MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, September 25, 2017
11:00 a.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair
Danny Knight, Vice Chair
Dr. Richard Abernathy
Anita Bell
Lloyd Black
Kathy Clayton
Kelly Davis
Candace Franks
Bobby Lester
Hon. Andrea Lea*
Jason Brady, designee for Dennis Milligan
Robin Nichols
Deborah Thompson
Janet Watson

Board Members Absent
Johnny Key

Consultants Present
PJ Kelly, AHIC (Aon Hewitt)*
Chae Hong, AHIC (Aon Hewitt)*

Reporters Present
Mike Wickline, AR Democrat Gazette

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Shane Benbrook, Internal Audit/Risk Mgmt.
Curtis Carter, Chief Fiscal Officer
Mitzi Ferguson, Internal Audit/Risk Mgmt.
Laura Gilson, General Counsel
Rod Graves,
Wayne Greathouse, Assoc. Dir of Investments
Clementine Infante, Staff Attorney
Manju, Director of Data Processing
Jerry Meyer, Manager, Real Assets
Kevin Odum, Attorney Specialist
Tammy Porter, Executive Assistant
Michael Ray, Dir., Member Services
Clint Rhoden, Director of Operations
Joe Sithong, Software Support Analyst
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Guest Present
Donna Morey, ARTA
David Kizzia, AEA
Rep. Douglas House, Arkansas House of Representatives

via teleconference

I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 11:00 a.m. Roll call was taken. Mr. Key was absent. Hon. Andrea Lea arrived via telephone at 11:02 a.m.

II. Motion to Excuse Absences.

Ms. Nichols *moved* to *excuse* Mr. Key from the September 25, 2017 Board of Trustees meeting. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.*

III. Adoption of Agenda

Ms. Clayton *moved* for *adoption* of the Agenda. Mr. Black s*econded* the *motion,* and the Board *unanimously approved the motion.*

IV. Election of Board Chair and Vice Chair pursuant to Rule 1-5(1).

Dr. Abernathy *moved* to *nominate* Jeff Stubblefield as Chairman of the Board of Trustees. Mr. Lester *seconded* the *motion,* and the Board *unanimously approved the motion.*

Mr. Lester *moved* to *nominate* Danny Knight as Vice Chairman of the Board of Trustees. Dr. Abernathy *seconded* the *motion,* and the Board *unanimously approved the motion.*

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

VI. Approval of Minutes.

A. June 5, 2017 Minutes.

Mr. Lester *moved* for *approval* of the Minutes of the Board of Trustees meeting of June 5, 2017. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.*

B. September 8, 2017 Minutes

Mr. Lester *moved* for *approval* of the Minutes of the Board of Trustees meeting of September 8, 2017. Dr. Abernathy *seconded* the *motion*, and the Board *unanimously approved the motion.*

VII. Board Review and Clarification of Committee Officers. The ATRS Rules are silent on the issue of when the chairman and vice-chairman of the committees are to be elected. Historically, the committees only elected leadership at the time of appointment, every 4 years. The exception is the Audit Committee that was originally formed in 2008 and has elected leadership in the odd years of 2011, 2013, and 2015. The question before the Board is whether the leadership of the committees should be elected every 4 years along with the appointment of the committee members or should be elected every odd year to reflect the election of the Board leadership.

> **Dr. Abernathy *moved* for *approval* of Election of Committee Officers be every two (2) years to be consistent with Board officers. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.***

VIII. Report of Member Interest Amount Waived Under A.C.A. Sec. 24-7-205. ATRS waives interest for 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. Since ATRS has implemented the actuarial cost method for the purchase of service credit, interest waived is slowly disappearing, as well as the number of members who purchase service credit. No member interest was waived this reporting period.

IX. Report of Employer Interest and Penalties Waived Under A. C. A. Sec. 24-7-411. Mr. Hopkins presented the employer interest and penalties waived report. ATRS may also waive employer interest and penalties when reports or payments are late or have issues due to a new bookkeeper, inclement weather, sickness and other situations that justify a waiver. Five (5) employer penalties and interest were waived for this reporting period for a total amount of **$974.80**.

X. Board Waiver of Penalties and Interest Greater than $1,000 in a Fiscal Year. Cleveland County School District incurred in the amount of $1,500.00 for failure to remit the required June 2017 reports. Since executive staff only has authority to waive up to $1,000, ATRS staff has placed this item on the agenda. Cleveland County School District reported problems with getting their payroll processed. This is the first penalty for Cleveland County School District in this fiscal year.

