As required by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), and by Arkansas Teacher Retirement Systems (ATRS) Internal Audit Charter, IA submitted the Internal Audit Plan for the Fiscal Year 2018. Projects were identified for this audit plan by using the ATRS risk assessment. As ATRS continues to grow in terms of responsibilities, assets, and membership, there are areas that require regular reviews to ascertain whether the system continues to operate in an effective and efficient, risk-controlled manner. Choices were made in determining which audits to perform first by determining which areas posed greater risks for the system. We have selected areas of processes for review where failure of the system to adequately perform could have serious consequences for ATRS, its members and stakeholders, and the Board. Also, presented was the FY2017 Summary of Work completed, the Conflict of Interest Statements, and the Code of Ethics Statements.

Ms. Davis *moved* to *approve* the Audit Plan for FY2018, and the Board *unanimously approved the motion.*

E. **Other Business.** Shane Benbrook reported on the Internal Auditors National Conference that was held in Little Rock. There were approximately 53 in attendance. Brenda West commented on the great job that Shane Benbrook and Mitzi Ferguson did on the conference. This was the first time it was held in Arkansas and it was a great success.

XI. Investment Committee Report. Ms. Nichols, Chair, gave a report on the Investment Committee meeting.

A. Arkansas Related and Investment Update

1. List of Fund Closings. Mr. Hopkins gave the Committee a report on the following Fund Closings**:**

a. The Board Authorized Commitment of up to an Additional $25 Million Dollars to Halderman Real Asset Management was Accepted and Closed on May 23, 2017. The ATRS full commitment of an additional $25 million dollars was negotiated, accepted, and closed on May 23, 2017.

b. LaSalle Income and Growth Fund VII, LP, a Closed End Value Added Real Estate Fund Focused on Non-Core Real Estate with Strong Income with Imminent Need, Board Authorized Commitment of up to $20 Million Dollars on February 6, 2017, was Accepted and Closed on March 31, 2017. The ATRS full commitment of $20 million dollars was negotiated, accepted, and closed on March 31, 2017.

c. BVIP Fund IX, L. P., a Private Equity Buyout Fund Investing in Middle Market Companies in the Business Services, Information Technology and Communication Services Sectors with Imminent Need, the Board Authorized Commitment of up to $30 Million Dollars on February 6, 2017 was Accepted and Closed on April 7, 2017. The ATRS full commitment of $30 million dollars was negotiated, accepted, and closed on April 7, 2017.

d. One Rock Capital Partners II, L. P., a Private Equity Multi Strategy Fund Specializing in Lower Middle Market Companies in the Specialty Manufacturing, Healthcare Products, Chemical and Processing, Business and Environmental Services and Auto Retail Sectors with Imminent Need, the Board Authorized Commitment of up to $30 Million Dollars

on February 6, 2017 was Accepted and Closed on March 31, 2017. The ATRS full commitment of $30 million dollars was negotiated, accepted, and closed on March 31, 2017.

2. **Fund Maturities**

   a. **Doughty Hanson & Company European Real Estate, LP, a Real Estate Fund Focused on Development, Repositioning, and Operating Companies, the Board Authorized Commitment of $50 Million Dollars in 1999 has Matured and the Final Distribution was Received April 10, 2017. The Investment Produced a Net IRR of 28% Since Inception.** The Board authorized investment in Doughty Hanson & Company European Real Estate, LP, has matured and the final distribution was received from the fund on April 10, 2017. The investment produced a net IRR of 28% since inception.

   b. **Doughty Hanson & Company III, LP, a Private Equity Buyout Fund Focused on Large and Middle Market Companies in Various Industries, the Board Authorized Commitment of $100 Million Dollars in 1997 has Matured and the Final Remaining Portfolio Company was Sold in April 2017. The Investment Produced a Net IRR of Approximately 14% Since Inception.** The Board authorized investment in Doughty Hanson & Company III, LP has matured and the final remaining portfolio company was sold in April 2017. ATRS will continue to receive proceeds from the final sale for several months. The investment produced a net IRR of approximately 14% since inception.

