MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
Dr. Richard Abernathy, Chair

Monday, December 6, 2010
1:00 p.m.
1400 West Third Street
Little Rock, AR 72201

Board Members Present
Dr. Richard Abernathy, Chair
Lloyd Black
David Cauldwell
Candace Franks
Dr. Tom Kimbrell
Beverly Leming
Bobby G. Lester
Donna Morey
Robin Nichols
Janelle Riddle
Honorable Martha Shoffner
Jeff Stubblefield

Board Members Absent
Hazel Coleman, Vice Chair
Charles Dyer
The Honorable Jim Wood

Actuaries Present
Judy Kermans, Gabriel Roeder Smith
Brian Murphy, Gabriel Roeder Smith

Reporters Present
Mike Wickline, Arkansas Democrat Gazette

Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Brent Barret, Senior Software Support
Bob Berry, Chief Fiscal Officer
Susan Crosby, Senior Investment Analyst
Kay Daniel, Director's Assistant
Dena Dixon, Risk Mgmt/Internal Audit
Reed Edwards, Litigation Attorney
Laura Gilson, General Counsel
Amy Glavin, Administrative Assistant
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Jerry Meyer, Dir. Real Estate
Michael Ray, Dir. Member Services
Gaye Swaim, Dir. Human Resources
Leslie Ward, Dir. Private Equity
Brenda West, Risk Mgmt/Internal Audit

Guests Present
Chris Caldwell, Division of Legislative Audit
Sarah Ganahl, Bureau of Leg. Research
Jody Carreiro, Osborn, Carreiro, & Assoc.
Erika Gee, Attorney General's Office
Bob Leming
Steve Singleton, ARTA

I. **Call to Order/Roll Call.** Chair, Dr. Richard Abernathy, called the Board of Trustees meeting to order at 1:05 p.m. Roll call was taken. Hazel Coleman, Vice Chair, Charles Dyer, and the Honorable Jim Wood were absent.

II. **Adoption of Agenda.**

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

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

IV. **Approval of Board of Trustees Minutes of October 4, 2010.**

Ms. Leming *moved* for *approval* of the Minutes of the Board of Trustees meeting of October 4, 2010. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion*.

V. **Preliminary Active Actuarial Valuation*.*** Ms. Kermans presented the preliminary results of the active actuarial valuation. Since 2009, the membership grew from 115,870 active, T-DROP, inactive, and retired members, to 119,327, a growth of 3%. Active member numbers had a growth of 2.2%. T-DROP members showed a drop in number (4,608), but a growth in payroll ($275 million). Deferred members showed a growth in number (11,924) and in vested benefits ($54 million). Retired members showed a growth in number (30,587) and in benefits paid ($613 million).

Total accrued liabilities and applicable assets showed a growth from 2009 to 2010. The agency is 74% funded, down from 76% in 2009. The amortization years grew from 45 in 2009 to 52 in 2010. Investment return for the year ended June 30, 2010 was favorable compared to the 8% assumed return. The market value rate of return was 14.18%.

Overall, unfunded liability is lower in 2010 than expected, most likely related to pay increases being lower than expected. Other sources may include members delaying retirement. The 2010 investment performance was good but there were significant investment losses in the previous two years. Gains and losses are smoothed in over a four year period. Recent losses more than offset any current and prior investment gains. This caused an increase in the amortization period and a decrease in the funded ratio.

The market value is below the funding value by 10%. Future unrecognized losses of about $1.0 billion will be recognized over three future years, putting upward pressure on the amortization period and downward pressure on the funded percent. This shows progress over 2009, when the market value was 20% below the funding value and there was $1.8 billion in future losses to recognize.

Unless there is a substantial investment gain in 2011, the amortization period is likely to increase significantly. Depending upon future investment return, it is unlikely that the present 14% employer rate can return ATRS to a 30 year amortization period in the near future. ATRS will need to receive either more than 8% return on investments or more than 14% employer contributions to get back to 30 years in the near term.