> **Mr. Knight *moved* to *approve* the waiver of Penalties and Interest in the amount of $1,500 for Cleveland County School District. Ms. Bell *seconded* the *motion*, and the Board *unanimously approved the motion.***

XI. Manifest Injustice Report. The Manifest Injustice Committee meets independently from executive staff. Here the committee has recommendations concerning the changes to the early retirement reduction and the new anti-spiking formula. Executive staff recommends that the ATRS Board **not** provide relief under manifest injustice for any of the claims. As background, the Board changed the early retirement reduction from 5% per year to:

1, May 1, 2017 - 6% per year with one (1) member affected.
2, June 1, 2017 – 6% per year with one (1) member affected.
3. July 1, 2017 – 6% per year with 92 members affected.
4. August 1, 2017 – 10% per year with 3 members affected.
5. All future retirees – 10% per year.

The original recommendation in April was to immediately implement the full reduction of 10% per year. The ATRS Board only increased the reduction by 1% per year (a total annual reduction of 6% per year) for those who retired on July 1st. Those retiring early after July 1st have a 10% reduction. The ATRS Board gave a smaller reduction to those who retired on July 1st after hearing from affected members. It is executive staff's thought that the action to lessen the impact was appropriate and is sufficient. Below is the report from the Manifest Injustice Committee on the claims that arose from the implementation of the new benefit legislation.

A. The Manifest Injustice Committee met on the four (4) following claims and found that a manifest injustice did exists. These are all July 1st retirements.

1. MI 2017-008 – Early Retirement Reduction
2. MI-2017-009 – Early Retirement Reduction
3. MI-2017-011 – Early Retirement Reduction
4. MI-2017-013 – Early Retirement Reduction

Act 750 of 2017 gave the Board of Trustees the authority to modify the annuity reduction for early voluntary retirement at a percentage rate between 5% per year and 15% per year. Regarding the first 4 claims listed below, each of these manifest injustice claims involved a member who resigned from their position seeking early voluntary retirement, the school board accepted their resignation, and they completed their retirement application, all of which occurred during the time the legislature was in session or immediately thereafter. The individual fact situations giving rise to their claim of Manifest Injustice involve retirement actions and retirement paperwork ranging from January 2017 until the end of April 2017, during the time that the new legislation was in the legislative process and the Board took action. All of the fact situations for the claims were similar. Act 750 became law on March 30, 2017. The Board of Trustees then modified the annuity reduction at their Board of Trustee meeting on April 24, 2017, adversely affecting the benefit of the member's retirement in a manner that prevented any of these claimants from alleviating the impact of the board's decision

B. The Manifest Injustice Committee met on the following claim, also regarding early retirement, and found that a manifest injustice did not exist. (Please note that this is an August 1st retirement with a 10% per year reduction verses the 6% per year reduction that applied for July 1st retirements.

1. MI-2017-017 – Early Retirement Penalty

In this claim, the member's position was outsourced and the member accepted a job with a new employer that was not an ATRS employer. The Manifest Injustice Committee states that the issue was her change of employment, not early voluntary retirement.

On Anti Spiking, the ATRS Board modified the anti-spiking formula to limit the amount of salary used in the final average salary calculation to 110% per year from the previous allowance of a 20% allowed variation for salary to be included. Very few members ever receive a 10% increase in salary in a fiscal year. This keeps salary more in line with actuarial standards. Executive staff concurs with the Manifest Injustice Committee that no relief should be provided to the three (3) claims that limiting the spiking of salary to 110% created an unfair outcome for these members.

C. Manifest Injustice Committee met on the following claims and found that a manifest injustice did not exist:

1. MI-2017-012 – Anti Spiking
2. MI-2017-014 – Anti Spiking
3. MI-2017-016 – Anti Spiking

Act 611 of 2017 gave the Board of Trustees the authority to adjust the calculation of members' final average salary by board resolution within a range of percentage increases on a member's final three salary years. Act 611 became law on March 23, 2017, and the board adjusted the allowable increase (also known as "anti-spiking) on April 24, 2017, which affected the following claimant's retirement benefit calculation. Each of the fact situations in the claims below were unique, and the passage of Act 611 and the board's subsequent action was incidental to, but not the primary cause of, the effect on the member's final average salary calculation. None of those facts presented a Manifest Injustice that could be identified by the MI Committee.

