

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

Dr. Richard Abernathy, Chair

**Monday, February 6, 2012**

**1:00 p.m.**

**1400 West Third Street**  
**Little Rock, AR 72201**

**Board Members Present**

Dr. Richard Abernathy, Chair  
Beverly Leming, Vice Chair  
Lloyd Black  
David Cauldwell  
Hazel Coleman  
Wes Goodner, designee for Honorable  
Martha Shoffner  
Peggy Gram, designee for Honorable  
Charlie Daniels  
Dr. Tom Kimbrell  
Danny Knight  
Bobby Lester  
Donna Morey  
Robin Nichols  
Janelle Riddle  
Jeff Stubblefield  
Brent Taylor, designee for Candace Franks

**Consultants Present**

Michael Bacine, Franklin Park  
Kate Carlson, Franklin Park  
Heather Christopher, Hewitt EnnisKnupp  
P. J. Kelly, Hewitt EnnisKnupp

**Staff Present**

George Hopkins, Director  
Gail Bolden, Deputy Director  
Kay Daniel, Director's Assistant  
Dena Dixson, Internal Audit/Risk Mgmt  
Amy Glavin, Administrative Assistant  
Rod Graves, Ret. Investment Specialist  
Wayne Greathouse, Dir. Public Markets  
Manju, Dir. Data Processing  
Jerry Meyer, Dir. Real Estate  
Michael Ray, Dir. Member Service  
Gaye Swaim, Operations Administrator  
Leslie Ward, Dir. Private Equity  
Brenda West, Internal Audit/Risk Mgmt

**Guests Present**

Shane Benbrook, Audit Committee  
Alex Blankenship, Div. Legislative Audit  
Chris Caldwell, Div. Legislative Audit  
Steve Singleton, ARTA

- I. **Call to Order/Roll Call.** Chair, Dr. Richard Abernathy, called the Board of Trustees meeting to order at 1:03 p.m. Roll call was taken. All members were present.
- II. **Motion to Excuse Absences.** There were no absences to excuse.
- III. **Adoption of Agenda.**

**Ms. Nichols moved for adoption of the Agenda. Ms. Gram seconded the motion 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 December 5, 2011.**

**Ms. Leming moved for approval of the Minutes of the Board of Trustees meeting of December 5, 2011. Ms. Morey seconded the motion, and the Board unanimously approved the motion.**

VI. **Staff Empowerment.** Mr. Hopkins explained the staff empowerment resolutions. Each year the ATRS Board authorizes ATRS staff to transact certain business to set the specific powers of the executive director and to appoint the executive director to manage and delegate operational duties to the limited liability companies that ATRS uses to manage its investments and Arkansas related property.

A. **Authority to Transact Business (Resolution 2012-01).**

**Mr. Knight moved to adopt Resolution 2012-01, granting authority George Hopkins, Executive Director; Gail Bolden, Deputy Director; and G. Wayne Greathouse, 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 2012-02).**

**Mr. Lester moved to adopt Resolution 2012-02, authorizing and empowering the Executive Director's actions on behalf of the ATRS Board of Trustees. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.**

C. **Authorization to Transact Business, Appointment of ATRS as Manager of LLC's (Resolution 2012-03).**

**Ms. Leming moved to adopt Resolution 2012-03, authorizing the ATRS Executive Director or his delegates to transact business and perform all duties relating to the management of ATRS LLC's. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.**

- VII. **Authority to Reimburse Trustee Expenses for 2012 (Resolution 2012-04).** Mr. Hopkins explained the trustee reimbursement resolution. Every year, a resolution is adopted by the Board 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.

**Ms. Gram *moved to adopt* Resolution 2012-04, authorizing ATRS to reimburse ATRS Trustees for miscellaneous expenses and losses in salary resulting from Board of Trustees meeting attendance or other official Board duties. Ms. Coleman *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- VIII. **Authorization for 2012 Board Travel and Expense Reimbursement (Resolution 2012-05).** Mr. Hopkins explained the Board travel and expense reimbursement resolution. Every year, a resolution is adopted by the Board to reimburse Trustees for travel expenses incurred for performing official Board duties during the calendar year.

Due to difficulties scheduling the annual Board retreat, Mr. Hopkins proposed holding the Board Retreat every other year. As an alternative to attending the retreat, Trustees would be allowed to attend an additional conference.

