MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Monday, April 1, 2013
1:00 p.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
Hazel Coleman
Candace Franks
Wes Goodner, designee for Honorable Martha Shoffner
Peggy Gram, designee for Honorable Charlie Daniels
Danny Knight
Bobby Lester
Donna Morey
Robin Nichols
Janelle Riddle

Board Members Absent
Kathy Clayton
Dr. Tom Kimbrell

Consultants Present
Chae Hong, Hewitt EnnisKnupp
P. J. Kelly, Hewitt EnnisKnupp

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Will Crow, Litigation Attorney
Kay Daniel, Director's Assistant
Dena Dixson, Internal Audit/Risk Mgmt
Mitzi Ferguson, Chief Fiscal Officer
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
Paul House, ARTA
Linda Scott, ARTA
Steve Singleton, ARTA

I. **Call to Order/Roll Call.** Dr. Abernathy, Chair, called the Board of Trustees meeting to order at 12:59 p.m. Roll call was taken. Ms. Kathy Clayton and Dr. Tom Kimbrell were absent.

II. **Motion to Excuse Absences.**

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Ms. Coleman *moved* to *excuse* Ms. Clayton and Dr. Kimbrell from the April 1, 2013, Board of Trustees meetings. Ms. Riddle *seconded* the *motion*, and the Board *unanimously approved the motion*.

III. **Adoption of Agenda.**

Mr. Lester *moved* for *adoption* of the Agenda. Ms. Nichols *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 Board of Trustees Minutes of February 4, 2013.**

Ms. Nichols *moved* for *approval* of the Minutes of the Board of Trustees meeting of February 4, 2013. Mr. Stubblefield *seconded* the *motion*, and the Board *unanimously approved the motion*.

VI. **2013 Board of Trustees Election Update.** Mr. Hopkins gave an update on the 2013 Board of Trustees election. Ballots have been mailed and ATRS will announce the official results on April 20.

VII. **Member Appeal: S[redacted] S[redacted].** Ms. Gilson presented the S[redacted] S[redacted] member appeal. Ms. S[redacted] is a member of ATRS that was denied disability benefits due to failing to meet the application deadline. The Hearing Officer reviewed the facts and the law and upheld the ATRS Executive Director's decision that Ms. S[redacted] is ineligible for disability retirement.

Mr. Knight *moved* to *affirm* the Hearing Officer's decision in the matter of the S[redacted] S[redacted] member appeal. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion*.

VIII. **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.

IX. **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. ATRS waived $6,415.88 in employer interest and penalties.

X. **Legislative Audit Report, June 30, 2012 – Official Review of Report.** Mr. Hopkins presented the Legislative Audit Report of June 30, 2012. There were no findings to report. The law requires that each public board review its Legislative Audit report in a public meeting. The law requires that the public board review any findings, and then file the report.

Mr. Stubblefield *moved* to *approve* the Legislative Audit Report of June 30, 2012, as presented. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.*

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

A. **Nominees for Vacancy on Audit Committee.** Mr. Dale Coy, Audit Committee Chair, resigned from the Audit Committee. Internal Audit prepared a list of candidates for the Audit Committee to choose from to fill in the vacant position: John "Patrick" McCollough and Ricky Quattlebaum. The Committee nominated and accepted Ricky Quattlebaum.

B. **Accounting Response to Internal Audit Report – Review Member History Adjustment Process.** The Accounting department's response to the Internal Audit (IA) report on the member history adjustment process was presented.

C. **Internal Audit Report: Review Death Benefit Process.** An ATRS member has an "investment in contract" if they paid in after-tax contributions or interest. The Internal Revenue Service (IRS) allows a member to recover their investment in contract by allowing the member or member's beneficiary to exclude a portion of their pension benefits until they have recovered all of their investment. If the annuity payment continues after the member's death, the tax free part of the benefit is utilized by the beneficiary until the full recovery of the investment or payment ceases. Any unrecovered investment after both member and beneficiary cease to receive annuity payments is included on the beneficiary's final Form 1099-R.

ATRS staff has been applying an unrecovered investment in contract to the member's final tax Form 1099-R even when the member has a beneficiary drawing a monthly benefit. IA recommended that the Payroll department properly report the excludable portion of the investment in contract on the IRS tax Form 1099-R and seek guidance from a tax consultant on how to handle the incorrectly report tax forms for prior years. The department's written response to the finding will be provided at the next Audit Committee meeting.

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

A. **Arkansas Real Estate Update.**

1. **Woodland Heights Update.** Woodland Heights continues to have additions and losses. It is approximately 70% occupied at this time.

