

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

**Monday, October 6, 2014  
11:15 a.m.  
1400 West Third Street  
Little Rock, AR 72201**

**ATTENDEES**

**Board Members Present**

Dr. Richard Abernathy, Chair  
Jeff Stubblefield, Vice Chair  
Lloyd Black  
Kathy Clayton  
Hazel Coleman  
Kelly Davis  
Wes Goodner, designee for Charles Robinson  
Peggy Gram, designee for Charlie Daniels  
Susannah Marshall, designee for Candace Franks  
Robin Nichols  
Deborah Thompson  
Janet Watson  
Tony Wood

**Members Absent**

Danny Knight  
Bobby Lester

**Reporters Present**

Mike Wickline, Arkansas Democrat Gazette

**ATRS Staff Present**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Shane Benbrook, Internal Audit/Risk Mgmt.  
Cecial Caldwell, Computer Support Analyst  
Dena Dixson, Internal Audit/Risk Mgmt.  
Laura Gilson, General Counsel  
Rod Graves, Manager Investment Dept.  
Wayne Greathouse, Assoc. Dir. Investments  
Manju, Dir. Data Processing  
Linden Maurer, Legal Assistant  
Jerry Meyer, Manager, Real Assets  
Tammy Porter, Administrative Assistant  
Michael Ray, Dir. Member Services  
Clint Rhoden, Assoc. Director of Operations  
Leslie Ward, Manager, Private Equity  
Brenda West, Internal Audit/Risk Mgmt.  
Gaye Swaim, Operations Manager

**Guest Present**

Donna Morey, ARTA  
Jeff Crittenden, Legislative Audit  
Michael Bacine, Franklin Park  
P.J. Kelly, Hewitt EnnisKnupp  
Katie Comstock, Hewitt EnnisKnupp  
Peter Hill, Hewitt EnnisKnupp  
Chae Hong, Hewitt EnnisKnupp

- I. **Call to Order/Roll Call.** Dr. Richard Abernathy, Chair, called the Board of Trustee meeting to order at 11:33 a.m. Roll call was taken. Mr. Knight and Mr. Lester were absent.
  
- II. **Motion to Excuse Absences.**

**Mr. Stubblefield moved to excuse Mr. Knight and Mr. Lester from the October 6, 2014 Board of Trustees meeting. Mr. Black seconded the motion, and the Board unanimously approved the motion.**

**III. Adoption of Agenda.**

**Ms. Nichols moved for adoption of the Agenda. Mr. Stubblefield 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 July 28, 2014 Board Minutes.**

**Mr. Black moved for approval of the Minutes of the Board of Trustees meeting of July 28, 2014. Ms. Davis seconded the motion, and the Board unanimously approved the motion.**

**VI. Report of Member Interest Waived Under A. C. A. Section 24-7-205.** Mr. Hopkins presented the member interest amount waived report. ATRS waives interest 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 two interest amount waived for this reporting period in the amount of \$378.05.

**VII. Report of Employer Interest and Penalties Waived Under A. C. A. Sec. 24-7-411.** Mr. Hopkins presented the employer interest and penalties waived report. ATRS may waive employer interest and penalties when reports/payments are late or have issues due to new bookkeeper, sickness, and other situations that justify a waiver. ATRS waived \$1,322.29 in employer interest and penalties.

**VIII. Board Election Update.** Mr. Hopkins reported to the Board that the election process for Trustee positions that are open in 2015 is about to be underway. The terms for this election cycle began on July 1, 2014. The following four (4) ATRS board positions are up for election in this fiscal year:

- Position 2:** Member Trustee (Licensed Teacher, 2<sup>nd</sup> Congressional District);
- Position 6:** Member Trustee, Administrator (School Superintendent);
- Position 7:** Member Trustee (Non-Certified Trustee); and
- Position 8:** Member Trustee (Minority Trustee).

The Board was presented a copy of A.C.A. §24-7-301, ATRS Rule 4, and documents explaining the election process that were drafted by the ATRS legal department.

This was not an action item and was only presented to the Board as informational.

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

**A. Fiscal Year 2015 Internal Audit Report – Implementation of 2013 Legislation.** Mr. Shane Benbrook reported that the objective of the audit was to assess ATRS' implementation of the new laws to ensure policies and procedures were adequately and properly addressed. The audit is done every two (2) years when new legislation is passed. After review of documentation and testing when applicable by Internal Audit, there were no findings. ATRS staff accurately and efficiently implemented the 2013 legislation.