D. The Manifest Injustice Committee met on the one (1) following claim regarding Anti Spiking:

1. The MI-2017-018 – Anti Spiking

The MI Committee finds that for the following claim, no recommendation is provided by the Manifest Injustice Committee because the facts of the claim are not ripe for a decision since the member is not eligible to retire, and is asking for a determination of facts regarding her final average salary at a time when her final average salary is unknown.

Mr. Knight *moved* to *deny* the Manifest Injustice claims regarding early retirement. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

Mr. Knight *moved* to *deny* the Manifest Injustice claims regarding anti-spiking. Ms. Clayton *seconded* the *motion*, and the Board *unanimously approved the motion.*

XII. Audit Committee Report. Ms. Kelly Davis, Chair, gave a report on the Audit Committee meeting.

A. Internal Audit Report: Membership. Mr. Shane Benbrook gave the Committee the internal audit report on the Membership Department. The object of the audit was to evaluate the efficiency of the Membership Department's processes used to enroll new members, update existing member information, and to determine if the new enrollments and updates are being processed in a timely and accurately manner. IA findings and recommendations were included in the report given to the Committee, along with responses from the Membership Department management.

B. Recess. The Committee recessed at 8:32 a.m.

C. **Other Business.** Committee reconvened at 11:50. The Committee voted to leave Ms. Davis at Chairman and Mr. Stubblefield as Vice Chair.

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

A. **Arkansas Related and Investment Update**

1. **List of Fund Closings**

a. **Parametric Global Defensive Equity Fund, LLC, an Opportunistic/Alternative Fund that Uses Options Based on Global Markets Designed to Enhance the Returns of the Underlying Global Benchmark, the Board Authorized Commitment of up to $150 Million Dollars on April 17, 2017 was Accepted and Closed on May 31, 2017.** The ATRS full commitment of $150 million dollars was negotiated, accepted, and closed on May 31, 2017.

b. **Altaris Health Partners IV, L.P., a Private Equity Buyout Fund Specializing in Small to Middle Market Health Care Companies, the Board Authorized Commitment of up to $30 Million Dollars on June 5, 2017. ATRS Obtained $24 Million Dollars of the $30 Million Dollar Recommended Allocation on June 30, 2017.** Due to high demand for this fund the General Partner would not accept the entire ATRS commitment. ATRS was only able to obtain $24 million dollars of the $30 million dollars authorized. The final agreement for $24 million dollars was negotiated, accepted, and closed on June 30, 2017.

c. **Landmark Real Estate Partners VIII, L.P., a Closed End Opportunistic Real Estate Fund Investing in Secondary Interests of Value Added and Opportunistic Funds, the Board Authorized Commitment of up to $25 Million Dollars on June 5, 2017 was Accepted and Closed on July 13, 2017.** The

ATRS full commitment of $25 million dollars was negotiated, accepted, and closed on July 13, 2017.

d. **IFM Global Infrastructure (US), L.P. Class A Interest, an Open End Real Assets Infrastructure Fund Specializing in Core Investments in Established Markets, the Board Authorized Commitment of up to $50 Million Dollars on June 5, 2017 was Accepted and Closed on June 28, 2017.** The ATRS full commitment of $50 million dollars was negotiated, accepted, and closed on June 28, 2017.

2. **Fund Maturities**

a. **Big River Steel Mezzanine Debt, the Board Authorized Commitment of $5 Million Dollars in 2014 has Matured and the Final Payment of $8.1 Million Dollars of Principal and Interest was Received on August 23, 2017 (an Additional $100 Thousand Dollar Origination Fee was Paid to ATRS at Closing).** The Board authorized commitment in mezzanine debt of Big River Steel has matured and the final payment of principal and interest was received on August 23, 2017. The initial $5 million dollar investment closed in June 2014 and generated over $3.1 million dollars in interest income. In addition to the interest income, ATRS was paid a $100 thousand dollar origination fee for the mezzanine debt investment at closing.

b. **Big River Steel Senior Secured Debt, the Board Authorized Commitment of $26.91 Million Dollars in 2014 has Matured and Final Payment of $34.6 Million Dollars of Principal and Interest was Received on August 23, 2017 (an Additional $1.07 Million Dollar Origination Fee was Paid to ATRS at Closing).** The Board authorized commitment in senior secured debt of Big River Steel has matured and the final payment of principal and interest was received on August 23, 2017. The initial $26.91 million dollar investment closed in June 2015 and generated over $7.7 million dollars in interest income. In addition to the interest income, ATRS was paid an approximate $1.07 million dollar origination fee for the senior secured debt investment at closing.