VI. **Statement of Financial Interest.** Mr. Hopkins explained that each year, Trustees must fill out a statement of financial interest with the Secretary of State before the end of January. ATRS staff will assist the Board, ensuring that the filing deadline of January 31, 2011, is met by all Trustees.

VII. **Proposed 2011 Board of Trustees Schedule.** Mr. Hopkins explained that each year, a proposed meeting schedule is presented to the Board for review. A tentative schedule was presented, and there were no initial concerns or conflicts with the schedule.

VIII. **Report of Member Interest Waived Under A.C.A. Sec. 24-7-205.** Mr. Hopkins reported the member interest waived since June 2010.

IX. **Report of Employer Interest and Penalties Waived Under A.C.A. Sec. 24-7-411.** Mr. Hopkins reported the employer interest and penalties waived since June 2010.

X. **Investment Committee Report.** Ms. Leming gave a report on the Investment Committee meeting.

A. **Arkansas Real Estate Holdings Update.** The State Medical Board has acquired space in the Victory Building, which make it approximately 98% occupied. Several of the Trustees expressed interest in a tour of the Victory Building. Mr. Hopkins said he would be glad to accommodate this request as Trustees' schedules allowed. ATRS lost the Garland County real estate tax case. It will be appealed to the Arkansas Supreme Court. Woodland Heights has risen from an occupancy rate of 38% two years ago to 58% now.

B. **General Investment Consultant Update – Hewitt EnnisKnupp.**

1. **Portfolio Performance Update for the Quarter ended September 30, 2010.**

2. **Portfolio Performance Update for the Month ended October 31, 2010.** There was outperformance in every asset class for the month of October. Two U.S. equity mangers were recognized for outstanding performances. ICC Capital Management performed at 5.7% for the month, and 29.0% for the year ending October 31, 2010, beating their benchmark of 3.9% and 18.3% respectively. Pershing Square performed at 5.2% for the month, and 27.9% for the year ending

October 31, 2010, beating their benchmark of 3.9% and 18.8% respectively.

3. **State Street FX Trades.** ATRS staff is working to obtain information from State Street about the Foreign Exchange (FX) trades to ensure that ATRS is getting fair pricing on all FX trades, as well as avoiding transparency discrepancies. Some states have had issues with FX trades at State Street, and ATRS would like to avoid such complications by continuing to monitor this issue.

C. **Real Estate Consultant Update – Hewitt EnnisKnupp.**

1. **American Center Property Management Recommendation.** Nine firms submitted responses to the RFQ developed by ATRS staff and Hewitt EnnisKnupp. ATRS narrowed the proposals to the lowest bids from two firms: Cooper Realty Investments and Jones Lang LaSalle. Their bids were within $2,000 of each other, and LaSalle was the lowest. Cooper was the previous firm to manage the American Center Property, and their prior management fees had been 4% with a 1.5% tenant improvement fee. Their current bid is a 2% management fee and no tenant improvement fee.

   Ms. Leming *moved* to *approve* the Committee's recommendation to retain Cooper Realty Investments as property manager for the American Center property in Nashville, TN. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion*

2. **Farmland Manager Recommendation.** In the October 4, 2010, Board meeting, the ATRS Board established a $100 million allocation to farmland. ATRS staff and Hewitt EnnisKnupp interviewed four firms that have the capability and experience to manage a farmland account for ATRS. Based on those interviews, ATRS staff and Hewitt EnnisKnupp identified two potential firms: Halderman Farmland Management and Chess Ag.

   ATRS staff and Hewitt EnnisKnupp recommended splitting the farmland allocation between the two firms: $75 million to Halderman and $25 million to Chess Ag.

   Ms. Leming *moved* to *approve* the Committee's recommendation to split the $100 million farmland allocation between Halderman ($75 million) and Chess Ag ($25 million). Ms. Morey *seconded* the *motion*, and the Board *unanimously approved the motion.*

D. **Private Equity Investment Consultant Update – Franklin Park.**

1. **Recommendation for Commitment to Charterhouse Equity Partners V, L.P. (Resolution No. 2010-28)** The fund is being formed to acquire small and lower middle market U.S. companies with enterprise values between \$75 million and \$300 million, with a focus on companies in business services, healthcare services, and consumer products and services sector. Franklin Park recommended this fund because Charterhouse targets a less competitive and inefficient market segment, their entrepreneur program should benefit the fund, the senior team is experienced and cohesive despite several changes since 2001, they have a solid aggregate track record, and the prior fund has performed well.