**B. Approval of Internal Audit Charter.** Mr. Shane Benbrook presented the Internal Audit Charter for approval. There were no major changes, only minor changes to clean up wording.

***Ms. Nichols moved to approve the Internal Audit Charter. Mr. Goodner seconded the motion, and the Board unanimously approved the motion.***

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

**A. Investment Update and Arkansas Related Update.** Mr. Hopkins gave an update on Arkansas real estate and investments.

**1. List of Recent Closing.**

**a. Southcenter Shopping Center (Real Assets, located in Hot Springs, AR).** Mr. Hopkins reported that the Board-approved sale closed on August 14, 2014, for \$12.75 million dollars.

**b. BVIP Fund VIII, L.P. (Private Equity, buyout fund focusing on information and business services, \$30 million dollar allocation).** Mr. Hopkins reported that ATRS' full commitment of \$30 million dollars was accepted and closed.

**2. Big River Steel Commitment Clarification.** Mr. Hopkins reported that ATRS has a combined commitment of \$125 million dollars in Big River

Steel. In the future, ATRS expects to receive dividends, distributions, return of capital, interest, tax credit payments, and other payments that arise from its investment as Big River Steel matures, completes the construction phase, and begins producing steel. These returned funds and proceeds may be useful for additional opportunities presented by the growth of Big River Steel as new production lines and additional phases are undertaken. Resolution 2014-41 for Board approval is intended to clarify that the \$125 million dollar commitment to Big River Steel also allows for reinvestment in Big River Steel of returns from dividends, distributions, return of capital, interest, tax credit payments, and other payments that arise from Big River Steel like other ATRS investments.

**a. Resolution 2014-41**

**Ms. Nichols *moved to adopt* Resolution 2014-41, Big River Steel Commitment Clarification. Ms. Davis *seconded the motion*, and the Board *unanimously approved the motion*.**

- 3. BlueOak Commitment Clarification.** Mr. Hopkins reported that the ATRS Board approved Resolution 2014-23 authorizing an investment of up to \$18 million dollars in BlueOak Arkansas on March 18, 2014. Just like Big River Steel, in the future, ATRS expects to receive dividends, distributions, return of capital, interest, tax credit payments, and other payments that arise from its investment as BlueOak matures, completes the construction phase, and begins its recycling process. These returned funds and proceeds arising from the BlueOak investment may be useful for additional opportunities presented by the growth of BlueOak as new production lines and additional phases are undertaken as previously discussed by the ATRS Board. Resolution 2014-42 for Board approval is intended to clarify that the \$18 million dollar commitment to BlueOak also allows for the reinvestment in BlueOak of returns from dividends, distributions, return of capital, interest, tax credits payments, and other payments that arise from BlueOak like other ATRS investments.

**a. Resolution 2014-42**

**Ms. Nichols *moved to adopt* Resolution 2014-42, BlueOak Commitment Clarification. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.**

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

- 1. Preliminary Performance Report for Quarter Ending June 30, 2014.** Mr. P. J. Kelly and Ms. Katie Comstock of Hewitt EnnisKnupp (HEK) presented the preliminary performance report for the quarter ending June 30, 2014. Ms. Comstock reported the total market value of ATRS fund was \$14.7 billion dollars. The total fund had a return of 8.7% since inception, underperforming its benchmark of 8.8%, and a 19.0% return for fiscal year-to-date, outperforming its benchmark of 17.9%. ATRS had strong returns in the quarter ending June 30, 2014.
- 2. Preliminary Performance Report for the Month Ending August 31, 2014.** P. J. Kelly and Ms. Katie Comstock of Hewitt EnnisKnupp (HEK) presented the preliminary performance report for the month ending August 31, 2014. Ms. Comstock reported the total return for the month of August was 2.1%, outperforming its benchmark of 2.0%.
- 3. Opportunistic/Alternatives Portfolio Review.** P.J. Kelly introduced Mr. Peter Hill of Hewitt EnnisKnupp who provided the Board with a review of the Opportunistic/Alternatives Portfolio. The Opportunistic/Alternative Portfolio had a return since inception of 5.9%, outperforming its benchmark of 2.7%. Mr. Hill reported that ATRS' Opportunistic/Alternatives portfolio had done very well with very strong returns from its managers. The Opportunistic/Alternative portfolio is well-diversified with high quality managers and strategies that are complimentary with the broader Total Fund. Performance has been consistently strong since inception. Activist and event-driven/credit strategies have performed exceptionally well. Global Macro has been a challenging strategy for several years, however HEK maintains a favorable view on the strategy in this environment and the performance has picked up recently. HEK will continue to be proactive and look to expand into attractive opportunities as they arise. The total fund is highly diversified and already invested in a wide range of strategies. However, there are some areas where ATRS has yet to invest that HEK believes would be a benefit to the fund. Those areas are Reinsurance funds, Multi-Strategy funds, and Event Driven funds.
- 4. Equity Portfolio Structure Review.** P.J. Kelly of Hewitt EnnisKnupp provided the Board with a review of the ATRS Equity Portfolio. HEK performs this review once a year. ATRS currently has about 60% of its assets in public equity and intends to shrink that level to 50%. The public equity target range for Domestic Equity is 20% and for Global Equity the target range is 30% with each Portfolio having a mix of both actively managed and indexed styles of asset management. Current active risk/tracking error of the ATRS' portfolio is 1.97%. The total fund risk is a result of manager active risk, style bias, and allocation risk.

