

MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Dr. Richard Abernathy, Chair

Monday, February 1, 2010

1:00 p.m.

1400 West Third Street
Little Rock, AR 72201

Board Members Present

Dr. Richard Abernathy, Chair
Hazel Coleman, Vice Chair
David Cauldwell
Mike Creekmore, designee for Hon. Martha Shoffner
Dr. Paul Fair
John Fortenberry
Steve Kelly, designee for Hon. Jim Wood
Tom Kimbrell, Ed.D.
Beverly Leming
Bobby Lester
Susannah Marshall, designee for Candace Franks
Robin Nichols
Janelle Riddle*
Jeff Stubblefield

Guests Present

Lloyd Black, ARTA
Traci Boyd, Div. of Legislative Audit
Chris Cauldwell, Div. of Legislative Audit
Bryan Clifton, MetLife Securities
Sarah Ganahl, Bureau of Leg. Research
Erika Gee, Attorney General's Office
Bob Leary
Jon Moore, Div. of Legislative Audit
Mike Mertens, AAEA
Donna Morey, AEA
Andy Pearson, MetLife Securities
Julie Yee, State Street Banking and Trust

**via teleconference*

Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Chris Ausbrooks, Senior Software Analyst
Bob Berry, Chief Fiscal Officer
Donna Bumgardner, Investment Manager
Susan Crosby, Senior Investment Analyst
Kay Daniel, Director's Assistant
Reed Edwards, Litigation Attorney
Laura Gilson, General Counsel
Rod Graves, Ret. Investment Consultant
Wayne Greathouse, Dir. Public Markets
Clementine Infante, Staff Attorney
Mindy Looney, Ret. Section Manager
Manju, Dir. Data Processing
Jerry Meyer, Dir. Real Estate
Debbie Northum, Ret. Section Manager
Michael Ray, Dir. Member Services
Kathleen Scogins, Fiscal Support Supervisor
Gaye Swaim, Dir. Human Resources
Leslie Ward, Dir. Private Equity
Amy Wells, Administrative Assistant

Consultants Present

Heather Christopher, Ennis Knupp
P. J. Kelly, Ennis Knupp
Judith Kermans, Gabriel Roeder Smith
Brian Murphy, Gabriel Roeder Smith
Michael Bacine, Franklin Park

Reporters Present

Rob Moritz, Stephens Media

- I. **Call to Order/Roll Call.** Chair, Dr. Abernathy, called the Board of Trustees meeting to order at 1:00 p.m. Roll call was taken and all members were present.

II. **Motion to Excuse Absences.** All Board members were present.

III. **Adoption of Agenda.**

Ms. Nichols moved for adoption of the Agenda. Mr. Lester 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 Minutes.**

A. **Amended Minutes from October 5, 2009.**

Ms. Coleman moved for adoption of the Amended Minutes of the Board of Trustees meeting of October 5, 2009. Mr. Lester seconded the motion, and the Board unanimously approved the motion.

B. **December 7, 2009.**

Mr. Lester moved for adoption of the Minutes of the Board of Trustees meeting of December 7, 2009. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

C. **December 18, 2009.**

Ms. Leming moved for adoption of the Minutes of the Board of Trustees meeting of December 18, 2009. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

VI. **Staff Empowerment**

A. **Authority to Transact Business (Resolution 2010-01).** Mr. Hopkins explained that this resolution is needed in order to authorize staff to execute documents necessary to carry out the Board's directives regarding investment transactions.

Dr. Kimbrell moved for adoption of Resolution 2010-01, granting George Hopkins, Executive Director, Gail Bolden, Deputy Director, and G. Wayne Greathouse, ATRS Associate Director of Investments, authority to transact investment business on behalf of the ATRS Board of Trustees. Ms. Marshall seconded the motion, and the Board unanimously adopted the resolution.

- B. Specific Powers of Executive Director (Resolution 2010-02).** Mr. Hopkins explained that this resolution is needed to clarify specific powers of the ATRS Executive Director. The Executive Director is granted usual and customary powers exercised by previous Executive Directors in the performance of duties. However, the Executive Director shall notify the Board Chair prior to making any material decision.