**Ms. Nichols *moved to adopt* amended Resolution 2012-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties, and establishing reimbursement for three conferences on even-numbered years as an alternative to the annual Board retreat. Ms. Leming *seconded the motion*. *Motion carried*. Nae votes were recorded for Dr. Abernathy, Mr. Knight, Mr. Lester, and Mr. Stubblefield.**

- IX. **2011-2012 Employer Contribution Rate (Resolution 2012-06).** Mr. Hopkins explained the 2011-2012 employer contribution rate resolution. Every year, a resolution is adopted by the Board to set the employer contribution rate prospectively for each fiscal year. The rate is based upon actuarial valuation and legislative restrictions.

**Ms. Nichols *moved to adopt* Resolution 2012-06, establishing the employer contribution rate at the statutory maximum of 14% for the fiscal year starting July 1, 2012. Mr. Lester *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- X. **2012 Board of Trustees Election.**

- A. **2012 Board of Trustees Election Update (Resolution 2012-07).** 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 2012 Board elections. OSP awarded the bid to VR Election Services of Carrollton, Texas

**Ms. Coleman moved for adoption of Resolution 2012-07, approving the selection of VR Election Services as the 2012 Board of Trustees election vendor. Ms. Riddle seconded the motion, and the Board unanimously adopted the resolution.**

XI. **Actuarial Valuations.**

- A. **Active & Inactive Members.** Mr. Hopkins explained the Active & Inactive Members actuarial valuation report. This is a summary of the actuarial valuations concerning active and inactive members and the actuarial cost for providing benefits in the future to these members.

**Mr. Knight moved to approve the Active & Inactive Members Actuarial Valuation report from Gabriel, Roeder, Smith & Company. Ms. Leming seconded the motion, and the Board unanimously approved the motion.**

- B. **Annuities Being Paid to Retirees & Beneficiaries.** Mr. Hopkins explained the Annuities Being Paid to Retirees & Beneficiaries actuarial valuation report. This is a summary of the actuarial valuations concerning the current cost and the liabilities remaining for current retirees and beneficiaries.

**Mr. Knight moved to approve the Annuities Being Paid to Retirees & Beneficiaries Actuarial Valuation report from Gabriel, Roeder, Smith & Company. Ms. Leming seconded the motion, and the Board unanimously approved the motion.**

- XII. **Report of Member Interest Amount Waived Under A.C.A. Sec. 24-7-205.** Mr. Hopkins reported that there were no member interest waivers since December 2011.

- XIII. **Report of Employer Interest and Penalties Waived Under A.C.A. Sec. 24-7-411.** Mr. Hopkins reported that there were no employer interest or penalty waivers since December 2011.

- XIV. **Fiscal Session of the 88<sup>th</sup> General Assembly.** Mr. Hopkins reported that ATRS did not expect any legislation to be introduced affecting retirement benefits. The appropriation for ATRS was essentially approved before the

2011 session during the fall budget hearings in 2010. It is rare for an agency to have a supplemental appropriation or any additional budget items during the fiscal session. ATRS does not foresee any change to its budget or appropriation bill in the coming session.

XV. **Audit Committee Report.** Ms. Nichols gave a report on the Audit Committee meeting.

A. **Accounting Retiree Payroll Department's Response to the Internal Audit Review Presented on December 5, 2011.** The Committee discussed the response provided by the Accounting Retiree Payroll Department to the finding noted in the review of internal controls over the reconciliation process for Act 793 annuity payments and reimbursements. The Internal Audit Department will perform a follow-up after the end of the fiscal year to ensure the timely correction of the findings outlined in the audit report and will inform the Committee.

B. **Internal Audit Report – Audit of Arkansas Related Properties (ATRS Land and Buildings).** There were not any findings reported on Arkansas Related Properties.

C. **Potential Rule Changes – Operations Committee Discussion Item.**

1. **Policy 1-18 Audit Committee Charter.** In Policy 1-18, the Audit Committee charter, it is ATRS' staff's recommendation to remove certain mentions of the Executive Director and replace them with Internal Auditor. This was placed on the Audit Committee agenda to inform the Audit Committee members of the Operations Committee discussion.

D. **Internal Audit Department Update.** The audit of member purchase of service is approximately 50% completed, the audit of benefit calculations and disbursement is 75% completed, and the work on the Risk Assessment will be completed in time to meet the March 30<sup>th</sup> deadline.

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

A. **Arkansas Holdings Update.**

1. **Arkansas Special Opportunity Managers.** ATRS is searching for, and attempting to make, investments in the State of Arkansas. There has been success with Arkansan private equity, timberland, and real estate investments. However, the search has been difficult as the due diligence process is not aligned with an emerging manager strategy.

