

Minutes

Called Meeting Arkansas Teacher Retirement System Board of Trustees

December 5, 2000

The Arkansas Teacher Retirement System Board of Trustees met in a called meeting on Tuesday, December 5, 2000, at 4:30 p.m. The meeting was held in Room 300, Arkansas Teacher Retirement Building, 1400 West Third, Little Rock, Arkansas.

Members of the Board Present:

Linda Parsons, Chair
Charles Vondran, Vice Chair
Hazel Coleman
Winfred Clardy
Dr. Paul Fair
Ann Harbison
Betty McGuire
Gus Wingfield

Members of the Board Absent:

Charles Dyer
Jimmie Lou Fisher
John Fortenberry
Mary Harris
Lynda Hogue
Ray Simon
Frank White

Members of the Staff Present:

Bill Shirron, Executive Director
Gail Blair, Manager, Data Processing
Angelo Coppola, Deputy Director
Wayne Greathouse, Associate Director/Investments
Tammy Medlock, Administrative Assistant
Michael Ray, Manager, Benefits & Counseling
Bernice Smith, Manager, Accounting
George Snyder, Chief Fiscal Officer
Barbara Waldrop, Manager, Pre-Retirement Education

Others Present:

Joe Black, Arkansas Retired Teachers Association
Bill Conrad, A.G. Edwards
Richard Holbein, Holbein Associates, Inc.
Kevin Hutchingson, Barnes Quinn Flake & Anderson
James McGuire, Guest of Betty McGuire
Jonelle Mitchell, Arkansas Retired Teachers Association
John Peace, Dover & Dixon, P.A.
Dr. Don Roberts, Arkansas Retired Teachers Association
Leonard Venable, Office of the State Treasurer

Resolutions - John Peace, Dover & Dixon

Mr. Vondran made a motion to adopt the resolution regarding qualified status presented by Mr. John Peace. The motion carried. (Attachment A)

Dr. Fair made a motion to adopt the resolution for employer pick-up contributions presented by Mr. Peace. The motion carried. (Attachment A)

Mr. Peace indicated the language in the adopted resolutions will be included in ATRS' clean-up legislation.

Investment Committee Report - Charles Vondran, Chair

Mr. Vondran reported the Committee's actions on December 5, 2001 included:

- Approved a loan request by Arkansas Society of Certified Public Accountants (Little Rock) in the amount of \$750,000.
- Approved a loan request by Dr. Keith Dixon for a medical office building (North Little Rock) in the amount of \$950,000.

The Investment Committee changed its meeting schedule and beginning January 2001, will meet every first Thursday of each month at 9:00 a.m. (Attachment B)

Actuarial Cost Proposals

Mr. Shirron presented the actuary's cost proposals showing the amount of ATRS reserves needed to fund two proposals:

- Multiplier and Ad Hoc Retiree Increase (Proposal 8 - Attachment C). This increase would cost ATRS \$120 million in reserve funds to implement
- \$25 per month Increase (Proposal 9 - Attachment C). This increase would cost ATRS \$70 million in reserves to implement.

Mr. Shirron stated the fund's current market value is \$7.489 billion, which is down \$500,000 million from July 1. For this reason Mr. Shirron recommended the board delay action on the proposals until after July 1, 2001. Mrs. McGuire made a motion to defer action until a later date. The motion carried.

Van Horn's Status Report - Arkansas Retirement Systems

By common consent the Board agreed to delay discussion of the report until more board members were present.

In other business

- **Airport Property in Bentonville.** Mr. Shirron stated the Investment Committee in October authorized him to offer up to \$13,000 per acre for the Bentonville property. He reported his offer of 12,500 per acre was declined. Mrs. McGuire made a motion to authorize Mr. Shirron to offer up to \$15,000 per acre. The motion carried
- **Aegon (National Old Line) Building.** Mr. Shirron stated the Board may receive a request from Pollution Control & Ecology, a state agency, to enter into a leasing agreement with ATRS in which ATRS would lease the building, renovate and sublet the majority of the building back to PC&E at \$12-\$13 per foot. Mr. Shirron stated this would give ATRS a 9% return, and would

allow the state to buy the lease for the amount ATRS put into it. He will report back to the Investment Committee in January.

As there was no further business to consider, Dr. Fair made a motion to adjourn. The motion carried and the meeting adjourned at 5:00 p.m.

Linda Parsons, Chairman

Bill Shirron, Secretary to the Board

Date

**RESOLUTION REGARDING QUALIFIED
STATUS UNDER CODE §401(a)**

WHEREAS, the Board of Trustees ("Board") of the Arkansas Teachers Retirement System (the "System"), pursuant to A.C.A. §24-7-301 is responsible for the general administration and proper operation of the System and for making effective the provisions of the Arkansas Teacher Retirement System Act ("Act"); and

WHEREAS, it has always been the intention of the Act and the Board in administering the System that the System constitute a qualified trust described in Internal Revenue Code ("Code") §401(a) and that the System be exempt from taxation under Code §501(a), and, as such, the Board has made every effort to insure that the System, in operation, complies with the provisions of the Act and all provisions under the Code and related Treasury regulations applicable to a qualified trust described in Code §401(a); and

WHEREAS, in an effort to further insure continued qualified trust treatment under Code §401(a), the Board has determined that it is necessary to adopt certain additional regulations regarding the operation of the System.