Ms. Nichols *moved for adoption of Resolution 2010-02, authorizing and empowering the Executive Director's actions on behalf of the ATRS Board of Trustees. Dr. Kimbrell seconded the motion, and the Board unanimously adopted the resolution.*

- C. Authorization to Transact Business, Appointment of ATRS as Manager of LLC's (Resolution 2010-03).** Mr. Hopkins explained that ATRS operates various properties and recoveries through LLC's as the sole member and managing member of the companies. This resolution is to delegate authority to the ATRS Executive Director to perform all duties related to the companies that are consistent with articles of organization, operating agreements, and applicable laws and policies of ATRS.

Ms. Coleman *moved for adoption of Resolution 2010-03, authorizing the ATRS Executive Director to transact business and perform all duties relating to the management of ATRS LLC's. Mr. Lester seconded the motion, and the Board unanimously adopted the resolution.*

- VII. Authority to Reimburse Trustee Expenses for 2010 (Resolution 2010-04).** Mr. Hopkins explained that this resolution is needed to reimburse Trustees for expenses such as long distance telephone calls, postage, and out of pocket expense associated with employing substitute personnel while performing official Board duties.

Mr. Stubblefield *moved for adoption of Resolution 2010-04, authorizing ATRS to reimburse ATRS Trustees for miscellaneous expenses and losses in salary resulting from Board of Trustee meeting attendance or official Board duties. Ms. Coleman seconded the motion, and the Board unanimously adopted the resolution.*

- VIII. Authorization for 2010 Board Travel and Expense Reimbursement (Resolution 2010-05).** Mr. Hopkins explained that this resolution is needed to pay approved travel expenses incurred by Board members for performing official Board duties during the calendar year.

Ms. Coleman moved for adoption of Resolution 2010-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties. Mr. Lester seconded the motion, and the Board unanimously adopted the resolution.

- IX. **2010-2011 Employer Contribution Rate (Resolution 2010-06).** By resolution, the Board of Trustees sets the employer contribution rate prospectively for each fiscal year. The rate is based upon actuarial recommendation and legislative restrictions.

Ms. Leming moved for adoption of Resolution 2010-06, establishing the employer contribution rate at the statutory maximum of 14% for the fiscal year starting July 1, 2010. Ms. Nichols seconded the motion, and the Board unanimously adopted the resolution.

- X. **2010 Board of Trustees Elections.**

A. **2010 Board of Trustees Elections Update.** Mr. Hopkins provided a list of the candidates running in the 2010 Board of Trustees Elections for Position #2, Position #9, and the unexpired term for Position #11.

B. **Approve 2010 Board of Trustees Election Vendor (Resolution 2010-07).** The ATRS staff worked with the state's Office of State Procurement (OSP) to develop a request for quotation to employ an election vendor for the 2010 Board elections. OSP awarded the bid to VR Election Services of Carrollton, Texas.

Dr. Fair moved for adoption of Resolution 2010-07, approving the selection of VR Election Services as the 2010 Board of Trustees election vendor. Ms. Coleman seconded the motion, and the Board unanimously adopted the resolution.

- XI. **Actuarial Valuations.** Mr. Murphy and Ms. Kermans followed up the preliminary active member information at the December 7, 2009, Board meeting with additional information. Currently, ATRS has 115,870 total members in the System's valuations: 70,655 active members, 4,631 T-DROP members, 11,766 deferred vested, and 28,818 retirees. The amortization period rose from 21.0 years last year to 45.4 years this year. ATRS is 75.7% funded, down from 84.9%.

Based on a closed group projection, 12% of the present population is expected to terminate covered employment prior to retirement, 83% is expected to receive monthly retirement benefits, and 5% is expected to

become eligible for death-in-service or disability benefits. Within 10 years, over half of the covered membership is expected to consist of new hires.