Due diligence performed on potential Arkansan investments often return with issues because the money managers are developing and do not have the institutional investment history or back office support that are part of ATRS' investment standards.

Recent opportunities related to Arkansas investments had come to the attention of ATRS. However, they were unlikely to pass ATRS' due diligence due to lack of institutional investment history, despite compelling strategies and results. ATRS staff wanted this brought to the attention of the Committee and Board as ATRS is attempting to make Arkansas investments while also making quality investments.

2. **Woodland Heights – RPM Comprehensive Operational Plan.** RPM's contract with ATRS expired January 31, 2012, and is now operating on a month-to-month basis. While Woodland Heights has slowly improved, it is not improving as much as expected. As part of the ATRS staff review of Woodland Heights, a comprehensive plan was requested of RPM. ATRS staff believes the proposed plan is aggressive, and will monitor performance over the next six months. If there are no signs of significant improvement, ATRS staff will bring this issue back to the Board for reevaluation.
3. **Farmland.** ATRS purchased two farms since the last Board meeting. The first farm, Darlington Ridge, is located in Lafayette County, Wisconsin. It has 1,712 acres and was purchased for approximately \$10,904,961.72. The second farm, Bridge Farm, is located in Cassia County, Idaho. It has 5,487 acres and was purchased for approximately \$15,353,789. ATRS now owns four farms for a total of 10,804 acres.

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

1. **Preliminary Portfolio Performance Update for the Month Ended December 31, 2011.** The total fund was up 5.2% for the month ended December 31, 2011, but performed under the benchmark of 5.4%. U.S. equity had mixed performance, and performed under the benchmark due to poor performance from ICC Capital. Global equity was at 6.6%, performing under the benchmark of 7.2%. The alternatives portfolio had mixed performance, but it is too early in the year for accurate results.

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

1. **Portfolio Performance Update for the Quarter Ended September 30, 2011.** Net IRR improved over ten basis points to 5.9% in the third

quarter of 2011. The 2012 pacing schedule calls for two value-added commitments totaling \$60 million and one opportunistic commitment totaling \$40 million.

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

1. **Private Equity Market and Portfolio Update for the Quarter Ended September 30, 2011.** The net IRR for the aggregate portfolio since inception was 8.7%, with committed capital at approximately \$2.5 billion. The percent change in portfolio value for the quarter was 2.6%.
2. **Recommendation of up to \$35 Million for NGP X Fund (Resolution 2012-08).** The fund will invest primarily in oil and gas production companies and assets in the U.S. and Canada. NGP is well positioned competitively given its long-standing relationships with management teams and has an attractive track record. ATRS has also committed to another NGP fund in the past and experienced success.

**Ms. Leming *moved to adopt* Resolution 2012-08, committing up to \$35 million to the NGP X Fund. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.**

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

- A. Recommendation for Amended Rules and Regulations Subject to Administrative Procedures Act (Resolution 2012-09).** These rules have either already been approved by the Board or require implementation due to changes in the law.

**Ms. Coleman *moved to adopt* Resolution 2012-09, approving the amended rules and regulations subject to the Administrative Procedures Act. Ms. Marshall *seconded the motion*, and the Board *unanimously adopted the resolution*.**

1. **Policy 0-1 Rules of Organization and Operation.** The Arkansas General Assembly made various changes in adoption of rules which makes it more difficult for rules to be adopted on an emergency basis and requires more time for rule-making to occur prior to final rules being effective. This rule change is necessary to make ATRS' rules conform to the new rule-making requirements in the law.
2. **Policy 7-2 Proof of Service Credit.** This rule is needed to maintain proper service credit for special function employees like bus drivers and lunchroom workers. Under current rules, a day of service is earned

if a member works at least four hours in the day. Several support positions require a member to work each day. Some school workers on a regular daily work schedule may end up with slightly less than four hours of work per day.

In order to prevent confusion and to ensure that these individuals continue getting a day of service for a typical day of work, ATRS staff, after discussions with several Trustees, have drafted a new rule that recognizes the days of service credit on employee contracts; and specifies that if a non-contracted individual is performing a typical day of service for the position the member occupies, then even if the member works slightly less than four hours in a day, the member earns a day of service credit. This rule will also need to be adopted under emergency rule making in a possible telephonic Board meeting held in late March or early April.