   Franklin Park recommended a commitment of up to \$50 million.

   Ms. Leming *moved* to *adopt* Resolution 2010-28, authorizing a commitment of up to \$50 million to Charterhouse Equity Partners V, L.P. Ms. Nichols *seconded* the *motion,* and the Board *unanimously approved the motion*

2. **Recommendation for Commitment to EnCap Energy Capital Fund VIII, L.P. (Resolution No. 2010-29)** The fund is being formed to primarily make control equity investments in oil and natural gas exploration and production companies in the U.S. and Canada. Franklin Park recommends this fund because EnCap is an established, brand name investor in the energy sector, the team is experienced and cohesive, and the fund's size is expected to be significantly larger than prior funds.

   Franklin Park recommended a commitment of up to \$50 million.

   Ms. Leming *moved* to *adopt* Resolution 2010-29, authorizing a commitment of up to \$50 million to EnCap Energy Capital Fund VIII, L.P. Ms. Morey *seconded* the *motion,* and the Committee *unanimously approved the motion.*

3. **Recommendation for Commitment to Franklin Park Venture Fund 2011. (Resolution No. 2010-30)** The goal is to raise \$80-\$100 million for commitments to 2011 vintage year funds, using the same strategy as 2008-2010 vehicles. This will be the 4th year ATRS has renewed a commitment to this fund.

Franklin Park recommended a commitment of $25 million by ATRS.

Ms. Leming *moved* to *adopt* Resolution 2010-30, authorizing a commitment of $25 million to the Franklin Park Venture Fund 2011. Dr. Kimbrell *seconded* the *motion,* and the Board *unanimously approved the motion.*

4. **Recommendation for Commitment to Franklin Park International Fund 2011. (Resolution No. 2010-31)** The goal is to raise $50 million for commitments to 2011 vintage year funds for a one year commitment period. No management fees will apply and partnership expenses are paid pro rata by limited partners. This will be the first commitment by ATRS to this fund.

   Franklin Park recommended a commitment of $25 million by ATRS.

   Ms. Leming *moved* to *adopt* Resolution 2010-31, authorizing a commitment of $25 million to the Franklin Park International Fund 2011. Ms. Morey *seconded* the *motion,* and the Board *unanimously approved the motion.*

5. **Recommendation for 2011 Private Equity Commitment Pacing. (Resolution No. 2010-32)** Franklin Park will maintain a consistent investment pace to avoid over-exposure to any market cycle, will concentrate commitments to top-tier managers to avoid forcing capital into structured buckets, and will constrain exposure to a manager, a fund, and certain market segments to manage risk.

   To reach its target allocation of 10%, ATRS should commit approximately $245 million per year.

   Ms. Leming *moved* to *adopt* Resolution 2010-32, authorizing Franklin Park 2011 Private Equity Commitment Pacing schedule. Ms. Riddle *seconded* the *motion,* and the Board *unanimously approved the motion.*

6. **Recommendation to Amend Limited Partnership Agreement with Audax Mezzanine Fund III, L.P.** Audax has requested to amend several sections due to the fund's recent closings. Franklin Park recommended that ATRS approve the amendments because the terms are favorable to limited partners

Ms. Leming *moved* to *approve* the Committee's recommendation to amend the limited partnership agreement with Audax Mezzanine Fund III, L.P. Ms. Nichols *seconded* the *motion,* and the Board *unanimously approved the motion.*

7. **Recommendation to Extend Term for Doughty Hanson & Co. Technology Limited Partnership Number 1.** Doughty Hanson is seeking the consent of the fund's limited partners to extend the term for an additional one-year period to continue liquidating the fund in an effort to maximize the value of its remaining portfolio investments. Franklin Park recommended that ATRS approve the amendment because the terms are favorable to limited partners.