2. **Peabody Loan Payoff.** The loan was paid off February 28, 2013, in the amount of $23,725,871.86.

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

1. **Preliminary Portfolio Performance Update for the Quarter Ended February 28, 2013.** The market was up by 4% but concerns about Europe led to sell-off in non U.S. markets. The bond markets were flat and slightly negative. The total fund had a return of 0.4% for the month, underperforming its benchmark of 0.6%. U.S. equity, global equity, and fixed income are all out performing their benchmarks for the fiscal year to date.

2. **Graham Hedge Fund Update.** ATRS has $43.1 million investment in Graham Capital Management's Propriety Matrix Fund. The investment is approximately 0.4% of the total fund's assets. A new share class of the Graham Fund became available, which has a more favorable fee structure than the share class in which ATRS currently invests. The investment strategy is the same for both share classes. The new class changes the management fee from 3% to 2% and the incentive fee from 20% to 25%. While the incentive fee is higher, the only way the fee would be paid is if the fund performed over the high watermark. HEK recommended that ATRS transfer their investment to the new Series B Shares. ATRS staff notified the Committee about the change.

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

1. **Hewitt EnnisKnupp Real Estate Market Update.** Core investments returned 9.8% (NFI-ODCE net) for the year, down from 15.0% in 2011 and 15.3% in 2010. Non core investment returns have improved, as multiples climb back above one for the top quartile. REIT performance in 2012 was relatively strong, with the FTSE NAREIT Equity Index rising 18.1%, compared to 8.3% in 2011 and 28.0% in 2010.

U.S. economy expected to remain in slow-growth mode for much of 2013, but is still strong enough to support continued measured improvements in real estate fundamentals. New supply expected to become more noticeable in 2013, first in apartments and industrial; overall new property deliveries are still well restrained. Current low interest rate environment continues to support price recovery/growth. Core rebound is mature and returns are expected to continue. Non core opportunities remain positive, with above average return potential.

2. **Recommendation to Commit up to $20 Million to LaSalle Income and Growth Fund VI and to Use Imminent Need.** LaSalle Income & Growth VI Fund will be a closed end, domestic, value added fund. The investment strategy will focus on the current and growing demand for core real estate assets by aggressively pursuing non core properties that can be leased, redeveloped or repositioned and later sold to core buyers. Specifically, the fund will seek to acquire non core assets with strong in place income in major markets and select secondary markets that are temporarily out of favor. The fund is targeting a return of 12%-14% net IRR and 1.6x net equity multiple. Through the third quarter of 2012, the Fund has raised approximately $320 million and has recently extended its fundraising period and expects to near its $500 million target. HEK recommended a commitment of up to $20 million to the fund.

   a. **Resolution 2013-12**

      Ms. Nichols *moved* to *adopt* Resolution 2013-12, approving the recommendation to commit up to $20 million to LaSalle Income and Growth Fund VI and to use imminent need. Mr. Knight *seconded* the *motion*, and the Board *unanimously adopted the resolution.*

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

1. **Preliminary Private Equity Portfolio Review for the Quarter Ended December 31, 2012.** The net IRR for the aggregate portfolio since inception was 8.8%, with a committed capital of approximately $2.9 billion. ATRS committed $130m to FP Venture 2008-2012, which have generated a net IRR of 13.7% as of September 30, 2012. ATRS committed $20m to FP Venture 2013, which has made one commitment to date but has not yet called capital. FP International Fund 2011 and FP International Fund 2012 have committed to seven non-U.S. funds. Given the young age of the portfolio, performance is not yet meaningful. ATRS committed $20m to FP International 2013, which has not yet made any commitments and has not yet called capital. FP Co-Investment Fund has invested $29.2m in six

deals to date. Given the young age of the portfolio, performance is not yet meaningful.

2. **Recommendation to Commit up to $25 Million to KPS Special Situations Fund IV, L.P. and to Use Imminent Need.** The fund will make operational turnaround investments in middle market and large manufacturing companies. The fund will target companies with strong franchises that have identifiable and solvable operating and financial problems. KPS will generally focus on bankruptcy and out-of-court restructurings, and acquisitions of underperforming, non-core assets from large companies. FP and ATRS staff recommended this fund due to the compelling investment strategy, the senior team is cohesive and highly experienced in turnaround investing, and KPS has an impressive track record.

   a. **Resolution 2013-13.**

      Ms. Nichols *moved* to *adopt* Resolution 2013-13, approving the recommendation to commit up to $25 million to KPS Special Situations Fund IV, L.P. and to use imminent need. Mr. Lester *seconded* the *motion*, and the Board *unanimously adopted the resolution.*