As of June 30, 2009, ATRS' actuarial value of assets was \$10.6 billion, and the market value was \$8.8 billion. This year, ATRS' loss was substantial enough to reach the corridor maximum of 120%. The corridor is the ratio of actuarial value of assets to market value of assets. The actuarial value of assets exceeds the market value by exactly 20%. To prevent unreasonably large differences between market value and funding value, there is a requirement that the recognized assets must always be between 80% and 120% of the market value.

In the retiree valuation, mention was made that 2009 was the first year the retiree cost of living adjustment (COLA) was compounded. The COLA made a difference of \$520 million in current annuities versus \$351 million in annuities when the 25,503 age and service members originally retired. Not all plans give COLAs to the retirees. Of the 28,818 retirees and beneficiaries on July 1, 2009, there is a high incidence of electing coverage for a spouse or other eligible beneficiary.

One of the important features of a defined benefit plan is that ATRS has 160 retirees age 95 or older, and 533 retirees between the ages of 90 and 94. In a defined contribution plan, these retirees would have used their contributions much earlier and been without a pension in later years.

In 1990, there were 11,654 retirees. In 2009, there were 28,818 retirees. This was the expected trend in retiree growth. The mortality table was discussed. Studies have shown that the male and female life expectancy is growing closer together.

The last comprehensive study of plan experience in ATRS was completed after the June 30, 2001, valuation. Gabriel, Roeder, Smith & Company recommends that a similar study be undertaken for the five-year period ended June 30, 2009. This would give ATRS staff the most up to date information for the 2011 legislative session. If the study were performed in the near future, it could be incorporated into the June 30, 2010 valuation. The Board uses these studies to change assumptions. A proposal for the study will be sent to Mr. Hopkins.

Ms. Coleman *moved to approve* the 2009 Actuarial Valuation reports from Gabriel, Roeder, Smith & Company. Dr. Fair *seconded the motion*, and the Board *unanimously approved the motion*.

- XII. **Fiduciary Insurance.** ATRS staff has been working on getting a proposal for fiduciary insurance for Board members. If there is a lawsuit filed against the Board members individually, the State of Arkansas will not reimburse the Board members for attorney fees. The fiduciary insurance would provide attorneys and ease expenses for Board members who become involved in personal lawsuits on behalf of Board actions. Quotes for this insurance are expected to range in price from \$40,000 to \$75,000 per year. Board members are encouraged to consider getting fiduciary insurance to prevent financial strain because of Board involvement.

Ms. Erika Gee from the Attorney General's office commented on this issue. Generally speaking, Board members would be entitled to sovereign immunity as a private citizen acting as a Board member on a State Board. The question becomes if the Board members would be entitled to sovereign immunity if the Board did not carry out its fiduciary duties. Some of the ambiguity could be resolved through legislation. ATRS staff will work on obtaining quotes for fiduciary insurance and will start developing legislative changes.

- XIII. **Report of Member Interest Amount Waived Under A.C.A. Sec. 24-7-205.** Mr. Hopkins reported there were four members who had interest waived due to ATRS staff error or problem, under legislation passed last session.

- XIV. **Legislative Audit Report, June 30, 2008, Findings.** Mr. Moore reported on the four findings discovered during the June 30, 2008, audit period:

1. Review of professional and consulting services contracts: certain services were paid for by ATRS before the contract execution date. An out of state law firm was engaged to provide a legal review of an investment overlay strategy. The agency engaged the firm without seeking Board approval, a request for qualifications, approval from the Attorney General's Office, or obtaining a contract through the Office of State Procurement.
2. Deposits and receipting: ATRS failed to deposit contributions in a timely manner, undeposited receipts were inappropriately recorded as accounts receivable on June 30, 2008, and deposits did not reconcile with check receipt logs.
3. Real estate files: Review of real estate files and supporting documentation showed that the former Executive Director signed mortgage modification agreements of three real estate loans without prior approval by the Investment Committee of the Board of Trustees.

4. State password management policy: ATRS password rules did not adhere to the State of Arkansas policy 70-002 “Password Management”.

ATRS and the Executive Director have addressed all issues.