B. General Investment Consultant

A. Preliminary Performance Report for the Quarter Ended March 31, 2017. PJ Kelly of Aon Hewitt Investment Consulting presented the preliminary report for the month ended March 31, 2017. The ATRS fund had a market value of approximately $15.6 billion dollars. The total fund had a return of 8.4% since inception, underperforming its benchmark of 8.5%. Total equity had a market value of approximately $9 billion dollars. Total equity had a return of 6.4% since inception, underperforming its benchmark of 7.1%.

C. Real Assets Consultant Report.

1. **Performance Report for the Quarter Ended December 31, 2016.** Chae Hong, of Aon Hewitt Investment Consulting presented the performance report for the quarter ended December 31, 2016. NCREIF's NPI registered at 1.7% and NFI-ODCE (net) returned 1.9%. The NPI returned showed a 10 bps decrease quarter over quarter while the NFI-ODCE showed a 10 bps increase. Though the trailing 12 month returns remained above the sector's long run average, returns have moderated and the expectation for 2017 is a 6% - 7% net return which is in line with long term averages. NCREIF Timberland Index returned 1.2% for the quarter and 2.6% for trailing one year. Timberland showed an increase of 50 bps quarter over quarter and a decrease of 70 bps over the trailing one year. NCREIF Farmland Index gained 2.9% for the fourth quarter, an increase of 150 bps, while posting a 7.1% return for the trailing one year, a decrease of 150 bps over the third quarter results

2. **Recommendation to Commit up to $50 Million Dollars in IFM Global Infrastructure (US), L.P. Class A Interest, an Open End Real Assets Infrastructure Fund Specializing in Core Investments in Established Markets.** Based in Australia, the Industry Funds Management (IFM) Global Infrastructure Fund (GIF) was launched in 2004 for Australian investors and was modified in 2009 to enable investors outside of Australia to invest in the fund. IFM is owned by 30 major Australian not-for-profit pension funds that also form the fund's core group of investors. The successful investment team has 47 professionals led by Kyle Mangini. Mr. Mangini has over 20 years of experience in infrastructure investing.

   The open end fund invests globally in core infrastructure assets in established markets with long time horizons. The fund typically targets infrastructure investments such as airports, distribution of electricity, telecommunications, and toll roads. Since inception the fund has produced a net IRR of 6.7% which is strong for this type of investment given the fund's lower risk profile and the stability of the fund's underlying assets.

   Mr. Hopkins confirmed staff supports recommendation.

   Ms. Nichols *moved* to *adopt* Resolution 2017-19, to Commit up to $50 Million Dollars in IFM Global Infrastructure (US), L.P. Class A Interest, an Open

End Real Assets Infrastructure Fund Specializing in Core Investments in Established Markets. **The Board *unanimously adopted the Resolution.***

3. **Recommendation to Commit up to $25 Million Dollars in Landmark Real Estate Partners VIII, L.P., a Closed End Opportunistic Real Estate Fund Investing in Secondary Interests of Value Added and Opportunistic Funds.** Landmark is a private equity and real estate investment company specializing in secondary funds. Formed in 1989, the firm has one of the longest track records in the industry and is a source of liquidity to owners of interests in venture, mezzanine, buyout, and real estate limited partnerships. Landmark is headquartered in Simsbury, Connecticut, and has offices in Boston, New York, and London. In 1996 Landmark pioneered the real estate secondary market with the first institutional real estate secondary market transaction. The secondary real estate market for limited partnerships is a way that pension plans, like ATRS, can sell its partnership shares to another investor, including other pension plans, to obtain cash. An investor in a partnership may want to sell their interest for several reasons including the need to raise cash or asset allocation rebalancing. Investors who purchase the partnership shares receive all future income and assume all contractual obligations of the partnership including any remaining contributions to the partnership.

Landmark Real Estate Partners VIII, L.P. (Fund VIII) is a closed end opportunistic real estate fund-of-funds focused on acquiring existing real estate partnerships in the secondary market. Fund VIII expects to leverage its 26-year history of secondary investing to assemble a diverse, global portfolio of assets that span the real estate risk spectrum by acquiring interests in existing funds, partnerships and other structured entities invested in underlying real estate. Landmark will target funds that are substantially committed and seasoned and will look to acquire at a discount and/or structured purchase arrangements. The fund size is $2 billion dollars and will target a 15% plus net IRR. To date, the fund has launched six real estate secondary funds with assets under management totaling $15.5 billion dollars. Previous funds have generated a net IRR of 26.8%. ATRS invested in Landmark Real Estate Partners Fund VI in April of 2010 and that fund has produced a net IRR of 21.4%.