3. **Policy 7-4 Reporting Employee and Employer Contributions.** This amendment was recommended by ATRS' Accounting Reporting Department. The change adds a statement that annual billings for underpayment of employee or employer contributions that result in a balance of less than \$10 may be written off by the system. This will allow ATRS to avoid administrative costs that usually are much greater than the amounts collected for slight under billings.
4. **Policy 8-1 Purchase of Service Credit/Repayment of Funds.** It is unclear as to the amount of time that a member who completes a purchase of service account has to rescind their agreement and obtain the balance in the service purchase account. In order to prevent confusion and to have clarity, ATRS staff has drafted a provision that establishes that a refund is not allowed for purchase service accounts once the account has been paid in full.

This proposed rule addition also allows survivors of a deceased member up to six months to pay the balance of the member's purchase account. If the account is not paid within six months, the purchase account will be cancelled. This proposed rule also adds a section to address the repayment of refunded member contributions. This section was removed from Policy 8-3 and makes the proposed policy fully comply with the actuarial purchase of service laws now in effect.

5. **Policy 8-2 Refunds of Member Contributions.** This proposed rule affects the refund of member contributions. The proposed change lowers the rate of interest paid on member accounts to 1%, effective July 1, 2012. Currently, the interest rate on member accounts is 2%. ATRS has reviewed bank certificate of deposit (CD) rates throughout

Arkansas and finds that most CD rates are less than 1%. This rate is only applicable to ATRS members in three instances: the member terminates service and obtains a refund of contributions plus interest, dies while active and has no spouse or beneficiaries eligible to receive a monthly benefit, or a retiree dies in the first couple of years after retirement before the amount equal to all contributions plus interest are drawn in benefits. Few career or long term members are impacted by this interest rate.

In the 2011 Session, ATRS eliminated paying future interest on residual balances of deceased members past the first July 1 after death to address that very issue. In this instance, ATRS staff feels that a 1% interest rate reflects the market rate or better that most individuals could get on these balances if these balances had been moved to a different financial account.

This rule also eliminates the need to prove a hardship to receive a potential refund of contributions plus interest upon termination of employment. ATRS has always been reluctant to pay member refunds to protect the member and prevent multiple purchase accounts due to multiple refunds, each requiring a separate repurchase account. A refund paid in two installments required two purchase accounts. In the past, before actuarial cost for service purchases, ATRS required a member to prove a hardship in order to get a refund in two payments rather than wait for about six months until all accounting on the member's account was final.

ATRS law requires up to six months for refunds to be made. The six month period was for two reasons. The first reason was to discourage members from taking a refund, wait for a short amount of time, return to work and repay the refund, which creates administrative costs for ATRS. The second reason was that, when ATRS made two refunds of the same account, it made it much more difficult to administer a repurchase account since the repayment had to be done in two increments. Now, with actuarial purchase of service, setting up two refund accounts is not an issue.

The current proposal is that ATRS will allow members to take refunds in two installments with the first installment consisting of all service credit that has been reported, audited, and closed on the ATRS books by the ATRS Accounting Reporting Department. This will allow the member to usually receive a large portion of the amount of money the member would otherwise be entitled to receive. Finally, when all the member's contributions are final and closed on the ATRS books, the member would receive a second check paying the balance. It is

important to remember that ATRS policy says that once any part of a refund is paid, all service credit in the account is cancelled, therefore, there is no advantage to a member taking two payments of a refund, since the first refund voids all service credit. This rule will also need to be adopted under emergency rule making in a potential telephonic Board meeting held in late March or early April.

6. **Policy 8-3 Repayment of Refunded Member Contributions.** This is a technical change to repeal the policy since this policy was incorporated in the Policy 8-1 on Purchase of Service and Repayment of Refunds.
7. **Policy 8-5 Purchase Payment Rules.** This adds to the existing policy the requirement that members who had existing purchase service accounts prior to July 1, 2011, must adhere to the purchase commitment statement; otherwise, the purchase account will be cancelled. The policy does allow the provisions of the service purchase commitment statement to be modified in terms of types of payment, duration and service being purchased as long as the type of service and purchase account is otherwise in compliance with the ATRS law and policy. This policy change does not allow additional service to be purchased, but allows a lesser amount of certain types of service to be purchased and allows a member to extend or shorten the duration to coincide with the member's needs and circumstances at the time.
8. **Policy 8-6 Cancellation of Purchase Service Accounts.** Previously, when a member established a purchase service account, the member had to complete and pay off the service purchase account unless a hardship was proven. Many members would run into some difficulty and, absent a proven hardship, ATRS required full payment of the account before the member could retire.