   Ms. Leming *moved* to *approve* the Committee's recommendation to extend the term for Doughty Hanson & Co. Technology Limited Partnership Number 1 for a one-year period. Mr. Lester *seconded* the *motion,* and the Board *unanimously approved the motion.*

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

A. **Previously Approved Legislative Proposals.**

1. **College Legislation.** In March 2010, the Attorney General issued an opinion that Arkansas colleges were allowed great latitude to provide retirement for their employees at their discretion. This method of participation is unworkable for ATRS. The proposal is to allow all current ATRS members at post-secondary employers the eligibility to be grandfathered for participation in ATRS, regardless of status of full or part time employment. All new hires would be subject to a requirement of being fringe benefit eligible as determined by the ATRS employer, vested in ATRS, and subject to permanent election to participate in ATRS when employed by participating Arkansas public post-secondary employers. Some college employers have requested that we allow this irrevocable election to apply only at the existing college and not apply to subsequent transfers. ATRS staff believes this proposed legislation would streamline retirement enrollment in colleges, as well as produce a cost savings.

   Mr. Lester *moved* to *approve* the proposed legislation regarding college retirement enrollment. Mr. Riddle *seconded* the *motion*, and the Board *unanimously approved the motion.*

2. **Disability Retirement Requirements Strengthened.** ATRS uses essentially the same standard for ATRS members as for Social Security disability. Currently, ATRS members can apply for disability up to one fiscal year after the last fiscal year they were employed. The proposed legislation would place into law that disability onset must occur while the member is in active employment and providing service for an ATRS employer. This will prevent some disability claims from being made by members who remain "active" for many months after their final workday and have an illness or injury onset after leaving employment.

   Mr. Lester *moved* to *approve* the proposed legislation regarding disability retirement requirements and requiring applicants to be actively employed with an ATRS employer at the onset of the disability. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

3. **Extend Service Credit Requirement to 160 Days per Year.** The proposed changes would move the service credit requirement from 120 days to 160 days to earn a year of service credit. ATRS staff believes this coincides better with the school year and has a cost savings for ATRS.

   Mr. Lester *moved* to *approve* the proposed legislation regarding service credit requirements, extending the service year to 160 days for a year of service credit. Ms. Riddle *seconded* the *motion*, and the Board *unanimously approved the motion.*

4. **T-DROP.**

   a. **Allow Partial Lump Sum Distributions.** The proposed legislation would give members the ability to split their T-DROP deposits between ATRS and other options such as roll-overs at retirement time instead of the all or none requirement that exists at this time. ATRS staff recommends this option be available for July 1, 2011, for T-DROP participants exiting T-DROP. The second consideration is for T-DROP entrants to elect the distribution formula at the time of entering T-DROP, rather than at the time of exiting T-DROP to better administer the plan and to project cash flow and liquidity needs in the future. However, ATRS staff suggests that if the Board approves requiring the decision at entry into T-DROP, that change should become effective on July 1, 2012, to allow proper counseling and education. The suggested partial distribution is 25%, 50%, or 75% lump sum and the balance as an annuity distribution.

Mr. Lester *moved* to *approve* the proposed legislation regarding partial lump sum distributions, allowing members the option to take 25%, 50%, 75%, or 100% of the distribution as a lump sum, and any balance as an annuity. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion*

b. **Reciprocal Service Years Included in T-DROP Reduction.** Currently, a member with 30 years of service split with 15 years in ATRS and 15 years in a reciprocal system receives an 85% deposit of what their ATRS retirement benefit would be, and an ATRS member with 30 years of service, all in ATRS, receives 70% of what their annuity would be. This proposed change allows ATRS to apply a 1% reduction for each reciprocal service year. This also has a cost savings benefit to for ATRS.