Although the small cap bias in 2011 did poorly, managers have done well over the long term.

- 5. Recommendation to Terminate Pacific Investment Management Company, LLC.** P.J. Kelly of Hewitt EnnisKnupp reported that the national business news has been focused on PIMCO leadership departures over the past 10 days. The turmoil has resulted in a termination recommendation. The combined recommendation of Hewitt EnnisKnupp and ATRS staff is for ATRS to terminate the investment management agreement that ATRS has with PIMCO. PIMCO is a fixed income manager for ATRS that currently has approximately **\$472 million** in ATRS assets under management for this account. The essential reason justifying the termination of PIMCO is concerns regarding change in leadership at PIMCO and the turmoil that the most recent change has brought to the company.

Several changes in upper management at PIMCO with the most recent being the abrupt resignation of **William Gross**, co-founder and chief investment officer, from PIMCO to join another firm prompted P.J. Kelly of Hewitt EnnisKnupp and ATRS staff to immediately review the ATRS investment in PIMCO as it relates to the ATRS portfolio as a whole.

Given the recent resignation of Mr. Gross, Hewitt EnnisKnupp and ATRS staff are unable to achieve a comfort level with senior management at PIMCO and are concerned with the lack of stability in the PIMCO investment team. The result is a sell recommendation for PIMCO. Hewitt EnnisKnupp and ATRS staff are recommending the assets from the PIMCO account be transitioned into one of the existing ATRS transition managers previously selected by the ATRS Board. ATRS staff, in conjunction with Hewitt EnnisKnupp, will select an appropriate transition manager for the redeployment of assets from the PIMCO account.

Having ATRS staff and Hewitt EnnisKnupp select an existing transition manager will allow the transition to be made both quickly and in a methodical manner using timing determined to be best by Hewitt EnnisKnupp and ATRS staff to minimize transaction costs and to maintain the underlying value of ATRS assets in the fund.

HEK along with staff recommend the termination of the PIMCO separate account and begin looking at transition options immediately.

**a. Resolution 2014-43**

**Ms. Nichols moved to adopt Resolution 2014-43, Terminate Pacific Investment Management Company, LLC. Ms. Davis seconded the motion, and the Board unanimously approved the motion.**

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

- 1. Preliminary Performance Report for the Quarter Ending June 30, 2014.** Mr. Chae Hong of Hewitt EnnisKnupp (HEK) presented the preliminary performance report for the quarter ending June 30, 2014. Through the second quarter, NCREIF's NPI registered at 2.9% and NFI-ODCE (net) returned 2.7%, an increase of 20 bps and decrease of 40 bps respectively over first quarter results. The Timberland Index returned 1.2% for the quarter and is up 9.9% for the trailing one year. The Farmland Index gained 1.7% for the second quarter of 2014 and 17.2% for the trailing one year. As of June 20, 2014, the real assets portfolio stands at 11.4% of ATRS' total assets. This was an increase of 10 bps over first Quarter 2014. The total return for the real assets portfolio was 3.6%, outperforming the real assets benchmark by 130 basis points for the second quarter. Real Estate outperformed the quarter by 80 bps; Agriculture outperformed the quarter by 80 bps, while timberland outperformed by 310 bps. Overall, the portfolio is in compliance with its Statement of Investment Policy with respect to style, leverage, geographic region, and property type diversification.