Since ATRS is eliminating service purchase accounts and all new purchases must be paid in full at the time of the purchase, ATRS staff wanted to give the members with old service purchase accounts more latitude to cancel. ATRS staff suggests just allowing a member to cancel an account if they choose to do so. Therefore, this proposal allows a member to voluntarily cancel a purchase service account once it is created. It also allows the ATRS Reporting Department to accept the cancellation and, once accepted, the cancellation is final.

9. **Policy 8-8 Free Teaching Service Before 1937.** This is cleanup action that repeals a policy from the ATRS rules that was previously repealed from the ATRS code.

10. **Policy 9-4 Disability Retirement.** Some members apply for ATRS disability and do not resign from employment at the time of the application since, if their disability is not approved, the member must do their best to work, despite the circumstance that caused them to apply for disability retirement.

ATRS has a provision that says once a member is on disability retirement, then if the member works, even for one day, the work activity cancels the member's disability retirement and returns the member to active status. In order to reconcile these various provisions, this proposed policy change will allow a member up to two full calendar months after approval by the Medical Committee for the member to terminate the employment relationship with the ATRS employer and start drawing ATRS disability benefits.

Under the current rule, a member could continue working after approval for disability and work an unlimited amount of time prior to deciding to obtain disability benefits. Two months appears to be a reasonable length of time for a member to be approved for disability and terminate all ATRS employment relationships. The proposed policy also provides that, if a member continues working after two full months, then the disability application is considered withdrawn and the disability approval revoked, and the member must apply again in order to be approved for disability in the future.

11. **Policy 9-7 Annuity Options and Disposition of Residue After Retirement.** This change adds a section approved by the ATRS Board on October 24, 2011, on the emancipation of an incapacitated child who is an option beneficiary. As a reminder, an incapacitated child may be designated either as an Option A or B beneficiary at the time of a member's retirement. The rule did not anticipate that an incapacitated child's condition might improve to the point that the incapacitated child was no longer incapacitated or was otherwise emancipated by marriage or other similar circumstance.

This proposed rule change allows a parent who has designated an incapacitated child as an option beneficiary to provide proof that the child is no longer incapacitated, or is otherwise emancipated. Once such proof is provided, then the change would be treated much like ATRS would treat a divorce of a spouse who is an option beneficiary and allow the member to pop up to straight life annuity, or to alternatively designate their spouse, if eligible, as an Option A or B beneficiary after the emancipation, as long as it is done within six months of the removal of the child as an option beneficiary.

**12. Policy 10-3 Teacher Deferred Retirement Option Plan (T-DROP).**

This provision will allow members exiting T-DROP to place all or part of their T-DROP proceeds into a cash balance account at ATRS. The proposal is for ATRS to provide indexed interest rates of between 2% and 4% based upon how long the member leaves money in the cash balance account at ATRS. It is designed to encourage long term money to be held at ATRS by the member.

Members would not be allowed roll money into the ATRS cash balance account since it would violate IRS requirements of a defined benefit plan. A member may take cash distributions up to four times per year and also may roll money out to another administrator at those times. Staff also placed an emergency override proposal to allow a member to have an additional withdrawal in a quarter based upon manifest need.

If the Board approves this policy, the earliest time that rule would be effective through regular rule making would be either in late May 2012, or early June 2012. Such a late effective date would cause problems for both members needing certainty and staff providing counseling and preparing effective forms. ATRS staff proposes emergency rule making on this rule in March or early April, in order to allow adequate time for members and staff to understand the rule and make appropriate decisions.

- B. Recommendation for Amended Rules and Regulations Not Subject to Administrative Procedures Act (Resolution 2012-10).** This rule does not require the Administrative Procedures Act process. The rule becomes effective immediately upon adoption by the ATRS Board of Trustees.

**Ms. Nichols *moved to adopt* Resolution 2012-10, approving the amended rules and regulations not subject to the Administrative Procedures Act. Ms. Leming *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- 1. Policy 3-4 Monitoring Executive Performance.** This is a rule to repeal a provision the Operations Committee has recommended. The provision to be repealed requires a study by an independent actuary to determine that the ATRS actuary is properly applying actuarial standards. As previously discussed, the ATRS actuary's work is essentially reviewed every legislative session due to the magnitude and number of ATRS bills that are reviewed by both the Public Retirement Committee's actuary and the ATRS actuary for consistency. ATRS staff recommends to the Operations Committee

and Board to adopt a motion to cancel and repeal the internal rule requiring an actuarial review of the ATRS actuary every five (5) years. The ATRS Board can still authorize such a study at any time if the ATRS Board determines it is needed.