Mr. Hopkins confirmed staff supports recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2017-20, to Commit up to $25 Million Dollars in Landmark Real Estate Partners VIII, L.P., a Closed End Opportunistic Real Estate Fund Investing in Secondary Interests of Value Added and Opportunistic Funds. The Board *unanimously adopted the Resolution.*

D. Private Equity Consultant Report.

1. **Private Equity Portfolio Review for the Quarter Ended December 31, 2016.** Michael Bacine of Franklin Park presented the private equity report for the quarter ended December 31, 2017. ATRS Legacy Portfolio is still in liquidating stage and has a remaining value of 2.3% with a total IRR of 9.2%. CSFB Portfolio is also liquidating and will continue to see distributions. CSFB has a remaining value of 17.5% with a net IRR of 8.7%. The Post 2006 Portfolio represents 2/3 of ATRS portfolio and will continue to grow as more commitments to capital are made. The Post 2006 Portfolio has a net IRR of 15.2%. The total fund had a net IRR of 10.1% for the quarter ended December 31, 2016.

2. **Recommendation to Commit up to $30 Million Dollars for NGP Natural Resources XII, L.P. a Private Equity Fund that Seeks to Make Control Investments in Oil and Natural Gas Exploration and Production Companies.** NGP XII is the fourth investment that ATRS would potentially make with Natural Gas Partners. ATRS is currently in NGP IX, X, and XI. Like the previous funds, NGP XII will focus on sectors of the energy industry that are primarily related to upstream production and development of crude oil and natural gas in North America. The fund will generally target consolidation and enhancement of mature, producing assets in partnership with experienced management teams to enhance production and output. Secondarily, investments will be considered in midstream (the transportation, storage, analysis, and marketing of oil and natural gas) and oilfield services businesses (businesses that provide products and services to the oil and natural gas industry such as drill stems and equipment maintenance).

NGP is a talented and deep investment firm that has proven through its previous funds that it has the resources, deal flow, and capability to make quality investments in the energy sector. The firm was founded in 1988 and today is led by Tony Weber and Chris Carter along with eleven senior professionals. The current NGP investment team has been together for an average of 10 years and has been able to adjust within the commodities of the energy sector to continue to provide quality returns even as natural gas prices and crude oil prices fluctuate. Overall, the firm has generated a net IRR of 13.6% on its previous four funds and is targeting a net return in excess of 20% for NGP XII.

Mr. Hopkins confirmed staff supports recommendation.

> **Ms. Nichols *moved* to *adopt* Resolution 2017-21, to Commit up to $30 Million Dollars for NGP Natural Resources XII, L.P. a Private Equity Fund that Seeks to Make Control Investments in Oil and Natural Gas Exploration and Production Companies. The Board *unanimously adopted the Resolution.***

3. **Recommendation to Commit up to $30 Million Dollars to Altaris Health Partners IV, L.P., a Private Equity Buyout Fund Specializing in Small to Middle Market Health Care Companies.** Located in New York, Altaris was formed in 2002 with sponsorship from AIG. Today the firm is independent and is led by four successful principals, Daniel Tully, George Aitken-Davies, David Ellison and Robert Watson who have an average of over 13 years of experience each in the private equity industry and 10 years with Altaris. The fund will primarily target U.S. and European healthcare companies with attributes such as intellectual property, defensible market positions, limited government reimbursement and transformational business models. In particular, the fund will focus on corporate carve-outs (the separation of a special asset or division of a corporation from the parent company that results in a standalone company), leveraged buyouts (the purchase of a company using significant amounts of borrowed money) and growth equity investments in pharmaceutical, medical device, and information and technology companies. Investments by the fund will generally require equity of less than $60 million dollars. The firm has generated attractive returns with an average net IRR greater than 20% in its previous four funds.

Mr. Hopkins confirmed staff supports recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2017-22, to Commit up to $30 Million Dollars to Altaris Health Partners IV, L.P., a Private Equity Buyout Fund Specializing in Small to Middle Market Health Care Companies. The Board *unanimously adopted the Resolution.*

XII. Operations Committee Report. Mr. Lester gave a report on the Operations Committee meeting.

A. Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.