B. General Investment Consultant

1. **Performance Report for the Quarter Ended June 30, 2017.** PJ Kelly of Aon Hewitt Investment Consulting presented the performance report for the quarter ended June 30, 2017. The ATRS fund had a market value of approximately $16.1 billion dollars. The total fund had a return of 8.5% since inception, underperforming its benchmark of 8.6%. Total equity had a market value of approximately $9.2 billion dollars. Total equity had a return of 7.8% since inception, underperforming its benchmark of 8.2%.

2. **Preliminary Performance Report for the Month Ended July 31, 2017.** PJ Kelly of Aon Hewitt Investment Consulting presented the preliminary performance report for the month ended July 31, 2017. The ATRS fund had a market value of approximately $16.3 billion dollars. The total fund had a return of 8.5% since inception, underperforming its benchmark of 8.6%.

3. **Public Markets Structure Review.** PJ Kelly of Aon Hewitt Investment Consulting (AHIC) provided a review of the ATRS public markets (equities and fixed income) portfolio and provided rebalancing updates and recommendations. The annual review of the ATRS investment portfolio by AHIC is designed to ensure the ATRS investment portfolio is following the Board's objectives and long term goals. The results of this year's review show the public market allocations continue to follow the Board's objectives and long term goals.

4. **Emerging Manager Report for Fiscal Year Ended June 30, 2017**. PJ Kelly of Aon Hewitt Investment Consulting (AHIC) provided a report of AHIC's manager research process, including coverage of emerging managers, and provided an update on due diligence activities on emerging managers conducted on behalf of ATRS for the fiscal year ended June 30, 2017.

C. Real Assets Consultant Report.

1. Recommendation to Commit up to $30 Million Dollars in U.S. Real Estate Credit Fund III, LP (Managed by Calmwater Asset Management), a Closed End, Value Added Real Estate Fund Investing in Commercial Real Estate Mortgages. **U**.S. Real Estate Credit Fund III, LP is focused primarily on making senior secured loans on transitional commercial real estate properties located in U.S. primary and secondary markets. Transitional lending is the capital used during the value add period of renovation, re-tenanting, or repositioning of a commercial property. Upon completion of the value add process the owners typically refinance with longer term, lower cost mortgages as the properties are fully occupied and present less risk to the new lender.

The General Partner is U.S. Real Estate Credit Fund III GP, LLC and the manager is Calmwater Asset Management, LLC. Calmwater Asset Management, LLC was launched in 2015 and is the institutional investment arm of Karlin Asset Management ("KAM"). KAM was founded in 2005 and is based in Los Angeles. As of March 31, 2017 the firm has assets under management in excess of $1.6 billion dollars across the firm's investment platforms which include real estate, public equity, and energy investments.

KAM has a successful history investing in real estate beginning with the launch of Karlin Real Estate in 2008 which was focused on investing in distressed U.S. commercial real estate and was later expanded to include European markets. Karlin Real Estate invested over $1 billion dollars across these strategies between 2008 and 2014. Then in 2010, KAM launched Karlin Real Estate Lending in order to capture equity-like returns on smaller senior secured senior bridge loans in the U.S. The Lending platform has committed over $1 billion dollars to 90 commercial real estate loans between 2010 and 2016. Funds I and II have generated net IRRs of 13.1% and 8.7% respectively. Fund III is targeting net returns of 12-14%.

Mr. Hopkins reported staff concurs with the recommendation.

a. Resolution 2017-24.

Ms. Nichols *moved* to *adopt* Resolution 2017-24, to Commit up to $30 Million Dollars in U.S. Real Estate

Credit Fund III, LP (Managed by Calmwater Asset Management), a Closed End, Value Added Real Estate Fund Investing in Commercial Real Estate Mortgages. The Board *unanimously adopted the Resolution.*

D. Private Equity Consultant Report.

1. **Preliminary Private Equity Portfolio Review for the Quarter Ended June 30, 2017.** Michael Bacine of Franklin Park presented the preliminary private equity report for the quarter ended June 30, 2017. ATRS Legacy Portfolio is still in liquidating stage and has a remaining value of 0.4% with a net IRR of 9.2%. CSFB Portfolio is also liquidating and will continue to see distributions. CSFB has a remaining value of 16.3% with a net IRR of 8.7%. The Post 2006 Portfolio represents 2/3 of ATRS portfolio and will continue to grow as more commitments to capital are made. The Post 2006 Portfolio has a net IRR of 14.6%. The total fund had a net IRR of 10.1% for the quarter ended June 30, 2017.