THEREFORE, BE IT RESOLVED, that the following regulations are hereby adopted, effective July 1, 2000, regarding the continued operation of the System:

(1) Notwithstanding the provisions of Subchapter 7 of the Act, the members' benefits under the System shall be 100% vested (to the extent such benefits are then funded) in the event there is a partial or complete termination of the System, or in the event of a complete discontinuance of employer contributions to the System.

(2) Notwithstanding the provisions of Subchapter 7 of the Act regarding the required dates of distribution of benefits under the System to former members, the distribution of a former member's benefits under the System shall in any event be made or begun by April 1 of the later of the calendar year following the calendar year (i) in which the member attains age 70-1/2 or (ii) in which the member retires.

(3) Notwithstanding the provisions of Subchapter 7 of the Act, all distributions of benefits under the System shall comply with the requirements of Code §401(a)(9) and the regulations thereunder, including §1.401(a)(9)-2.

(4) Notwithstanding the provisions of Subchapter 4 of the Act, any forfeitures arising from severance of employment, death or for any other reason, may not be applied to increase the benefit any member would otherwise receive under the System at any time prior to the termination of the System or the complete discontinuance of employer contributions thereunder.

(5) Notwithstanding the provisions of Subchapter 7 of the Act, benefits paid under the Act shall not exceed the limitations of Code §415 that are applicable to governmental retirement plans.

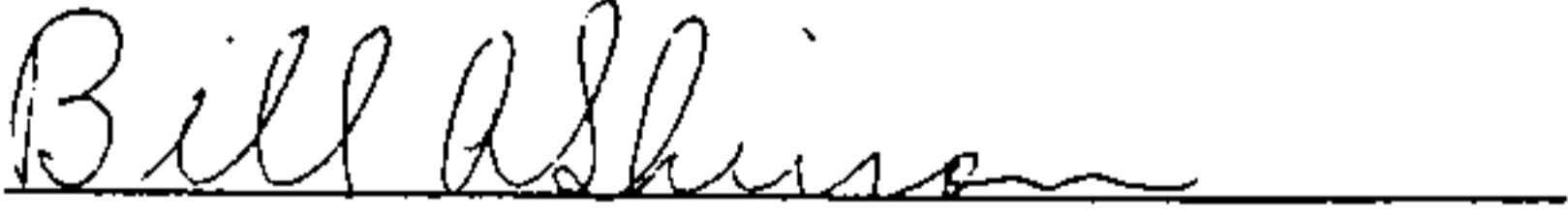
(6) Notwithstanding the provisions of Subchapter 7 of the Act, each member and each beneficiary of a member shall file with the Board, from time to time in writing, his or her post office address and each change of post office address. Any communication addressed to a member or beneficiary at his or her last address filed with the Board (or if no such address has been filed, then at his or her last address as indicated on the records of the member's employer) shall be binding on the member or beneficiary for all purposes of the System, and neither the Board nor the System shall be obligated to search for or ascertain the whereabouts of any member or beneficiary.

In the event the Board is unable, within five years after the payment of a benefit is due to a member or beneficiary, to make such payment because it cannot ascertain the whereabouts of the member or the identity or whereabouts of the beneficiary or personal representative by mailing to the last known address shown on the Board's records, and neither the member, the beneficiary or personal representative has made written claim therefor before the expiration of such five year period, then, and in such case, the Board shall direct that such amount shall be forfeited; provided, however, that such amount shall be reinstated if and in the event the said member or beneficiary or personal representative shall make a valid claim therefor upon presentation of proper identification.

(7) The executive director of the System is hereby authorized to operate the System and interpret any provisions of the Act consistent with the requirements under the Code and applicable Treasury regulations necessary to permit the System to be operated as a "qualified trust" under Code §401(a), notwithstanding any language to the contrary set forth in the Act.

The above resolution was adopted by the Board of Trustees of Arkansas Teacher Retirement System at a duly called meeting on the 5th day of December, 2000.


Chairman


Executive Director

RESOLUTION REGARDING EMPLOYER PICK-UP CONTRIBUTIONS

WHEREAS, the Board of Trustees ("Board") of the Arkansas Teacher Retirement System (the "System"), pursuant to A.C.A. § 24-7-301, is responsible for the general administration and proper operation of the System and for making effective the provisions of the Arkansas Teacher Retirement System Act ("Act").