**D. Private Equity Investment Consultant Recommendation.**

- 1. Preliminary Portfolio Review for the Quarter Ending June 30, 2014.** Mr. Michael Bacine of Franklin Park presented the portfolio review for the quarter ending June 30, 2014. The legacy portfolio represents 4.5% of ATRS' private equity portfolio. Since inception, total fund net IRR is 9.9%. Total commitments for the quarter ending June 30, 2014, was \$180 million dollars. Total approved and pending commitments for 2014 was \$205 million dollars, which is just under the pacing for year 2014 of \$230 million dollars.
- 2. Recommendation to Commit up to \$25 million dollars in Siris Partners III, L.P., a Private Equity Buyout Fund Focused on U.S. Investments with a Specialization in Middle Market Technology and Telecom Companies.** Mr. Michael Bacine of Franklin Park presented the recommendation to commit up to \$25 million dollars in Siris Partners III, L.P. Based in New York, the general partner of the fund was formed in 2010 by three principals who formerly worked

together as a team at SAC Capital. The principals at Siris have an average of sixteen years of private equity experience and have been working together as a team for approximately fourteen years. The current principals are highly experienced and are supported by a group of executive partners with significant, senior-level operating experience with established tech and telecom companies such as AT&T, Motorola, Alcatel-Lucent and IBM.

The new fund targeted for this potential ATRS commitment will focus on established companies with revenue between \$100 million and \$1 billion. Targeted companies will often be formerly high-growth technology companies currently in transition. The fund will seek value-oriented investments through transaction types including control buyouts, take-privates, corporate carve-outs and management buyouts. Also, competition in this segment is relatively scarce due to the complexity of the telecom and technology businesses, the rate of technological changes, and perceived sector risk. The team has generated attractive returns with a net IRR of approximately 81% on its previous fund.

Both Franklin Park and ATRS staff recommend an investment of up to \$25 million in Siris Partners III.

**a. Resolution 2014-44.**

**Ms. Nichols *moved to adopt Resolution 2014-44, to commit up to \$25 Million Dollars in Siris Partners III, L.P., a Private Equity Buyout Fund Focused on U.S. Investments with a Specialization in Middle Market Technology and Telecom Companies. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.***

**XI. Operations Committee Report.** Mr. Stubblefield, Vice Chair, gave a report on the Operations Committee meeting.

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

1. General Open Forum. None.

**B. Potential Rule Changes.** Mr. Hopkins reported on Potential Rule Changes for the Committee's consideration to present to Board.



- 1. Potential Enhanced Interest Accrual on CBAs.** Mr. Hopkins reported that the ATRS Board approved the Cash Balance Accounts (CBAs) to hold all or a part of T-DROP participants' deposits at retirement time in ATRS instead of rolling the money out to another administrator outside of ATRS. The original drafting of the rules envisioned that members retiring from T-DROP would typically retire with a July 1<sup>st</sup> retirement date. ATRS staff has learned that a material number of T-DROP participants retire on other dates. The CBA rules were drafted to encourage members to leave CBAs with ATRS at least one (1) fiscal year. The current wording of the rule provides that no interest is paid on CBAs until the account has been in place for a full fiscal year. If a member retires on August 1<sup>st</sup>, the following July 1<sup>st</sup> the member receives no interest in a CBA that was established on retirement. In addition, if a member creates a CBA on July 1<sup>st</sup> and withdraws all the funds in the following May, no interest is paid on that account. ATRS staff recommends amending the rules to pay monthly interest on CBAs from the time the account is established until all funds are withdrawn.

**Mr. Stubblefield *moved* to draft rule change on Potential Enhanced Interest Accrual on CBAs. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion*.**

- 2. Potential Bonus Interest Payment for CBAs.** Mr. Hopkins reported that the ATRS Board approved the Cash Balance Accounts (CBAs) to hold all or a part of T-DROP participants' deposits at retirement time in ATRS instead of rolling the money out to another administrator outside of ATRS. The first year, 2012-2013, \$17.8 million dollars were held within ATRS to receive a guaranteed 2% interest payment after one year, while knowing that withdrawals or rollovers could be made at any time for partial or all of the CBA balances. The second year, 2013-2014, the amount of the CBA held from new retiree's T-DROP participants' balances was \$20.5 million dollars, and increase of just over 15%.