2. **Recommendation to Commit up to $30 Million Dollars in Clearlake Capital V, L.P. a Private Equity Fund that Makes Opportunistic Debt and Equity Investments in Middle Market Companies Undergoing Change and/or are in Underserved Industries or Markets in North America.** Based in Santa Monica, California, Clearlake Capital was formed in 2007 by Steve Chang, Jose Feliciano and Behdad Eghbali with sponsorship by Reservoir Capital. As of April 2017, Reservoir no longer has a stake in the general partner. The fund is now managed by Messrs. Feliciano and Eghbali as well as Prashant Mehrota and Colin Leonard (partners) who are supported by fifteen investment professionals. The partners have an average of over nine years of experience each with the general partner and sixteen years each in the private equity industry.

   Clearlake makes both debt and equity investments in companies undergoing significant change or that are in underserved industries or markets. These investment opportunities often involve bankruptcies, restructurings and turnarounds. They may also involve companies that are experiencing legal or regulatory challenges or challenges meeting growth plans. The fund will focus primarily on the industrials and energy, software and technology-enabled services, and consumer sectors. Overall, the firm has generated a net IRR in excess of 30% on its previous four funds and is targeting a net return above 20% for Clearlake V. Both Franklin Park and ATRS staff recommend an investment of up to $30 million dollars in Clearlake Capital V, L.P.

Mr. Hopkins reported that staff concurs with the recommendation.

a. Resolution 2017-25.

Ms. Nichols *moved* to *adopt* Resolution 2017-25, to Commit up to $30 Million Dollars in Clearlake Capital V, L.P. a Private Equity Fund that Makes Opportunistic Debt and Equity Investments in Middle Market Companies Undergoing Change and/or are in Underserved Industries or Markets in North America. The Board *unanimously adopted the Resolution.*

3. **Emerging Manager Report for Fiscal Year Ended June 30, 2017.** Michael Bacine of Franklin Park provided a report of Franklin Park's manager research process, including coverage of emerging managers, and provide an update on due diligence activities on emerging managers conducted on behalf of ATRS for the fiscal year ended June 30, 2017.

E. **Recess. The Committee recessed at 10:00 a.m.**

F. **Other Business.** Committee reconvened at 11:51a.m.

Mr. Knight *moved* to *nominate* Robin Nichols as Chairman of the Investment Committee. Mr. Stubblefield *seconded* the *motion* and the Committee *unanimously approved* the *motion.*

Ms. Davis *moved* to *nominate* Danny Knight as Vice Chairman of the Investment Committee. Mr. Stubblefield *seconded* the *motion* and the Committee *unanimously approved* the *motion.*

XIV. **Operations Committee Report.** Mr. Lester 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. Open Forum. None.

B. Definition of Salary, Use of Sick Leave and Other Leave to enhance salary when entering T-DROP. Mr. Hopkins discussed with the Committee that unused sick leave and annual leave has always been used in the calculation of final average salary at ATRS. Some ATRS employers are now using unused sick and annual leave in ways not used before. The new methods to "cash in" unused sick leave are often used years before actual retirement to swell the final average salary calculation and to defeat the anti-spiking formula. The new technique allows a much higher final average salary than in the past. The concept used by ATRS was that unused sick leave would be paid out at retirement and the end of employment when the ATRS member severed employment and retired. Now, sick leave is paid out over a 3 year period before entering T-DROP or before a standard retirement. The impact of paying the unused sick leave at retirement prevented it from being used to enhance T-DROP benefits and paying it all at once could mute the impact at retirement due to the anti-spiking formula.