**C. Potential Rule Changes.**

1. **Policy 1-18 Audit Committee Charter.** The current wording of Policy 1-18, Audit Committee Charter, provides that the Committee Chair or Executive Director may call the meetings and set the agendas for the Audit Committee. As internal audit processes have developed at ATRS, it has been determined that it is best for the Internal Auditor and the Audit Committee Chair to work together to establish agendas and call meetings as needed. ATRS executive staff recommends removing references to the Executive Director as making decisions and replacing those references with the ATRS Internal Auditor for these functions.
2. **Policy 3-9 Operations.** This policy requires an audit by an external auditor to be performed at least every five years. The policy was implemented before ATRS had an Internal Auditor position. With the oversight of both the Division of Legislative Audit and the ATRS Internal Audit section, the Board should consider removing this requirement since it is duplicative and an unnecessary expense unless there are compelling reasons why the work of Legislative Audit and the Internal Auditor should be reviewed due to some event or occurrence. If justification occurs, then the audit could be implemented by the Board by regular vote to authorize such an audit.
3. **Policy 6-1 Membership Definitions and Rules.** The current rule denies any new employees of certain specialized employers from establishing membership with ATRS unless the new employee had prior service and was vested in ATRS with another employer. The law has changed since 2006 when this policy was created. The policy could be changed to allow new employees of these employers to become ATRS members if ATRS staff determines under the policy that the employer is an eligible employer.

- D. Potential Legislation.** ATRS has developed these suggestions as either cost-cutting measures on benefits or a reduction of administrative costs for ATRS. These are for initial review and discussion.

**Mr. Lester moved to approve all items for ATRS staff to draft legislation, except for Item 7 (Allow Age & Service Retirement only on the First Day of a Calendar Quarter), Item 10 (Death or Onset of Illness must Occur During Active Employment to Grant Survivor**

**Benefits), and Item 13 (Require Selection of Annuity Option when a Member Enters T-DROP). Ms. Coleman seconded the motion, and the Board unanimously approved the motion.**

- 1. Ability to Retain Investment Consultants and Money Managers, Custodian Bank, Law Firms, and Actuaries without Periodic Reviews until Board of Trustees Terminates their Contracts.** Arkansas procurement law anticipates that vendors should have contracts that expire from time-to-time in order to seek more competitive proposals and to ensure competition for services, which often reduce costs and fees. The investment processes of ATRS are significantly different. ATRS often hires a money manager and will retain that money manager until such time as the money manager fails to perform as expected or otherwise ATRS determines that a change should occur. After Act 1211 of 2009, all private equity and real estate managers are exempt from procurement review except through the specific process of Act 1211 which provides that ATRS will present these investments to the Legislative Council for review after approval. These investments do not require periodic re-approval like other ATRS contracts.

ATRS uses consultants to perform the due diligence and make recommendations on these type investments. Consultants also make needed recommendations to terminate a manager if needed. ATRS staff would like to work on legislation with the other retirement systems, along with the Department of Finance and Administration and others, to place money managers in the same review process, in order to prevent the cost of engaging in an RFP for a money manager who is currently managing money. Requiring a money manager to go through an approval process every seven years should be examined in light of the prudent investor process at ATRS. ATRS staff recommends allowing the ATRS Board and ATRS consultants to continue determining which money managers are acceptable and terminating those that are not, instead of requiring a full review every seven years regardless of performance. Even if this process were approved, all of these contracts would be up for legislative review at least every two years but would not require an RFP/RFQ when the current maximum length of time for a contract has been met.

- 2. Definition of Manifest Injustice.** In the review that was undertaken by the ATRS Internal Auditor, the process of how ATRS handles Act 793 of 1977 claims, and how ATRS handles Act 808 of 1987 claims, have resulted in the ATRS executive staff determining that ATRS has incorrectly paid lump sum death benefits to members retiring under both Act 793 and 808. The total amount paid from the beginning of

this process has not been determined. Since July 1, 2007, the beginning of the look back period established in 2011, \$380,000 in lump sum death benefits have been paid that should not have been paid, according to the ATRS executive staff's determination.

If ATRS continues along its regular process in this regard, ATRS would find all the existing beneficiaries of these lump sum death benefit payments and seek repayment. Some of the payments went to estates which are no longer subject to collection. Others have died since the payment was made and are not subject to collection due in many instances. Others may have circumstances where income tax was paid on the payment. If ATRS seeks recovery of the full amount, then a great unfairness would result.