The CBA accounts are with ATRS members that have strong confidence in ATRS. Other retirement administrators do things to compete for T-DROP dollars prior to actual retirement and to have members move CBA accounts out of ATRS.

In order to stay competitive during up markets and as an incentive for CBA participants to maintain CBA accounts with ATRS, ATRS

staff would like to recommend paying bonus one-time interest payments on CBA accounts when ATRS has an exceptional year. Any bonus interest payment would be subject to the investment market returns as well as the actuarial status. It would never be guaranteed by law or rule. ATRS staff feels that having the enticement of a possible increased interest payment would cause more members to leave their T-DROP distribution with ATRS as a CBA account.

**Mr. Stubblefield *moved* to draft potential rule change on Potential Bonus Interest Payment for CBAs. Ms. Gram *seconded* the *motion*, and the Board *unanimously approved* the *motion*.**

Dr. Abernathy asked Mr. Hopkins if either of the proposed CBA rules could be construed as benefit enhancements. Because the System is over 30 years in unfunded liabilities, Dr. Abernathy wanted to be absolutely sure that that these two rules would not violate the law or the spirit of the law. Mr. Hopkins will research the code regarding benefit enhancements and present a memo to the Operations Committee. Dr. Abernathy asked that the staff draft the rules on CBA, but before approval, he wanted to review Mr. Hopkins' analysis of the law.

**C. Potential Legislation.** Mr. Hopkins reported on potential legislative changes for the Committee to consider recommending to the Board.

- 1. Potential Annuity Option C Changes.** Annuity options are one of the great benefits of ATRS. Members derive great comfort by being able to provide for a family member or in some cases, a non-family member such as a close friend, or even a charitable organizational. Computing option amounts are pretty straight forward and easy to explain. However, the laws that apply if an option beneficiary predeceases the member vary between the spousal options (Option A and Option B) and the 10 year certain option for any beneficiary option (Option C).

ATRS staff discovered that there is a discrepancy in Option C retirees I f the option beneficiary is a spouse, and the marriage ends prior to death, or a non-living entity is the Option C beneficiary and ceases to exist. Currently, the only way an Option C member can pop-up (return to a straight life annuity) is if the beneficiary predeceases the member. ATRS staff thinks this must have been an oversight by the option laws being amended over the years. In

order to be consistent with how the option laws work for Option A and Option B members, the ATRS staff recommends that an Option C member that divorces an Option C spouse can return to straight life annuity and addition can pop up if an entity Option C beneficiary ceases to exist.

**Ms. Stubblefield moved to draft legislation on Potential Annuity Option C Changes. Dr. Abernathy seconded the motion, and the Board unanimously approved the motion.**

- 2. Potential Repeal of Option of Receiving Annuities of a Small Monthly Amount (Under \$20 per month) as a Single One-Time payment.** This section of the law involves retirement benefits payable of less than \$20 per month. In earlier days when staff had to manually handle each retirement paper check to prepare for mailing, then run through a mailing machine, and take to the post office, the manual process was much more burdensome than the electronic fund transfer (EFT) of benefits that ATRS uses today.

ATRS used to pay out a lump sum actuarial value of benefits if the monthly benefit amount was less than \$20. It is easy now to set up a retiree for EFT, and this process allows the retiree to spread out his or her payments to be monthly rather than a lump sum, as well as accrue an annual cost of living adjustment amount. ATRS staff recommends to the Committee that this section be repealed from the law.

ATRS currently has 16 members with monthly benefits of less than \$20. Each member is reciprocal, which means he or she also draws benefits from another Arkansas public retirement system. The lowest paid member makes \$3.01 per month for  $\frac{1}{4}$  year of ATRS service credit.

**Mr. Stubblefield moved to draft legislation on Potential Annuity Option C Changes. Mr. Black seconded the motion, and the Board unanimously approved the motion.**

- D. Legislation Approved by Committee and Board.** Mr. Hopkins reported on legislation which the Board previous approved.

- 1. Disability.** The Arkansas Teacher Retirement System (ATRS) Board of Trustees directed staff to seek a way to balance the need for a fast, efficient, and effective ATRS disability process that

supports the smooth operation of the public school system by allowing employees with significant disabilities to retire quickly while at the same time ensuring that the process continues to have integrity after a disability retirement is approved by the ATRS Medical Committee.