Mr. Stubblefield *moved to approve the Legislative Audit Report of June 30, 2008 as presented. Dr. Kimbrell seconded the motion, and the Board unanimously approved the motion.*

- XV. **Fiscal Session of the 87th General Assembly.** Mr. Hopkins updated the Trustees about the upcoming fiscal session of the 87th General Assembly. ATRS does not have any budget changes and does not expect any to be made.
- XVI. **Investment Committee Report.** Ms. Leming gave brief updates on the Investment Committee meeting.

A. Arkansas Real Estate Update.

1. **Southwest Power Pool Update.** Southwest Power Pool narrowed their choices to two tracts, with ATRS’ as one. The original offer by Southwest Power Pool on the 18 acres was \$4 million. Deltic Timberland agreed to release the restrictions on six acres for \$400,000 that ATRS had valued for \$200,000. ATRS staff submitted a counteroffer of \$4.3 million for the property. ATRS staff requested Board approval of the \$4.3 million sale and to allow staff to finalize the sale with Southwest Power Pool.

Ms. Leming *moved to approve the recommendation of the Investment Committee to approve the ATRS staff counteroffer of \$4.3 million to Southwest Power Pool for the Chenal Heights property. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.*

2. **Victory Building Update.** There are several letters of intent, but there have been no acceptable offers on the Victory Building. ATRS remains an unmotivated seller as the Victory Building is nearing 90% occupancy and a 9.5% return. ATRS staff recommended to the Board to entertain offers no less than \$24 million. The Investment Committee approved a minimum offer price of \$26 million.

Ms. Leming *moved to approve the recommendation of the Investment Committee to consider offers on the Victory Building*

totaling no less than \$26 million. Dr. Kimbrell seconded the motion, and the Board unanimously approved the motion.

3. **Lot 8 of Chenal Heights Property New Purchase Offer by Pickering-Allwine, LLC.** Originally, Graham Smith made an offer on Lot 8. The Deltic restrictions prevented the completion of the sale to Graham Smith and the offer was canceled. Pickering-Allwine, LLC, presented a new purchase offer to ATRS of \$930,000, the same amount offered by Graham Smith. The difference between the original offer by Graham Smith and Pickering-Allwine is that Graham Smith wanted to sell individual lots for retirement cottages, which violated Deltic's restrictions. Pickering-Allwine also proposed to use the individual lots for retirement cottages, but plans to rent the lots instead of selling. Deltic has found the proposed land use by the new buyer to be acceptable and may not restrict the sale. ATRS staff recommends to the Board to approve the sale of Lot 8 to Pickering-Allwine, LLC.

Reed Edwards distributed a signed copy of the Real Estate Purchase Agreement to the Board members.

Ms. Leming moved to approve the recommendation of the Investment Committee for the sale of Lot 8 of Chenal Heights Property to Pickering-Allwine, LLC, for \$930,000. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

4. **Woodland Heights Contract for Management Services Update.** ATRS received three RFP's for the operation of Woodland Heights. After review, ATRS staff recommends RPM Realty.

When Fox Ridge learned that ATRS would not renew their contract, the current manager submitted a notice of cancellation of the contract, which ended January 31, 2010. ATRS negotiated a short-term transition agreement with RPM effective from mid-January to January 31, 2010. RPM is currently managing the property under a two-year contract with a 60-day cancellation notice.

Ms. Leming moved to ratify ATRS' decision to hire RPM as manager for Woodland Heights. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

5. **Update on Real Estate Tax Appeal.** A trial is scheduled in Garland County for April 2010. Upon appeal, the case may be ultimately be reviewed by the Arkansas Supreme Court.