1. Open Forum. Mr. Hopkins discussed the CBA program. Currently, they are allowed two (2) standard withdrawals in a quarter. He suggested the Committee may want to make it three (3) standard withdrawals and one (1) hardship. The Committee asked executive staff to draft new rule and bring to the next meeting in September.

B. **Potential Rule Changes.** The following potential rule changes were presented pursuant to the 2017 Legislative Session.

1. Rule 6-2: Reciprocity pursuant to Act 612 of 2017. This rule allows a member to voluntarily waive all or part of concurrent service credited to a member in ATRS and retire under a reciprocal system. Now when a member has service for the same time period like working for both an APERS employer and an ATRS employer, the member gets to choose the system that provides the service credit. Before this law the member had no choice and ATRS always got the service and liability for the service. Now the member decides. This rule needs changing to reflect the new law.

2. Rule 9-2: Age and Service (Voluntary) Retirement pursuant to Act 780 of 2017 and Act 293 of 2017. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Acts 293 and 780 that maintain and provide a more flexible mechanism to protect the financial strength of ATRS and in order to protect its members.

First, this rule reflects the new law that purchased and free credited service may be used in the calculation of credited service.

The rule change also reflects the new law that allows the Board to reverse a compounded COLA. The ATRS Board may already reverse the 2009 compounding of the COLA. The reversal may include a chart or proxy formula to be applied for members that have complicated changes in their benefits due to divorce, remarriage, death of the member, or death of a spouse. This rule would also allow the Board to phase in reversal to prevent a retiree from receiving a reduction of benefits at any time.

Finally, the rule change reflects changes in the law regarding a member's control over their designated beneficiary if requested by the member**.** Now, the member may override the statutory presumption that the member's spouse always receives the residual benefit of the member.

3. **Rule 9-4: Disability Retirement pursuant to Act 549 of 2017**. This rule change is necessary to clean up language in the rule after the passage of Act 549 to give disability retirees flexibility and to encourage and enable them to return to work and thus be off disability retirement. The rule reflects the streamlining of the ATRS disability process and allows disability retirees to return to work on a full time or part-time basis to assist schools in meeting critical staffing needs. The rule safeguards the disability retiree benefits if they attempt to go back to work full time, but find that their disability prevents them from doing so. It also helps prevent a disabled retiree's loss of ATRS disability benefits by allowing a review by the ATRS' medical committee within three months of disability benefits ceasing due to the lack of Social Security Administration favorable disability determination letter. The rule change also reflects the change in the law that allows all reciprocal service credit with another Arkansas public retirement system to be counted for vesting purposes for disability retirement.

4. **Rule 9-8: Error Corrections and Collection of Overpayments pursuant to Act 241 of 2017**. This proposed rule change is necessary after the passage of Act 241 that allows an additional exception in the five (5) year lookback law statute of limitations for under-reported service of a member upon which all

contributions were paid at the time, when the under-reporting is due to an obvious or documented error by the employer or ATRS.

5. **Rule 9-9: Retirement Applications Rules and Deadlines**. This proposed rule is requested for the proper administration of retirement applications and benefits. The new rule would create a "window" of 3 months in which a member may apply for retirement benefits before their effective date of retirement. (APERS has such an application window for its members.) The new rule also allows ATRS to hold a member's application if the member applies too early or too late, and requires the member to fill out a simple form once an allowable date is reached, directing ATRS to file the application at that later date. The new rule applies to voluntary retirement, early retirement, and T-DROP. It does not apply to disability retirement or survivor benefits.

6. **Rule 10-3: T-DROP pursuant to Act 1049 of 2017 and Act 243 of 2017**. This proposed rule change is necessary after the passage of Acts 243 and 1049. First, the rule allows the Board to adopt either a fixed or variable T-DROP interest rate. A variable interest rate formula would likely be based upon investment returns and other similar factors. The Board may adopt a T-DROP participation incentive rate during a fiscal year, in addition to the applicable interest rate, if investment returns and financial conditions justify an incentive rate for the fiscal year.

   The second change in the rule allows the member to change a spousal benefit to an alternative beneficiary, and vice-versa. This last change is due to members now having control over their residual beneficiary.