3. **Recommendation to Commit up to $20 Million to Levine Leichtman Capital Partners V, L.P. and to Use Imminent Need.** The fund is being formed to make debt and equity investments in middle market companies. In particular, the General Partner will purchase senior debt, subordinated debt, preferred stock and common stock in growth companies. Transactions are typically structured to provide both current income and equity appreciation. FP and ATRS staff recommended this fund due to the attractive risk adjusted returns, and Levine has a deep and experienced team and an attractive aggregate record.

   a. **Resolution 2013-14.**

      Ms. Nichols *moved* to *adopt* Resolution 2013-14, approving the recommendation to commit up to $20 million to Levine Leichtman Capital Partners V, L.P. and to use imminent need. Ms. Riddle *seconded* the *motion*, and the Board *unanimously adopted the resolution.*

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

A. **Regional Retiree Informational Workshops.** ATRS currently conducts pre-retirement workshops for members who are planning to retire within a few years. ATRS staff has been doing preliminary research on developing information workshops that target general retirement information for members who are several years from retirement. More research will need to be done before ATRS can move forward and all information will be brought before the Board for review

B. **Opportunity for Board to Review Its Internal Rules for Additions, Amendments, or Deletions.** The Operations Committee had the opportunity to discuss potential rule or law changes. No items were discussed.

C. **Recommendation for Amended Rules and Regulations Not Subject to Administrative Procedures Act.**

1. **Policy 1-8 Procurement.** Act 304 of 2013 provides ATRS the ability to maintain long term contracts needed to maintain the prudent investor rule for investments and consultants for ATRS. The bill was amended at the request of Senator Elliott and others to provide a statement that the State of Arkansas and ATRS has a goal of recruiting and hiring emerging managers while remaining consistent with the prudent investor rule. Legislation did not define emerging manager and the intent of the legislature was to define emerging manager as the legislature has defined "minority" within Arkansas law. The agreement stated in the Public Retirement Committee was that ATRS could not guarantee that the ATRS Board would adopt a rule but would present a rule to the ATRS Board that would define emerging manager as minority manager or as a minority vendor as currently identified in Arkansas law.

   Mr. Knight *moved* to *approve* the changes to Policy 1-8 Procurement. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

D. **ATRS Acts.**

1. **Act 45 of 2013: 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, using Pulaski County as the location where appeals from the ATRS Board are litigated will

generate a cost savings in travel and personnel. This act will become effective 90 days after both chambers adjourn sine die.

2. **Act 109 of 2013: 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 act 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 act is to give the Board authority to limit the impact of IRS regulations on members' rights and benefits. This act became effective February 19, 2013.

3. **Act 140 of 2013: Technical Corrections.** This act makes no substantive change but clarifies language to prevent confusion and to delete duplicated provisions. This act will become effective 90 days after both chambers adjourn sine die.

4. **Act 303 of 2013: Clarify the Meaning of Manifest Injustice.** This act 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; and currently many mistakes by members cannot be corrected at all. This law 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. This act will become effective 90 days after both chambers adjourn sine die.

5. **Act 304 of 2013: Prudent Investor Rule.** This act 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. 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 will use prudent investor standards to establish the terms of any extension of a properly procured contract. This act became effective March 11, 2013.

6. **Act 336 of 2013: Correction of Errors on a Member's Account When the Member Owes a Balance to ATRS.** This act 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 previous law, until the contributions were paid, the member's retirement application could not be processed. This act 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. This act became effective March 14, 2013.

7. **Act 448: 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 act will give ATRS limited authority to obtain payment from the Department of Education from funds due from any public school or charter school. This act will become effective July 1, 2013.

8. **Act 493 of 2013: Clarify Disability Retirement Requirements and Eligibility.** The act prohibits a disability retiree from using a corporation or company that is controlled by the disability retiree to perform services to an ATRS employer, since a disability retiree cannot directly do so. The act is intended to prevent a disability retiree from doing indirectly what is currently prohibited from being done directly. It furthers the integrity of the process and closes a loophole. This act 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 act 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 act 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. This act will become effective July 1, 2013.

9. **Act 521 of 2013: Modify the Definition of Salary and Clarify Calculation of Service Credit.** In meetings with administrators, concern

was expressed that not paying lump sum payments on sick leave and annual leave at retirement might adversely impact attendance since many employees want extra salary to improve final average salary at retirement. This added retirement salary encourages employees to minimize use of sick and annual leave which benefits the education of students. The ATRS Board voted to strike the prohibition on using end of career payments for sick leave and annual leave due to this concern expressed by administrators. In place of the prohibition of sick leave as retirement salary, the bill now would allow the ATRS Board to consider future changes needed in salary by developing rules. The act prohibits nonmonetary compensation from salary, clarifies contract buyout payments, and allows the purchase of time related to wrongful termination to assist both members and ATRS employers.