At some employers, when an active member accrues unused sick leave, the member can "sell" the sick leave back to the employer over 3 years to coincide with the 3 year final average salary calculation before entering T-DROP or actually retiring. It is important to note that 30 or more sick days can be cashed in by the member, at the member's discretion, during the member chosen 3 years. This is far different than what unused sick leave was intended for by ATRS. Due to this payout, active members often receive a large spike to their final average salary. **If a full day is paid for the sick leave day, then just 30 extra days for the 3 years, a member can get over a 15% larger pension for the rest of the member's life**. I note that most schools only pay a percentage of the value of a sick day and not 100%. The use of unused sick leave over 3 years (even years before actual retirement) has put pressure on benefit payouts. That pressure will increase as it becomes more of the normal course of dealing in the public schools. Due to this anti-selection modification now being used by public schools (State agencies are not allowed to use this process), ATRS executive staff proposes to further define salary for use in final average salary, proper and limited use of sick leave/annual leave in the definition of salary used to calculate final average salary.

The Committee directed staff to work on getting information from the Districts and bring back to the Committee at the December meeting.

C. Approval of Potential Rule Changes. Mr. Hopkins presented the list of potential rule changes pursuant to the 2017 Legislative Session.

A. **Rule 6-2: Reciprocity.** This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Act 612, which allows a member to voluntarily waive all or part of concurrent service credited to a member in ATRS, and retire under a reciprocal system. Now when a member has service for the same time period like working for both an APERS employer and an ATRS employer, the member gets to choose the system that provides the service credit. Before this law the member had no choice and ATRS always got the service and liability for the service. Now the member decides. This rule needs changing to reflect the new law.

Mr. Lester *moved* to *approve* Rule Change to Rule 6-2: Reciprocity. The Board *unanimously approved the motion.*

B. **Rule 9-2: Age and Service (Voluntary) Retirement.** This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Acts 293 and 780 that maintain and provide a more flexible mechanism to protect the financial strength of ATRS and in order to protect its members.

First, this rule reflects the new law that purchased and free credited service may be used in the calculation of credited service.

The rule change also reflects the new law that allows the Board to reverse a compounded COLA. The ATRS Board may already reverse the 2009 compounding of the COLA. The reversal may include a chart or proxy formula to be applied for members that have complicated changes in their benefits due to divorce, remarriage, death of the member, or death of a spouse. This rule would also allow the Board to phase in reversal to prevent a retiree from receiving a reduction of benefits at any time.

Finally, the rule change reflects changes in the law regarding a member's control over their designated beneficiary if requested by the member**.** Now the member may override the statutory presumption that the member's spouse always receives the residual benefit of the member.

Mr. Lester *moved* to *approve* Rule Change to Rule 9-2: Age and Service (Voluntary) Retirement. The Board *unanimously approved the motion.*

C. **Rule 9-4: Disability Retirement**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary to clean up language in the rule after the passage of Act 549 to give disability retirees flexibility and to encourage and enable them to return to work and thus be off disability retirement. The rule reflects the streamlining of the ATRS disability process and allows disability retirees to return to work on a full time or part-time basis to assist schools in meeting critical staffing needs. The rule safeguards the disability retiree benefits if they attempt to go back to work full time, but find that their disability prevents them from doing so. It also helps prevent a disabled retiree's loss of ATRS disability benefits by allowing a review by the ATRS' medical committee within three months of disability benefits ceasing due to the lack of Social Security Administration favorable disability determination letter. The rule change also reflects the change in the law that allows all reciprocal service credit with another Arkansas public retirement system to be counted for vesting purposes for disability retirement.

Mr. Lester *moved* to *approve* Rule Change to Rule 9-4: Disability Retirement. The Board *unanimously approved the motion.*

D. **Rule 9-8: Error Corrections and Collection of Overpayments**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Act 241 that allows an additional exception in the five (5) year lookback law statute of limitations for under-reported service of a member upon which all contributions were paid at the time, when the under-reporting is due to an obvious or documented error by the employer or ATRS.

Mr. Lester *moved* to *approve* Rule Change to Rule 9-8: Error Corrections and Collection of Overpayments. The Board *unanimously approved the motion.*

E. **Rule 9-9: Retirement Applications Rules and Deadlines**. This proposed rule is requested for the proper administration of retirement applications and benefits. The new rule would create a "window" of 3 months in which a member may apply for retirement benefits before their effective date of retirement. (APERS has such an application window for its members.) The new rule also allows ATRS to hold a member's application if the member applies too early or too late, and requires the member to fill out a simple form once an allowable date is reached, directing ATRS to file the application at that later date. The new rule applies to voluntary retirement, early retirement, and T-DROP. It does not apply to disability retirement or survivor benefits.