B. General Investment Consultant Update.

1. **Portfolio Performance Update for Quarter Ended December 31, 2009, preliminary.** Mr. Hopkins gave a brief overview of the portfolio performance update for December 31, 2009. The total fund was up 22.4% for the calendar year 2009, beating the benchmark by 6%. Manager performance, with few exceptions, was very strong; notably in the fixed income portfolio area, almost triple the benchmark.
2. **Fixed Income Index Fund Search.** Ms. Leming gave a summary of the fixed income index fund search. Ennis Knupp recommended the State Street Global for the fixed income index fund manager. The Investment Committee is holding off on recommendations until further staff research has been completed.
3. **PIMCO PARS II Update.** The lead portfolio manager, Changhong Zhu, announced that he would be stepping down from his position as of December 31, 2009. Mr. Zhu will remain with PIMCO until the end of February to assist with the transition. Bill Gross will act as lead manager as the firm works to hire a new manager. Ennis Knupp recommends that ATRS continue to monitor this situation.

C. Real Estate Consultant Update.

1. **Real Estate Portfolio Performance Update for the Quarter ended September 30, 2009, final.** Mr. Hopkins gave a brief overview of the real estate portfolio performance for the quarter ended September 30, 2009. Transaction activity increased slightly but remained low. The real estate market tends to trail public markets. ATRS plans to invest \$225 million in real estate this year, which should be a good time to invest since the markets are down.

D. Private Equity Investment Consultant Update.

1. **Private Equity Market Update and Portfolio Performance Update for the Quarter ended September 30, 2009.** Mr. Hopkins gave a brief overview of the private equity portfolio performance for the quarter ended September 30, 2009. Private equity added \$70 million in value to the portfolio for the quarter. ATRS is continuing to focus on investments that are equity more than mezzanine financed.

E. Special Projects.

1. **Report on Money Manager Fees and Analysis.** Mr. Hopkins gave an overview of the role of the senior investment analyst. Ms. Crosby will be analyzing money manager fees for cost savings in addition to reviewing staff's and consultant's operations.

XVII. **Operations Committee Report.** Mr. Lester gave brief updates on the Operations Committee Meeting.

- A. **Methods to Reduce Costs and Increase Liquidity.** ATRS staff developed various cost saving ideas after evaluating the most recent actuarial valuation

1. **T-DROP Plan.**

- a. **Proposal to Pay Interest after 10 years Participation in the T-DROP Plan.** Paying interest after completing 10 years of participation in the T-DROP plan would encourage members to work in covered employment longer, rather than retiring after 10 years of T-DROP participation. Staff made this proposal and recommended that initial interest be set at 4% on June 30, 2010. ATRS staff believes the cost savings of members remaining in T-DROP justifies the higher rate. Staff presented changes to Policy 10-3 (T-DROP) under emergency rules for consideration.

Mr. Lester *moved to approve* the recommendation of Operations Committee to approve changes to Policy 10-3 (T-DROP) to pay interest on T-DROP accounts after 10 years participation if the members do not retire and continue in covered employment. The policy sets the initial interest rate at 4%. Ms. Coleman *seconded the motion*, and the Board *unanimously approved the motion*.

Mr. Lester *moved to implement* changes to Policy 10-3 (T-DROP) under the emergency rule making laws and policy. Ms. Nichols *seconded the motion*, and the Board *unanimously approved the motion*.

- b. **Proposal to Consider Actuarial Status when Setting Plan Interest for T-DROP Participants.** Staff presented proposed changes to Policy 10-3 (T-DROP) under emergency rules to take actuarial status into account in addition to investment return when setting T-DROP plan and 10 year plus T-DROP

interest rates. The Operations Committee voted to reject staff's proposal

Mr. Lester moved to approve the recommendation of the Operations Committee to reject the staff's proposal to consider actuarial status in addition to investment return when setting T-DROP plan and 10 year plus T-DROP interest rates. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

2. **Lower Interest Amount Paid on Member Refunds (Resolution 2010-08).** Currently, ATRS pays 6% regular interest when members withdraw their contributions from ATRS. ATRS staff proposes that the Board adopt a 2% interest rate beginning June 30, 2010. This would present substantial cost savings to ATRS based upon the number of refunds and the cost of regular interest paid on those accounts. Staff presented changes to Policy 8-2 (Refund of Member Contributions) under emergency rules for this proposal.