ATRS staff currently lacks the resources and legal authority to appropriately monitor ATRS disability retirees after a disability retirement is approved. With new medical treatments and time, some disability retirees may improve and no longer have a disability that prevents the retiree from working gainfully in the work force.

ATRS prohibits a disability retiree from returning to work at an ATRS employer to maintain integrity in the disability process. That rule is easily monitored by ATRS staff. ATRS staff has no method or legal authority to monitor if the disability retiree works elsewhere in the community, state, or otherwise. Occasionally a disability retiree may work full time at a factory or other community establishment. Many people in the school district area may know about the work and the disability status. This undermines the integrity and credibility of the disability process at ATRS.

The request was for ATRS staff to find a method to better monitor disability retirees after retirement. The solution should be one that would not unduly disrupt or penalize disability retirees who are often genuinely and critically ill, while at the same time providing a reasonable method to maintain the creditability and integrity of the program.

Most retirement systems require a member to be approved for Social Security disability in order to first qualify for disability retirement at the pension system. Since it is important to provide a quicker path for educators who are ill to exit the classroom and the education setting, the ATRS disability process provides a much swifter decision. The ATRS process uses a Medical Committee of 3 doctors to decide if a member is disabled using medical reports.

The proposed law change maintains a quick initial process, but also blends in a future use of Social Security disability for continued eligibility after an appropriate 3- 5 years to be approved for Social Security disability retirement. Under the proposed change, the member still submits a disability application that has the lightning fast review by the ATRS Medical Committee. If approved for disability, once the ATRS disability payments begin, the member

would have a duty to also apply for Social Security disability and ultimately be approved for Social Security disability. If the member is not approved for Social Security disability after 3 – 5 years, then the member would keep all previous disability payments but the benefit payments would end until the member is eligible for retirement by reaching age 60.

2. **Private School Certification by ATRS Staff Instead of Department of Education.** ATRS staff is aware that the Department of Education no longer tracks private schools, and therefore no longer has a reasonable basis to certify private school positions to ATRS as eligible for licensure as teachers whether in or out of Arkansas. ATRS staff regularly makes determinations about related items and that the staff could make an evaluation for private school certification in full compliance with federal law standards.
3. **Expand Recycling Tax Credit.** In the 2013 session, the ability to reallocate the recycling tax credit by an Arkansas public retirement system was established in the Big River Steel legislative package. It was narrowly tailored to only apply to steel mills. The law change was necessary since ATRS invested in Big River Steel but had no ability to benefit from the tax credits since it is a tax exempt entity. The law change allows ATRS and its equity partners to shift the tax credits within the equity owners of the project so all the tax credits can be realized.

Since that time, ATRS has made an equity investment in the Blue Oak Arkansas e-waste recycling plasma furnace process that will also have recycling tax credits available. Those tax credits should become available in late 2015. This project is much smaller with approximate total project capital of \$35 million dollars with recycling equipment expected to be less than one-half of that amount.

In order to encourage more of these specialized investments, ATRS would like to extend the transferability of the recycling tax credit within the equity owners to additional projects like Blue Oak Arkansas. Extending the tax credit beyond steel would be limited to just Arkansas public retirement systems and to apply only to the recycling tax credit. The tax impact of the Blue Oak project should have very slight nonmaterial impact on the overall state tax collections.

4. **Stop or Restrict Pension Advance Companies.** A growing concern in other states with a large senior citizen population are

companies that provide retirees an advance based upon future monthly retirement payments. Often, the interest rate on these "advances" can exceed 100%. Typical interest rates vary from 25% to 90%. Most often targeted groups are elderly and low income retirees. An example would be like this: A retired cafeteria worker with 14 years of service with a \$750.00 per month benefit would be contacted about the availability of an advance. The typical amount of an advance is from \$20,000 to \$50,000. A part of the advance would be used to purchase term life in the amount of the advance for the length of the repayment on the retiree. The rest would be paid to the retiree immediately with all or a material portion of the retirees' monthly benefit being used to pay the monthly payment for the advance. (The member would send ATRS a deposit account number that would be controlled by the advance company.)