ATRS ceased paying the lump sum death benefits while the executive staff made a thorough review. Lump sum death benefits have not been paid for about eight months, while ATRS executive staff processed the issues and legal circumstances of these two special and complex acts.

ATRS staff has determined that \$50,000 of payments that is currently due under the existing look back period will be permanently lost unless ATRS staff acts between now and July 1, 2012, to begin collection with certain beneficiaries that were paid in the 2007/2008 fiscal year.

ATRS staff believes the appropriate action is to seek legislation that would allow ATRS to write these sums off as a specific manifest injustice declaration under the law. In addition, ATRS staff feels that, with appropriate guidance from the Board, if these type issues arise in the future, instead of having special legislation, each time, a new law could be passed to give ATRS some greater discretion than what currently exists.

ATRS staff could work with the Board to develop a more flexible definition of manifest injustice in the law to address these issues at a Board level without waiting two years in the event a new issue is discovered, such as these Acts 793 and 808 payments. All the recipients of funds through Acts 793 and 808 are innocent recipients who should not be adversely affected due to a mistake at the ATRS staff level over a decade ago on very complicated and vague acts.

3. **Standardize Interest Rate on all Funds Due to ATRS.** Currently, ATRS has a fairly good record of obtaining employer contributions and member contributions from ATRS employers. With the development of charter schools, at times, ATRS has had difficulty collecting both

member and employer contributions from such employers. ATRS staff suggests that contributions that are not paid timely, accrue interest at 8% per annum, to treat the funds as if they had been in the ATRS portfolio and receiving the assumed rate of return.

4. **Add Penalty for Failure to Remit Current Year Contributions After One (1) Month's Notice of Failure to Pay by ATRS.** In order to give ATRS greater authority in obtaining reports and contributions, ATRS staff proposes that once a report becomes significantly late, an additional penalty, in addition to the late penalty that exists today, be added. ATRS staff suggests the amount of approximately \$500.
5. **Satisfy Employer Debt Obligation by Deducting from General Operation Funds Distributed by Department of Education.** ATRS has had difficulty with certain charter schools that have ceased to exist in getting all contributions. For various reasons, some employers fail and refuse to pay sums due to ATRS. ATRS has a provision in its law that certain sums can be obtained from the Treasurer of State for these employers. However, it has been determined that money no longer flows to public school employers in the way anticipated by the original law; therefore, that law is no longer effective.

ATRS staff suggests working with the Department of Education and others to create a specific process and mechanism in the law for funds due public schools and charter schools be subject to payment of a contribution to ATRS in the event the money is not paid directly. This will eliminate a lot of administrative difficulty and provide substance in the law in order that ATRS could be assured of getting the required contributions.

6. **Allow Retirees who do not Retire on the First Day of a Calendar Quarter to use Current Year Salary in Final Average Salary if Current Year is a High Salary Year.** Currently, if a member does not retire on a July 1, an October 1, a January 1, or an April 1, that member's final year's salary cannot be included in the determination of final average salary.

ATRS also imposes a service penalty for someone retiring in the last year when they are active, to prevent members from leaving school early, by only allowing completed quarters of the year to be reflected in service credit. For instance, a member retiring on January 1, while still in active service, can only receive a half-year of service credit since the fiscal year is one-half over in January, even if they had worked 160 days. The same is true for a quarter year on October 1, and three-quarters of a year on April 1.

ATRS staff thinks the service penalty is enough to prevent retirements which would leave a school district in need. ATRS thinks it is appropriate to allow a member who is retiring on the beginning of a month other than the four quarters to receive salary credit for the existing year if the salary could otherwise be used in the calculation of final average salary.