Mr. Lester moved to approve the recommendation of the Operations Committee to approve changes to Policy 8-2 (Refund of Member Contributions) to set the regular interest rate at 2% on member contributions beginning June 30, 2010. Ms. Coleman seconded the motion, and the Board unanimously adopted the resolution.

Mr. Lester moved to implement changes to Policy 8-2 (Refund of Member Contributions) under the emergency rule making laws and policy. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

B. Potential Cost Items to Retirement System.

1. **Equalizing Retiree Health Insurance with APERS' Retirees.** Several groups have been advocating a change in ATRS retirees' health insurance premiums that would bring the cost of those premiums closer to the cost of health insurance premiums paid by state retirees. ATRS staff has estimated that this could mean an additional 900 retirees added to the ATRS actuarial valuation the first year the lower premiums become available. The additional cost would move the current amortization period of ATRS from 45 years to 100 years.

- C. **Ending the Suspension of Earnings Limitation Appeals.** The Attorney General's staff advised Mr. Hopkins about the lack of Arkansas case law on ATRS' issues concerning earnings limitations appeals. ATRS is not subject to a statute of limitations on pursuing earnings limitation amounts. ATRS staff believes the best approach is for the Executive Director to reactivate all the current appeals that were suspended and move forward to finalization. ATRS staff does not plan to initiate more earnings limitation reviews until the current reviews are completed.
- D. **Proposed Hearing Officer Process.** Due to the number of current member appeals, ATRS staff believes it would be difficult for the Board to hear all the appeals sitting as a Board, as well as drawing conclusions from fact and findings of the law. ATRS staff proposed a new rule for Policy 13 (Administrative Adjudications) under emergency rules that would define the process and allow member appeals to be heard by hearing officers that are qualified ATRS employees.

Mr. Lester *moved to approve the recommendation of the Operations Committee to approve a new policy, Policy 13 (Administrative Adjudications) to define a process for hearing member appeals by qualified employees who are employed as hearing officers. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.*

Mr. Lester *moved to implement Policy 13 (Administrative Adjudications) under the emergency rule making laws and policy. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.*

XVIII. **Staff Reports.**

- A. **Medical Committee Report.** Mr. Ray gave the Medical Committee reports for December 2009 and January 2010.

Ms. Nichols *moved to approve the Medical Committee reports for December 2009 and January 2010. Ms. Leming seconded the motion, and the Board unanimously approved the motion.*

- B. **Financial Reports.**

1. **Financial Statement Reports.** Mr. Berry gave a report on the four-month period ending October 31, 2009. There was a \$753,091,176

gain in net income, compared to the \$2 billion loss from October 31, 2008.

2. **Quarterly Travel Update for Board, Staff, and Pre-retirement Counselors.** Mr. Berry reported yearly and quarterly totals for Board travel expenses. Compared to 2008, the Board cut travel by 50% in 2009. The decrease in the number of conferences attended and the Board Retreat being held at the ATRS building accounted for the majority of the 2009 decrease.

C. **Retiree Payroll Reports.** Mr. Berry presented the retiree payroll report for December 2009.

D. **Accounting Reporting Update.** Ms. Looney gave an update on Accounting Reporting for the quarter that ended September 30, 2009. There were 3,244 retirees who went back to work for ATRS covered employers. There were 80,088 active members reported for December 31, 2009.

Ms. Looney will give updated totals when the second quarter audit is completed.

E. **Membership Update.** Ms. Northum reported that the Membership Department has developed bookkeeper-training workshops to aid district bookkeepers in ATRS matters. Of the 147 employers contacted, 64% have attended a workshop.

XIX. **Other Business.**

A. **SCTR Conference.** The Southern Conference on Teacher Retirement will be held in Austin, Texas, on April 18 through April 21, 2010. Mr. Hopkins advised the Board to contact Kay Daniel if they plan to attend in order to facilitate travel plans, hotel, registration, and accounting travel forms.

XX. **Adjourn.**

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

Meeting adjourned at 2:40 p.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Wells,
Recorder

Date Approved