Mr. Lester *moved* to *approve* the proposed legislation to apply a 1% reduction for each reciprocal service year when entering T-DROP. Ms. Shoffner *seconded* the *motion*, and the Board *unanimously approved the motion.*

B. **Potential Legislation.**

1. **Purchase of Member Service Credit.**

a. **Allow One Year For Members with Existing Purchase Accounts to Set Up Reasonable Purchase Plan.** The Legislative auditors have expressed concerns about the service purchase accounts that appear to be inactive and unlikely to be completed. In many instances, the amount owed by the member continues to increase with accrued interest, and the member does not make payments to reduce the balance for several years. What ATRS proposes is to require all members with a service purchase account to establish a reasonable payment plan within one year after July 1, 2011. Once the payment plan is established, any failure to adhere to the plan would result in the service purchase account being cancelled and refunds of payments would be issued to members as allowed by law. For the members who do not develop a reasonable purchase plan, the service purchase account would be cancelled and the member would be refunded the money as legally allowed. Certified mail will be used to contact the members with existing purchase accounts.

Mr. Lester *moved* to *approve* the proposed legislation to allow one year for members with existing purchase plans on July 1, 2011, to set up reasonable purchase plans. Ms. Shoffner *seconded* the *motion*, and the Board *unanimously approved the motion.*

b. **Use Actuary Cost for Purchase of Service Credit.** Currently, ATRS members are paying approximately 45% of the real cost/value of the service being purchased. The system and other members are bearing 55% of the actual value of the purchase. The proposed legislation would use an actuarial cost method for future service purchases beginning July 1, 2011, which will significantly reduce service purchases and limit the cost that service purchase currently passes on to ATRS and its members. This will result in substantial actuarial savings by reducing the arbitrage of service purchases, will significantly reduce the number of purchase accounts, and will free up staff to focus on other member issues.

Mr. Lester *moved* to *approve* the proposed legislation to use actuarial cost to purchase service credit. Ms. Shoffner *seconded* the *motion*, and the Board *unanimously approved the motion.*

2. **Marriage Qualification Requirements.** ATRS has found loopholes and pitfalls in the ATRS law on marriage requirements. Currently, ATRS requires the member to have been married for six months to elect Option A or B spousal benefits. In order to bring uniformity and clarity to the law, the proposed legislation would require that before a retiree can request an Option A or B spousal benefit, the marriage be at least two years old. Thereafter, the retiree would have six months to elect an option if the marriage occurred within two years of their retirement date.

   Mr. Lester *moved* to *approve* that marriage requirements be determined by Board rules and regulations versus the two-year requirement being codified in ATRS laws. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

3. **Eliminate Rescission of Retirement.** Rescission of retirement is an accounting difficulty for ATRS staff, is only used by those who greatly benefit at the expense of the ATRS trust fund, and is not used

frequently enough to justify its continued existence. Eliminating rescission would be a cost savings to the agency and eliminate administrative difficulties associated with bringing a member out of retirement and back to current active status.

Mr. Lester *moved* to *approve* the proposed legislation to eliminate the rescission of retirement. Mr. Black *seconded* the *motion,* and the Board *unanimously approved the motion.*

4. **Termination Refunds or Survivor Spouse Refunds Cancel Noncontributory Years of Service Credit.** Currently, if a member has mixed years of contributory and noncontributory service, and the member or surviving spouse withdraws the contributory portion, the noncontributory service is benefits eligible to the member or surviving spouse if the noncontributory service is for five or more years. ATRS has obtained tax counsel advice that it is appropriate for a termination or death refund of member contributions to cancel all service credit for the member. For instance, if a member is totally contributory with 20 years of service and withdraws their contributions plus interest, that member cancels all 20 years of service credit. However, if a member with 20 years of service has ten contributory service and ten noncontributory service, withdraws their contributions, that member would still receive a benefit based upon the ten noncontributory years of service. ATRS staff proposes that a termination or death refund cancels contributory and noncontributory service. This is for the purpose of cost savings and to eliminate the confusion caused by certain service credit but not all service credit being eliminated by a refund.