7. **Allow Age & Service Retirement only on the First Day of a Calendar Quarter.** ATRS may consider only allowing retirements on the beginning of a fiscal year quarter. This will allow members to choose to retire four times in a fiscal year instead of the existing twelve. This will also allow counseling staff and others to focus more on cleanup and preparation for a coming retirement season rather than constantly working retirement applications and having members anticipate differing amounts of retirement benefits if they wait a month or two from the existing month. **The Committee killed this item.**
8. **Increase Penalty for Early Retirement.** ATRS allows early retirement with 25 years of service. Some members take advantage of early retirement and receive a discounted benefit due to retiring earlier than they otherwise could under the 28 and out rules. The actuaries have pointed out that other retirement systems are looking to implement greater disincentives for early retirement by increasing the percent of reduction in benefit for early retirement. ATRS staff requests that the Committee consider increasing the early retirement disincentive for ATRS from 5%, 10% and 15%, to 6%, 12% and 18%. This could reflect a cost savings for those that do retire early and it will be a disincentive for certain members to retire earlier than they otherwise should. **The Committee requested an actuarial cost study on early retirement for further consideration.**
9. **Disallow Disability Retirement if a Member is Age 60 or has Twenty-Eight (28) Years of Service.** Currently, a member who has reached 60 years of age or has over 28 years of service credit, has an incentive to forego regular age and service retirement, and obtain disability retirement, since the age and service member is limited to service credit for the pro rata year completion. A member who is approved for disability retirement and has 160 days can retire at any time during the year and receive a year of service credit, instead of being limited to the quarter of the year that has been completed. ATRS sees several members choose to go through the disability retirement process and add the administrative cost to ATRS, when they could have just retired as a regular age and service retiree. This often gives an increase to their benefit of up to a half-year of service credit. ATRS

staff proposes a simple change that provides if a member is eligible for age and service retirement, then they cannot apply for disability retirement at ATRS to take advantage of this loop hole.

10. **Death or Onset of Illness must Occur During Active Employment to Grant Survivor Benefits.** Currently, since a member is considered active for one full fiscal year after the last fiscal year in which he or she earns service credit, a member can leave ATRS employment and go to work for another private employer, or not work at all. If they die or have a medical condition that arose after they last worked, and subsequently die within the full fiscal year after the last fiscal year in which they earned service credit, ATRS pays survivor benefits to minor children. This law change would propose that the onset of the injury or illness leading to death had to exist or occur while the member was still working for survivor benefits to be paid. This is very similar to the change ATRS made in disability law in the 2011 Session. **The Committee killed this item.**
11. **Declare Survivor Benefits Abandoned if not Claimed within 3 Years of Member's Death.** ATRS finds deceased members very quickly and notifies the family/beneficiaries about ATRS benefits. At times, survivors wait long periods of time without claiming the benefits that they know exist and come back at a later time to claim the benefits. It is uncertain the motivation for these decisions, but it a regular occurrence. At one time, high interest rates provided by ATRS were a part of the reasoning behind not withdrawing the survivor benefits. ATRS staff proposes that a survivor is limited three years from the date of death to claim a survivor benefit, or the benefit becomes unavailable due to the passage of time. Three years appears to be a reasonable length of time for a person who is entitled to a survivor benefit to take action through themselves or their family/guardian to process a simple application for benefits. Another way to approach this is to limit benefits to become effective after the application is filed to prevent large back payments. The Committee favored the latter approach.
12. **Adjust Anti-Spiking for Contract Buyouts.** ATRS staff has experienced instances where contract buyout amounts are paid which greatly exceed the salary earned in a fiscal year, and then that contract buyout amount becomes one of the three highest final average salaries. ATRS staff proposes that the contract buyout amount should not be used if higher than the actual salary paid in a member's final year before retirement. This will prevent a manipulation of the ATRS final average salary provision that was designed to assist members

with litigation issues that has turned into a loop hole that has been used by members of ATRS.

- 13. Require Selection of Annuity Option when a Member Enters T-DROP.** A Trustee, Mr. Cauldwell, suggested this item be placed on the agenda, which would affect members entering T-DROP after some date in the future and not on a retroactive basis. This would specifically require a member entering T-DROP to designate the annuity option the member intends to use at the time the member retires. This would reduce the T-DROP deposit each month in the event the member chose an option other than straight life. One concern discussed was that ATRS not pare T-DROP so much that T-DROP loses its attraction for members. T-DROP benefits members, ATRS employers, and ATRS in many ways. **The Committee killed this item.**

**XVIII. Staff Reports.**

- A. Medical Committee Reports.** Mr. Ray gave the Medical Committee reports for November 2011, December 2011, and January 2012. In November 2011, there were 26 applicants, 25 were approved and one was denied. In December 2011, there were six applicants and all were approved. In January 2012, there were seven applicants and all were approved.

**Ms. Nichols *moved to approve* the November 2011, December 2011, and January 2012 Medical Committee reports. Ms. Morey *seconded the motion*, and the Board *unanimously approved the motion*.**

**XIX. Other Business.**

**XX. Adjourn.**

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

**Meeting adjourned at 2:08 p.m.**

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George Hopkins,  
Executive Director

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Dr. Richard Abernathy, Chair  
Board of Trustees

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Amy Glavin,  
Recorder

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Date Approved