This act narrows the definition of salary to wages earned. It eliminates nonmonetary compensation such as housing, vehicles, perks, and allowances. In addition, it clarifies how contract buyouts and judgments may be used as salary. This will prevent 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 will prevent 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.

E. **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 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.

The bill was amended on February 19, 2013, to make the use of final average salary from a different retirement plan effective on July 1, 2014, to prevent a "rush to retire" before the end of this fiscal year. This bill has been passed by the Retirement Committee and the Senate, and is on the House calendar.

3. **Senate Bill 123: Set Member Contribution Rate Between 6% and 7%.** This bill gives the ATRS Board limited authority to raise the contribution rate above 6% with a hard ceiling of 7% 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. It is an "as required" bill, meaning that the ATRS Board has the authority to make changes as needed. The bill was amended to clarify that it will only be used in a critical funding period as determined by the ATRS actuary.

4. **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. The stipend amount of $75 is a part of a retiree's base amount upon which the COLA is calculated. The bill would not remove or lower the stipend amount in the base, so even if it had to be lowered, the impact would not be as harsh. This bill was amended to strengthen the actuarial requirements necessary to trigger any action by the ATRS Board. It is an

"as required" bill, meaning that the ATRS Board has the authority to make changes as needed.

5. **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 allow the Board to increase the ceiling for the employer rate up 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 under this bill, 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 requests the ability to increase contribution rates on July 1, 2015. It is an "as required" bill, meaning that the ATRS Board has the authority to make changes as needed. This bill was amended to strengthen the actuarial requirements necessary to trigger any action by the ATRS Board.

6. **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.

7. **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 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.

This bill was amended February 13, 2013, to remove all references to a mandatory buyout plan; and makes any buyout provisions an optional plan for the members. It also encompasses surviving spouse benefits as one of the benefit rights that can be bought out by an eligible surviving spouse.

8. **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.

   The bill was being amended to make the lessor qualifications to allow new employees to be members of ATRS voluntary as to each PSHE employer. Unless the PSHE Employer acts to reduce eligibility requirements, the current standards will remain in place at the employer for new employees.

9. **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.

This bill was amended February 18, 2013, to include a section that was lost in the final draft. It makes survivor benefits available to members with 5 years of ATRS service. A second amendment was added on March 14, 2013, to allow an eligible survivor to begin receiving monthly benefits beginning the month after the member's death if the survivor application is received within three months of the member's death. Otherwise, monthly benefits will begin the month that the survivor application is filed. This grace period is to help members during a very difficult time.

10. **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 (October 1, January 1, April 1). 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.

11. **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. Hopefully, the markets will bring ATRS back to a 30 year or less amortization period. If

not, this bill provides another option to the Board prior to cuts made by others that could possibly go beyond what is absolutely required.

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 a lot of complex minimum benefit language from the ATRS law. It is an "as required" bill, meaning that the ATRS Board has the authority to make changes as needed. The bill was amended February 20, 2013, to strengthen the actuarial requirements necessary to trigger any action by the ATRS Board.

12. **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, 2015, or at some later date. This bill was originally introduced to authorize the ATRS Board to modify certain benefit factors for this group of future members. This bill was amended to allow the ATRS Board by rule making to make adjustments in the retiree COLA 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. It is an "as required" bill, meaning that the ATRS Board has the authority to make changes as needed.

13. **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 on July 1, 2009. It is an "as required" bill, meaning that the ATRS Board has the authority to make changes as needed. Hopefully, this provision, like the other provisions with the "As Required" will never be necessary. The bill was amended February 13, 2013, to strengthen the actuarial requirements necessary to trigger any action by the ATRS Board.

F. **Other Acts Impacting ATRS.**

1. **Act 44 of 2013: Allow State Sponsored Retirement Systems to Require Qualified Domestic Relation Orders (QDROs) to Pay Benefits (APERS).** This act was 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 act will ensure that ATRS is not required to vary its model QDRO due to a court ordering a different outcome. This act will become effective 90 days after both chambers adjourn sine die.