Mr. Lester *moved* to *approve* Rule Change to Rule 9-9: Retirement Applications Rules and Deadlines. The Board *unanimously approved the motion.*

F. **Rule 10-3: T-DROP**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Acts 243 and 1049. First, the rule allows the Board to adopt either a fixed or variable T-DROP interest rate. A variable interest rate formula would likely be based upon investment returns and other similar factors. The Board may adopt a T-DROP participation incentive rate during a fiscal year, in addition to the applicable interest rate, if investment returns and financial conditions justify an incentive rate for the fiscal year.

The second change in the rule allows the member to change a spousal benefit to an alternative beneficiary, and vice-versa. This last change is due to members now having control over their residual beneficiary.

Mr. Lester *moved* to *approve* Rule Change to Rule 10-3: T-DROP. The Board *unanimously approved the motion.*

G. **Rule 11-1: Survivor Benefits**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Act 243 which eliminates the current automatic statutory designation that residual benefits must go to a spouse. Now the member can override that directive by using a new form. The rule allows a member of ATRS to voluntarily designate an alternative residual beneficiary in lieu of an automatic spousal designation to receive a lump sum payment of the member's residue amount upon death of an active or T-DROP member. This means no spousal survivor benefit shall be payable if an alternative beneficiary is named. It also strikes language regarding the inclusion of the monthly stipend, since the Board now has greater flexibility to adjust the benefit stipend, if needed in order to maintain actuarial soundness.

Mr. Lester *moved* to *approve* Rule Change to Rule 11-1: Survivor Benefits. The Board *unanimously approved the motion.*

H. **Rule 13: Administrative Adjudications**. This rule change is necessary to have the ATRS rules reflect the current status of the ATRS law after the 2017 legislative session. This rule change is necessary after the passage of Act 967 which allows civil actions to be filed in the county of residence of the member, and strikes language which lists Pulaski County only.

Mr. Lester *moved* to *approve* Rule Change to Rule 13: Administrative Adjudications. The Board *unanimously approved the motion.*

XV Recess. The Committee Recessed at 10:35 a.m.

XVI Other Business. Committee reconvened at 11:53 a.m.

Dr. Abernathy *moved* to *nominate* Bobby Lester as Chairman of the Operations Committee. Mr. Black *seconded* the *motion* and the Committee *unanimously approved* the *motion*.

Mr. Black *moved* to *nominate* Dr. Richard Abernathy as Vice Chairman of the Operations Committee. Ms. Thompson *seconded* the *motion* and the Committee *unanimously approved* the *motion*.

XVII. CBA Incentive. The Rules that established the Cash Balance Account (CBA) for members retiring from T-DROP and leaving a cash balance to be withdrawn at the member's discretion has been a popular benefit component for ATRS members. The CBA currently provides an initial 2% interest rate that goes up ¼ of a percent per year until reaching 4% after 7 years participation in the CBA program. The CBA rules provides that the Board can pay a an extra incentive rate on CBA accounts after strong financial returns for the ATRS trust fund. The 16.1% return by ATRS in the fiscal year just ended was strong year. ATRS executive staff recommends that the ATRS

Board approve an incentive rate of an additional 1% be paid on the cash balance of all CBAs on June 30, 2018. This rewards members that maintain a cash balance throughout this fiscal year and encourages members to continue to use CBAs by knowing that the incentive rate is a real part of the CBA program.

Dr. Abernathy *moved* to *approve* a one-time Incentive Rate of 1% on balance of all CBAs on June 30, 2018. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.*

XVIII. Staff Reports.

A. Medical Committee Reports. A Total of 39 Disability Retirement Applications Approved.

The Medical Committee Report is a standard report made by staff on behalf of the Medical Committee approving disability cases. A total of 47 disability applications were received, 39 were approved for disability benefits, 7 needed more information, and 1 was denied.

Ms. Nichols *moved* to *approve* the Medical Committee Reports. Ms. Clayton *seconded* the *motion*, and the Board *unanimously approved the motion.*

XIV. Other Business: None

XV. Adjourn.

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

Meeting adjourned at 11:49Clinit a.m.

George Hopkins, Executive Director	Mr. Jeff Stubblefield, Chair Board of Trustees
Tammy Porter, Recorder	Date Approved