Based upon the length of the payments, an assumed interest rate can be determined. As stated above, the interest rates range from 25% to 100%. The State of Missouri is the first state to outlaw pension advances and the federal government through the Government Accountability Office (GAO) has written reports on the predatory aspects of these companies. The ATRS Board recommended legislation that would stop or restrict such companies from preying on ATRS retirees.

- 5. Technical Corrections.** This is a standard bill that ATRS has every session. Over a two year period, ATRS staff and members find wording in the ATRS law that is unclear or may have a comma in a place that makes it hard to interpret. The technical corrections bill that ATRS has every session is a word and punctuation clean up to ensure the intended meaning of the ATRS law is not lost over time. In other instances, references to laws that were repealed or modified by rules are deleted. The Technical Corrections bill should have no material impact on ATRS process but just clarifies it.

**E. Issues to be Reviewed based upon Legislative Request.** Mr. Hopkins presented the Committee with Legislative Request.

- 1. Potential Retiree Bonus Payment.** This potential law change was requested by Representative Kim Hammer, House Representative from District 28, shortly after the Public School Life and Health Insurance Program Legislative Task Force meeting on Tuesday, August 26, 2014.

Representative Hammer had previously asked about raising the ATRS retiree health stipend in order to help with the rising cost of insurance. The current law caps the monthly stipend amount at the current \$75 per month. An August 19, 2014, actuarial study shows that raising the stipend by \$100 per month increases the current amortization period of 69.5 years to over 100 years.

When the cost was explained to the Representative Hammer, he made a request for ATRS to consider making a one-time/set time bonus payment/additive to retirees. ATRS staff takes no position on the requested legislation except that ATRS currently has over a 30 year amortization period to pay its unfunded liabilities.

ATRS Executive Staff told Representative Hammer that the request would be presented to the ATRS Board of Trustees for consideration. The staff stands ready to serve the Committee and ATRS Board.

- 2. Post Retirement Health Insurance Termination for Retiree of Two – Year Colleges.** Senator Bill Sample has drafted legislation that you will find in your Committee and Board packets. ATRS staff appreciates Senator Sample for always working with ATRS on issues. The draft legislation concerns the eligibility of certain retired state and public school employees for health insurance purposes who are in the alternate retirement plans outside of ATRS jurisdiction. These institutions are required to include a liability on the institutions' financial statements for retiree health benefits payable in the future. This requirement is having a negative impact on the institutions' financial status and bond rates.

While ATRS is mentioned in the proposed legislation, it is only to identify the Arkansas public retirement systems that have participating retirees and does not affect ATRS retirees. Senator Sample was very proactive in contacting ATRS as soon as the bill was drafted to seek input. ATRS staff is very appreciative of Senator Sample's courtesy in seeking input on the draft legislation. ATRS executive staff has reviewed the legislation, and can find no impact to ATRS, its current operation, or on ATRS retirees. ATRS staff recommends that the Committee vote to move the bill forward to the Board in order to make a motion for a positive review vote for the bill.

**Mr. Stubblefield *moved to a positive review of Senator Sample's bill. Dr. Abernathy seconded the motion, and the Committee unanimously approved the motion.***

**F. Update on New Website and Member's Internet Access since going "LIVE" on August 1, 2014.** Mr. Clint Rhoden gave a brief update the new website and member's internet access to ATRS accounts from the ATRS website. As of 10-6-2014, 1,622 people have signed up for the account access. Over 5,000 people signed up for the executive director updates and of the 5,000, of 1,600 registered to have account access. Still have a few ideas in the works, but everything is going smoothly. Member calls will increase as members attend the pre-retirement workshops.

**XII. Staff Reports.**

**A. Medical Committee Reports.** Michael Ray presented the Medical Committee reports for August 2014 and September 2014. In August, 2014, there were 20 applicants, 18 were approved, and 2 needed more information. In September, 2014, there were 16 applicants, all 16 were approved

**Ms. Nichols *moved to approve the August 2014 and September 2014, Medical Committee reports. Mr. Goodner seconded the motion, and the Board unanimously approved the motion.***

**XIII. Other Business.** None

**XIV. Adjourn.**

**Mr. Stubblefield *moved to adjourn the Board Meeting. Ms. Davis seconded the motion, and the Board unanimously approved the motion.***

**Meeting adjourned at 11:54 a.m.**



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George Hopkins,  
Executive Director

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Dr. Richard Abernathy, Chair  
Board of Trustees

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Tammy Porter,  
Recorder

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Date Approved