2. **Act 86 of 2013: Exclude Retirement Systems From Unclaimed Property.** This act 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 will not be treated as unclaimed property, but remain within the trust funds of the retirement system. ATRS feels this act is good since it prevents a potential loophole in protecting all trust funds from becoming part of the unclaimed property process in Arkansas. This act will become effective 90 days after both chambers adjourn sine die.

3. **Act 174 of 2013: 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 was established to comply with Arkansas law that is in place to ensure the child actually receives the benefit of any 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 and ATRS complies with the law.

   This act eliminates the current court approval and supervision of most survivor payments to minors. The act was amended to allow payments without a guardianship to "the child's parent, legal guardian, or legal custodian or to a trust company" as long as the annual benefit is below a certain amount per year. The act still provides protection to ATRS if any money is misused. The ATRS Board did not take a position on this act. This act will become effective 90 days after both chambers adjourn sine die.

4. **Act 223 of 2013: Allow Purchase of Classified Private School Service.** This act allows classified employees to do what certified employees have been able to do for decades. Teachers and administrators from a private school can purchase private school service after becoming a member of ATRS and vesting under current law. This act brings fairness by allowing a bus driver, teacher's aide, or any other classified staff at a private school to purchase their service from a recognized private school that has certified teachers. The purchase would be at actuarial cost so ATRS will not be financially impacted.

5. **Act 337 of 2013: Retirement Options for College Employees.** This act was prepared for the U of A System and its member schools. This act repeals several provisions about college participation in ATRS and APERS. It also directly prohibits the U of A System from becoming 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. ATRS staff sees this act as a quality cleanup act 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. This act will become effective July 1, 2013.

6. **Act 449: Participation of School Resource Officers.** The policy behind this act is that in many parts of the state, it is difficult to find experienced and wise law enforcement personnel who are willing to be a school resource officer. One often overlooked pool of law enforcement resources is retirees from APERS or LOPFI. School resource officers are often paid less than other officers. A retiree is more likely willing to accept a position at a public school for a lower salary if there is an opportunity for a small additional retirement benefit after five years of service. It is expected that the main pool of law enforcement that would take this ATRS member route will be retirees. The bottom line is that this act would encourage older and hopefully wiser retired certified officers to help address the shortage of certified officers in parts of the state. Since it is strictly a local school's decision to allow an officer to participate, it will only happen based on a voluntary decision by the school and the SRO.

   This act should have no fiscal impact on ATRS. Act 449 is intended to further public policy of providing incentives for experienced and retired law enforcement officers to return to service while making our public schools safer. This act will become effective 90 days after both chambers adjourn sine die.

G. **Other Bills Potentially Impacting ATRS.**

1. **Senate Bill 9: Clarify the Definition of Child Under ATRS.** The ATRS Board's position is that the costs to cover survivors by ATRS would materially increase by the passage of this bill in its original form when ATRS already has over a 100 year amortization period to pay its unfunded liabilities. The attempt to help more children is understood, but now ATRS may have to cut benefits to members to gain financial ground. The ATRS Board requested an amendment that would give the ATRS Board the authority to add to the groups of eligible survivors once the ATRS amortization period is below 30 years.

   Ultimately, the bill was amended to allow the Board to define the new groups by rules, but did not include the provision that ATRS' amortization period must be below 30 years before adopting the rules. The Public Retirement Committee must decide the policy issue of passing a bill that causes the accrual of additional liabilities while the System is over 30 years of unfunded liabilities.

2. **House Bill 1205: Concerning State Employee Grievances.** ATRS staff has concerns with this bill as written. Any concern by ATRS staff could be eliminated by a small amendment. In an employee grievance, an arbitrator could award service credit in ATRS for a member who wins a grievance and missed work wrongfully. ATRS has proposed a bill that would allow an ATRS employer to purchase service related to a wrongful termination by the employee or employer paying actuarial cost to ATRS. The bill as written does not address paying ATRS for the additional liability caused by service awards. The ATRS Board did not take a position on this bill.

XIV. **Staff Reports.**

A. **Medical Committee Reports.** Mr. Ray presented the Medical Committee reports for February 2013 and March 2013. In February 2013, there were 17 applicants, 15 were approved, and two were denied. In March 2013, there were 13 applicants, 11 were approved, and two were denied.

Ms. Nichols *moved approve* the February 2013 and March 2013 Medical Committee reports. Ms. Gram *seconded* the *motion*, and the Board *unanimously approved the motion*

XV. **Other Business.**

A. **SCTR Conference: April 21-April 24.** The 2013 SCTR conference will be held in St. Louis, Missouri, April 21-April 24.

XVI. **Adjourn.**

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

Meeting adjourned at 1:48 p.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Glavin,
Recorder

Date Approved