   Mr. Lester *moved* to *approve* the proposed legislation that termination or death refunds will cancel all service credit. Ms. Riddle *seconded* the *motion,* and the Board *unanimously approved the motion.*

5. **Allow ATRS to Pay Reasonable Expenses to Cover Absence of an ATRS Trustee while on Official ATRS Business.** ATRS has been paying for substitute teachers in school districts that require ATRS Trustees to cover the cost of substitute teachers while they are on ATRS business. The Department of Finance and Administration asked ATRS to obtain specific legal authority for this expense. The Department of Finance and Administration advised ATRS that it could continue paying this expense until the law was clarified. This is an opportunity to clarify the law and ATRS staff feels this is the proper action to prevent a Trustee elected to the Board from losing money by

having to pay the cost of a substitute in performance of ATRS service. ATRS staff also proposes clarification that ATRS may provide necessary services to allow Board members access to information using a paperless meeting process. The Committee discussed a proposed law change to require ATRS employers of Trustees to allow time for Trustee to attend ATRS meetings.

Mr. Lester *moved* to *approve* the proposed legislation to include the cost of substitute teachers and other necessary expenses that allow paperless Board meetings as ATRS Trustee expenses. The Committee also approved the requirement of ATRS employers of Trustees to attend ATRS Board and Committee meetings. Mr. Black *seconded* the *motion,* and the Board *unanimously approved the motion.*

6. **Allow Board to Appoint a Trustee to Fill an Unexpired Term.** Currently, if a Trustee dies, becomes ineligible to serve due to a change in employment status, or is not excused for three consecutive meeting absences, the position is open until the next Board Election or after a special election. This can often create a long vacancy and a significant additional cost to be paid by ATRS for the election. Typical agency costs of trustee elections are approximately $30,000. The proposed legislation would allow the Board to fill an unexpired term by appointment of a member that meets the requirements of the position.

   Mr. Lester *moved* to *approve* the proposed legislation to allow the ATRS Board of Trustees to appoint a trustee to fill an unexpired term. Ms. Riddle *seconded* the *motion,* and the Committee *unanimously approved the motion.*

7. **Contract Buy Out Service Credit Requires Member to Work On Site.** There has been some concern due to the short vesting period of ATRS (five years) that some administrators have come to Arkansas and fulfilled a two or three year commitment and then had a buyout of their contract paid over two or three years to cover the vesting period necessary to receive ATRS retirement benefits. The proposed legislation would eliminate this potential loophole by not allowing future service credit unless the member subject to the buyout actually performs onsite employment services. This prevents the contract buyout from establishing service credit when no actual services are performed.

   Mr. Lester *moved* to *approve* the proposed legislation to require ATRS members to be actively working in employer service in

order to receive service credit. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

8. **Limit Membership Auditing to a Five-Year Look Back Period.** Under current ATRS law, if a mistake is found, ATRS has a duty to correct that mistake, regardless of how far back the mistake occured. Often, this leads to unintended consequences and financial distress on employers and members. Recently, some ATRS employers have been asked to pay ATRS large sums of money that created a significant economic hardship on the school districts. At other times, members have been faced with large payments caused by a mistake that was due to accounting issues or reporting issues by employers or ATRS staff. ATRS staff proposes that absent fraud, concealment, or other criminal acts, ATRS closes the books after a five year look back, which would include the current fiscal year of ATRS and the four previous fiscal years. This would be a rolling five year look back. After that time has passed, benefits and member accounts would be considered final. Employers would not face unexpected liabilities and members would not be asked to pay back large sums of money that have accrued over many years. ATRS can also eliminate liabilities if the mistake was in its favor and eliminate the difficult research process used now to determine the status of accounts due to changing law interpretations, and circumstances that applied over various years from the time of the incident to the present date. This will be a substantial cost savings to ATRS from an administrative standpoint.

   Mr. Lester *moved* to *approve* the proposed legislation to institute a five year limit on ATRS membership claims. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

9. **Include National Guard Service from Other States and Any Other Armed Forces Reserve in National Guard Service to be Purchased.** Under current law, ATRS recognizes only Arkansas National Guard service. ATRS does not recognize National Guard service from other states and does not recognize any military reserve service. This proposal would provide that any military reserve or National Guard service would be recognized for purchase of ATRS service at actuarial cost. ATRS staff also proposes that it allow National Guard/military reserve service on a year for year basis to bring it in line with the other Arkansas retirement systems such as APERS.