7. **Rule 11-1: Survivor Benefits pursuant to Act 782 of 2017 and Act 243 of 2017**. This proposed rule change is necessary after the passage of Act 243 which eliminates the current automatic statutory designation that residual benefits must go to a spouse. Now the member can override that directive by using a new form. The rule allows a member of ATRS to voluntarily designate an alternative residual beneficiary in lieu of an automatic spousal designation to receive a lump sum payment of the member's residue amount upon death of an active or T-DROP member. This means no spousal survivor benefit shall

be payable if an alternative beneficiary is named. It also strikes language regarding the inclusion of the monthly stipend, since the Board now has greater flexibility to adjust the benefit stipend, if needed in order to maintain actuarial soundness

8. **Rule 13: Administrative Adjudications**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Act 967 which allows civil actions to be filed in the county of residence of the member, and strikes language which lists Pulaski County only.

C. Implementation of Outsourcing. Based upon the emergency clause of Act 575 not passing, Act 575 becomes effective on August 1, 2017, which is 90 days after the adjournment of the regular session. ATRS employers outsourcing on August 1, 2017 will have sixty (60) days to decide to either become a surcharged employer or a participating employer for outsourced employees. For employers becoming a surcharged employer, the surcharge for all salary earned beginning August 1, 2017, through the end of the fiscal year will be 0.5%. If an employer becomes a participating employer, the employer can elect to pay the surcharge during a phase in period or can begin immediately to pay full contributions on salaries. Employers that begin outsourcing after August 1, 2017, will have sixty (60) days from when outsourcing begins to make the election to either be a surcharged employer or participating employer.

The intent is to allow a couple of months to work with employers before any late reporting penalty or interest is applied. Technically, the first surcharge reports and payments are due on September 15, 2017. The staff's intent is to allow the reports for both August and September to be filed on October 15, 2017, with payments for August and September both made on those dates. That should allow enough time for questions to be answered and employers to understand the reporting and payment requirements. Therefore, the process should be smooth as this becomes part of the regular ATRS contribution process.

D. Mandatory Conversion from a Paper Check to EFT based upon a consistent failure to cash checks. ATRS currently has about 800 retirees still receiving a paper monthly benefit payment. Some members in this 800 have a regularly recurring issue of not cashing checks for several months or losing checks. In order to prevent losses due to the death of members, ATRS staff has implemented a procedure to suspend the payment of a paper check to a member after a 2nd consecutive monthly check has not been cashed for at least one (1) month. This would mean that a payment due at the end of July has not been cashed, a payment due at the end of August has not be cashed, and the payment at the end of September has also been mailed.

Once these three (3) checks have all been issued and not deposited, ATRS currently suspends the payment until the member has been contacted to ensure the member is still alive and a change of address has not placed the payments in jeopardy of fraudulent activity. Some members have objected since a paper check paid by the State of Arkansas is legal to be deposited for 15 months. New retirees cannot obtain a paper check unless the executive director grants a waiver.

Unless the Operations Committee or Board voices concern about the new procedure outlined below, ATRS staff intends to implement a new procedure for the failure to cash checks as outlined above. The new procedure is that once a payment is suspended for failing to deposit or cash a second check for at least an additional month, the member will no longer be eligible for receiving paper checks unless the executive director grants a waiver. This will better protect members, will eliminate a recurring problem encountered with some members losing paper checks, or creating an administrative issue as checks pile up by some members receiving and not cashing checks that sometimes exceeds $10,000.00.

The Committee had no opposition to the staff's procedure outlined above.

XIII. Staff Reports.

A. Medical Committee Reports. A Total of 32 Disability Retirement Applications Approved.

The Medical Committee Report is a standard report made by staff on behalf of the Medical Committee approving disability cases. A total of 33 disability applications were received, 32 were approved for disability benefits, and 1 needed more information.

> **Dr. Abernathy *moved* to *approve* the Medical Committee Reports. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.***

XIV. Other Business: None

XV. Adjourn.

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

Meeting adjourned at 11:45 a.m.

George Hopkins, Executive Director	Mr. Jeff Stubblefield, Chair Board of Trustees
Tammy Porter, Recorder	Date Approved