WHEREAS, A.C.A. § 24-7-406(h) requires that each employer pay the member contributions required by that section for each salary earned by a member of the System after June 30, 1997. Such employer contributions are commonly referred to contributions "picked up" by the employer. Pursuant to A.C.A. § 24-7-406(f), after July 1, 1999 all new members of the System are required to make member contributions; and active members as of July 1, 1999 may elect on or before July 1, 2000 to make member contributions and, once such an election is made, it is irrevocable.

WHEREAS, pursuant to Revenue Rulings 81-35 and 81-36, 1981-1 C.B. 255, the Internal Revenue Service has ruled that, for picked up contributions not to be considered the gross income of the employee, (i) the employer must specify that the contributions, although designated as employee contributions, are being paid by the employer in lieu of contributions by the employee, and (ii) the employee must not be given the option of choosing to receive the contributed amounts directly instead of having them paid by the employer to the System.

WHEREAS, in order to issue a favorable ruling in response to a request by counsel for the System, the IRS has required that a resolution be adopted by the Board confirming these requirements.

THEREFORE, BE IT RESOLVED, that each Employer (as defined in A.C.A. § 24-7-702), shall make all member contributions required by A.C.A. § 24-7-406, and that the employees of each such Employer may not elect to receive such contributions directly. This resolution shall apply to all teacher and nonteacher employees as defined in A.C.A. § 24-7-406.

The above Resolution was adopted by the Board of Trustees of Arkansas Teacher Retirement System at a duly called meeting on the _____ day of December, 2000.

Chairman

Executive Director

Investment Committee Meetings

- The Investment Committee will meet at 9:00 a.m. on the first Thursday of each month.
- The agenda will be set ten (10) days prior to the meeting date.
- All materials to be mailed to Investment Committee members must be in the ATRS office no later than ten (10) days prior to the meeting date.
- The complete agenda and all materials will be mailed to Committee members at least seven (7) days prior to the meeting.
- All materials for projects, which, if approved by the Investment Committee, and an agenda will be mailed to all other trustees at least seven (7) days prior to the meeting date.

ATRS Investment Committee Meeting Schedule for 2001

<u>Meeting Date</u>	<u>Deadline for Agenda Items</u>
January 4	December 22
February 1	January 22
March 1	February 19
April 5	March 26
May 3	April 23
June 7	May 28
July 5	June 25
August 2	July 23
September 6	August 27
October 4	September 24
November 1	October 22
December 6	November 26

**ARKANSAS TEACHER RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATIONS
AS OF JUNE 30, 2000**

PROPOSAL 8: RETIREE HEALTH SUBSIDY OF \$100 PER MONTH with accelerated recognition of \$120 million in investment gains.

PRESENT PROVISION: Retiring members presently receive a subsidy of \$75 per month towards the payment of retiree health care benefits. The subsidy increases by 3% of the original amount each year following retirement.

PROPOSED PROVISION. The subsidy amount could be increased by \$25 to \$100 per month. The subsidy would continue to increase by 3% of the original amount each year following retirement.

Actuarial Statement

The financial effect of the proposal is shown below:

Change in Contributions for:	% of Active Member Payroll
Employer Normal Cost	0.27%
Accrued Liabilities	0.37
TOTAL	0.64%

The schedule above shows the stand alone cost of this proposal. Under the current 12.00% contribution rate, this proposal cannot be financed over a 30 year period. However, with an accelerated recognition of \$120 million in investment gains, the amortization period returns to 30 years. If experience for the year ended 6/30/2001 is reasonably in line with assumptions, the resulting amortization period at June 30, 2001 will not exceed 30 years even with the benefit changes. However, the decision to recognize these gains at this time is a Board matter and not an actuarial matter.

**ARKANSAS TEACHER RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATIONS
AS OF JUNE 30, 2000**

**PROPOSAL 9: INCREASE IN BENEFIT MULTIPLIER AND 1.2% AD-HOC RETIREE
BENEFIT INCREASE with accelerated recognition of \$70 million in investment
gains.**

PRESENT PROVISIONS: A member may retire with an annuity equal to 2.125% of final average salary (FAS) times contributory service plus 1.365% of FAS times non-contributory service

PROPOSED PROVISIONS: Future retirees would be eligible to retire with an annuity equal to 2.15% of FAS times contributory service plus 1.39% of FAS times non-contributory service. Current retirees would receive an increase of 1.2% of current benefits.

Actuarial Statement

The financial effect of the proposal is shown below:

Change in Contributions for:	% of Active Member Payroll
Employer Normal Cost	0.15%
Accrued Liabilities	0.30
TOTAL	0.45%

The schedule above shows the stand alone cost of this proposal. Under the current 12.00% contribution rate, this proposal cannot be financed over a 30 year period. However, with an accelerated recognition of \$70 million in investment gains, the amortization period returns to 30 years. If experience for the year ended 6/30/2001 is reasonably in line with assumptions, the resulting amortization period at June 30, 2001 will not exceed 30 years even with the benefit changes. However, the decision to recognize these gains at this time is a Board matter and not an actuarial matter.