Mr. Lester *moved* to *approve* the proposed legislation to include National Guard Service from other states and any other armed forces reserve in National Guard Service to be purchased. Ms. Nichols *seconded* the *motion,* and the Board *unanimously approved the motion.*

10. **Do Not Use Salaries with an Eight or More Years Gap in Anti-Spiking Checking.** ATRS has an anti-spiking law that uses the highest three salaries, and subject to certain conditions, limits the salaries to 120% from the lowest to highest. ATRS staff has found that, since the law has been implemented, occasionally salary earned during earlier prior years becomes one of the high salaries in the final average salary. When an early salary is a high salary, it may materially lower the member's final average salary due to inflation rather than spiking. Therefore, ATRS staff proposes that in the event that any of the three high salaries is more than eight years apart from the next highest salary, the anti-spiking law would not be applied. This usually comes into play with classified employees and would not appear to be a significant cost, while preventing unintended consequences of the anti-spiking law.

    Mr. Lester *moved* to *approve* the proposed legislation to not use salaries with eight or more years gap in Anti Spiking checking. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

11. **Interest Accrual on Member Contributions Ceases One Fiscal Year after Member's Death.** Certain survivors have learned that ATRS had paid 6% compound interest on members' accounts from the time they were open until the funds were withdrawn. ATRS staff is aware of deceased nonvested members' surviving spouses not withdrawing the contributions because the interest rate that ATRS pays is greater than what could be earned if the funds were withdrawn. ATRS is currently paying 2% annually on those funds. In order to prevent ATRS from having survivors leave funds with ATRS in order to take advantage of the interest rates and prevent administrative closure of the member account, ATRS staff proposes that once a member dies, interest ceases accruing on the member's contributions, one year after death. This leaves ample time for the member's family to notify ATRS and make a claim, and for ATRS to totally process the request. Thereafter, the funds would lie without interest until withdrawn. This appears fair to the members and assists in prompt administrative closure of deceased members' accounts.

Mr. Lester *moved* to *approve* the proposed legislation to cease interest accrual on member contributions one fiscal year after member death. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

12. **Service Required to Become Active for Survivor, Disability and Lump Sum Death Benefits.** ATRS staff proposes to provide clarity in the law by setting forth current processes into law and adding the latest Board decision to allow contributory members not obtaining service credit in a fiscal year to roll forward accrued days of service into the next fiscal year until days of service necessary for service credit is obtained. A member is considered active for one fiscal year after the last fiscal year in which the member received service credit of at least one-quarter year of service credit. This will codify the existing practice and eliminate any issue concerning the application of active membership.

    Mr. Lester *moved* to *approve* the proposed legislation requiring service to be active for survivor, disability and lump sum death benefits one fiscal year after the last fiscal year in which the member receives service credit. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

13. **Add $75 Stipend to Spouse Annuity and Remove from Child's Annuity.** Currently, in addition to what appears to be a very generous survivor benefit, the law provides the $75 stipend to surviving dependents. ATRS staff thinks that the stipend should be provided for the surviving spouse, but since the child survivor benefits are so generous, the stipend should be removed for future child survivors. This is a cost savings and clarifies spousal coverage.

    Mr. Lester *moved* to *approve* the proposed legislation removing stipends from future child survival annuities and continue the addition of the stipend for surviving spouses. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

14. **Clear Definition of Accounts Used for Member Accounting.** The Arkansas law that established ATRS and how funding accounts were to be set up has not been used in many years by the actuaries or ATRS staff for the purposes of maintaining balances on the official financial statement. Actuarial calculations are made versus maintaining the accounts as contemplated in the historic legislative enactment. The Legislative auditors have pointed out that ATRS maintains

accounts as developed by the actuarial process that do not coincide with the law enacted by the General Assembly many years ago. In order to bring ATRS in compliance with the law and to allow ATRS to continue using an actuarial valuation process in establishing large broad account valuations, ATRS staff proposes that the existing law be modified to eliminate the historic accounts that have not been used and to allow ATRS to continue using the current accounting method on its financial statement. This is an accounting change to bring accounting practices and the law into compliance rather than a change in process.

Mr. Lester *moved* to *approve* the proposed legislation clarifying the definition of accounts in ATRS law. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

15. **Apply Surcharge to Contract Price for Outsourced Employees of ATRS Employers.**

16. **Choose Benefit Option at T-DROP Entry Date.**

17. **Maximum Death Benefit after 15 Contributory Years, Regardless of Noncontributory Years.** All active or retired members with at least 10 years of actual service are eligible for a death benefit. Under current ATRS policy, a fully contributory member's beneficiary receives a $10,000 death benefit. A fully noncontributory member's beneficiary receives a $6,667 death benefit. ATRS has found examples where a member with only ten contributory years had their beneficiary receive $10,000. A member with 35 contributory years and one noncontributory year had their beneficiary receive less than $10,000. ATRS staff proposes that once a member has 15 contributory years, they receive the $10,000 death benefit without a pro rata reduction.

    Mr. Lester *moved* to *approve* the proposed legislation to allow surviving beneficiaries to receive the maximum death benefit regardless of noncontributory years. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion.*

18. **T-DROP Deposit Eligibility.** Currently there is not a clearly defined law or policy on what makes a person eligible for continuing T-DROP deposits in certain circumstances. It is clear that if a T-DROP participant is terminated from employment, T-DROP deposits end the month in which that member's employment has terminated. What is less clear is what level of actual service to an ATRS employer is required for continuing T-DROP deposits. In order to bring uniformity

and clarity, ATRS staff proposes that the requirements be set forth in law. The proposed legislation states that, in order for a member to be eligible for T-DROP deposits and interest at the end of a year, a T-DROP participant must work at least one day in each quarter, and by the end of the fiscal year have worked at least enough days to equal one quarter of a year of service, which is currently 30 days, and ATRS staff has asked the Board to extend this to 40 days.

The proposal also includes that, in the event of a T-DROP participant's retirement at a time other than July 1, T-DROP deposits be provided based upon quarter eligibility. An example is if a person is retiring on October 1, and has 15 days of service, that person would be entitled to three T-DROP deposits since they completed the first quarter and had at least ten days of service at the time of retirement. It would only require 40 days of service with the service spread at least one day in each quarter. This brings certainty and clarity, while, at the same time, providing T-DROP participants a definite answer to what it takes to remain in T-DROP and receive all T-DROP deposits and interest at the end of each year. However, in the event of death of a member in the middle of a quarter, the T-DROP deposits would be made for the partial quarter.

Mr. Lester *moved* to *authorize* the Board to promulgate rules and regulations regarding T-DROP deposit eligibility. Ms. Shoffner *seconded* the *motion,* and the Board *unanimously approved the motion*

XII. **Staff Reports.**

A. **Medical Committee Reports.** Mr. Ray presented the October and November 2010 Medical Committee reports. In October, 11 cases were considered, and all were approved. In November, 17 cases were considered, 13 were approved and four were denied.

Ms. Nichols *moved* to *approve* the Medical Committee reports for October and November 2010. Ms. Morey *seconded* the *motion*, and the Board *unanimously approved the motion.*

B. **Quarterly Travel Update for Board, Staff, Preretirement Counselors.** Mr. Berry presented the quarterly travel update for Board, staff, and preretirement counselors.

XIII. **Executive Session to Discuss Executive Director's Performance Evaluation.** Chair, Dr. Richard Abernathy, called the Executive Session of the Board of Trustees to order at 2:14 p.m.

Chair, Dr. Abernathy, reconvened the Board of Trustees meeting at 2:27 p.m.

XIV. **Other Business.**

A. **Motion to Excuse Absences.**

Ms. Leming *moved* to *excuse* Trustees Hazel Coleman, Vice Chair, and Charles Dyer from the December 6, 2010, Board of Trustees meeting. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.*

XV. **Adjourn.**

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

Meeting adjourned at 2:29 p.m.

George Hopkins, Executive Director	Dr. Richard Abernathy, Chair Board of Trustees
Amy Glavin, Recorder	Date Approved