

MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

Dr. Richard Abernathy, Chair

Monday, February 7, 2011

1:00 p.m.

1400 West Third Street
Little Rock, AR 72201

Board Members Present

Dr. Richard Abernathy, Chair
Hazel Coleman, Vice Chair
Lloyd Black
David Cauldwell*
Honorable Charlie Daniels
Dr. Tom Kimbrell
Beverly Leming
Bobby G. Lester
Susannah Marshall, designee for Candace Franks
Donna Morey
Robin Nichols
Janelle Riddle*
Honorable Martha Shoffner
Jeff Stubblefield*

Board Members Absent

Charles Dyer

Consultants Present

Michael Bacine, Franklin Park
Amanda Beers, Hewitt EnnisKnupp
Heather Christopher, Hewitt EnnisKnupp
P. J. Kelly, Hewitt EnnisKnupp
Rob Parkinson, Hewitt EnnisKnupp

**via Teleconference*

Staff Present

George Hopkins, Executive Director
Gail Bolden, Deputy Director
Chris Ausbrooks, Senior Software Support
Brent Barrett, Senior Software Support
Bob Berry, Chief Fiscal Officer
Donna Bumgardner, Investment Mgr.
Kay Daniel, Director's Assistant
Dena Dixon, Risk Mgmt/Internal Audit
Laura Gilson, General Counsel
Amy Glavin, Administrative Assistant
Rod Graves, Ret. Investment Specialist
Wayne Greathouse, Dir. Public Markets
Mindy Looney, Retirement Section Mgr.
Jerry Meyer, Dir. Real Estate
Michael Ray, Dir. Member Services
Gaye Swaim, Dir. Human Resources
Leslie Ward, Dir. Private Equity
Brenda West, Risk Mgmt/Internal Audit

Guests Present

Chris Caldwell, Division of Legislative Audit
Jody Carreiro, Osborn, Carreiro, & Assoc.
Erika Gee, Attorney General's Office
Janet Harris, State Auditor's Office
Mike Mertens, AAEA
Steve Singleton, ARTA
Charles Tadlock, ARTA

- I. **Call to Order/Roll Call.** Chair, Dr. Richard Abernathy, called the Board of Trustees meeting to order at 1:05 p.m. Roll call was taken. Charles Dyer was absent.

- II. **Motion to Excuse Absences.**

Ms. Nichols *moved* to excuse Charles Dyer from the February 7, 2011, Board of Trustees meeting. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion*.

III. **Adoption of Agenda.**

Ms. Leming moved for adoption of the Agenda. Ms. Coleman seconded the motion and the Board unanimously approved the motion.

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

V. **Approval of Board of Trustees Minutes of December 6, 2010.**

Ms. Leming moved for approval of the Minutes of the Board of Trustees meeting of December 6, 2010. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

VI. **Scrivener's Error in Resolution 2010-28.** Mr. Hopkins explained the scrivener's error in Resolution 2010-28. Due to changing amounts of the recommended commitment to Charterhouse at the December 6, 2010, Board of Trustees meeting, a scrivener's error occurred, in that, the investment was presented to the Investment Committee and Board as a \$50 million investment. The Resolution 2010-28 in the Board packet stated that the investment was \$45 million. Dr. Abernathy has signed the correct resolution, but the scrivener's error is being pointed out to ensure full explanation to the Board. The Investment Committee and Board moved to adopt a \$50 million investment and the resolution in the meeting book reflected a \$45 million total. The resolution has been executed as corrected.

VII. **State Street FX Trades.** Mr. Hopkins gave a report on State Street FX trades. ATRS staff, along with security attorneys, have been attempting to obtain information from State Street concerning FX trades and costs that appear to more substantial than ATRS expected. ATRS has been investigating the FX issue since last fall. Receipt of information from State Street has been delayed several times. State Street informed ATRS that the latest information requested in December 2010, cannot be provided until mid-February 2011. Early analysis by the experts indicate that ATRS may have a claim much like a claim in a securities class action for FX Trades.

As a reminder, a former State Street customer, the Washington State Retirement System made a multi-million dollar settlement with State Street in October 2010 regarding FX trading for it by State Street. California pension plans are also suing State Street. Other custodians are being sued like the Virginia Attorney General has FX litigation against Bank of New York Mellon. State Street has not been willing to discuss its settlement with Washington State with ATRS or with the security attorneys of ATRS. State Street has

assured ATRS staff that once information is finally received from State Street that ATRS should be satisfied with the fairness of the transactions and the appearance of high cost, State Street claims that the FX trading costs may relate to discrepancies in the timing of the FX trades.

State Street has stated that it is not a fiduciary of ATRS on FX trades and that it has the ability to charge whatever the market allows on FX Trades and the responsibility for ensuring that costs are reasonable falls upon ATRS and the ATRS managers. Since the time of a meeting at State Street in Boston in December 2010, until now, ATRS staff has been working diligently to ensure that ATRS has mechanisms in place to have limitations on FX charges. It also appears that State Street has changed certain FX protocols and procedures since the time of the California pension plans' lawsuit that was filed against State Street regarding FX trading.

If the information received from State Street shows the FX costs as developed by the experts for the security attorneys currently used by ATRS are accurate in terms of the cost and fairness, then ATRS is prepared to pursue a class action just as it has in various equity class action lawsuits. Hopefully, by the end of February, ATRS will have sufficient information to either close this matter or use the security monitoring legal representation already engaged by ATRS to file a class action lawsuit regarding any unfair costs incurred by ATRS and FX trades. If a class action is filed, it will be pursued as a class action like a case against a publicly traded company.

VIII. **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 2011-01).**

Ms. Nichols *moved to adopt* Resolution 2011-01, 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. Morey *seconded* the *motion*, and the Board *unanimously adopted the resolution*.

B. **Specific Powers of Executive Director (Resolution 2011-02).**

Ms. Leming moved to adopt Resolution 2011-02, 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 2011-03).

Ms. Leming moved to adopt Resolution 2011-03, authorizing the ATRS Executive Director or his delegates to transact business and perform all duties relating to the management of ATRS LLC's. Dr. Kimbrell seconded the motion, and the Board unanimously adopted the resolution.

IX. Authority to Reimburse Trustee Expenses for 2011 (Resolution 2011-04).

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. Morey moved to adopt Resolution 2011-04, 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. Nichols seconded the motion, and the Board unanimously adopted the resolution.

X. Authorization for 2011 Board Travel and Expense Reimbursement (Resolution 2011-05).

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.

Ms. Coleman moved to adopt Resolution 2011-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.

XI. 2010-2011 Employer Contribution Rate (Resolution 2011-06).

Mr. Hopkins explained the 2010-2011 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. Marshall moved to adopt Resolution 2011-06, establishing the employer contribution rate at the statutory maximum of 14% for the fiscal year starting July 1, 2011. Ms. Nichols seconded the motion, and the Board unanimously adopted the resolution.

XII. 2011 Board of Trustees Election.

A. 2011 Board of Trustees Election Update (Resolution 2011-07). Mr. Hopkins gave an update on the 2011 Board of Trustees election. The ATRS Board had one election scheduled for a trustee position to begin service on July 1, 2011. Beverly Leming was a qualified candidate and the only candidate who filed for the election. As per Board policy, the Board may cancel the election and, by resolution, approve Beverly Leming as the elected candidate based upon her unopposed qualified candidacy. The resolution recognizes Beverly Leming's election as an unopposed candidate.

Ms. Nichols moved to adopt Resolution 2011-07, declaring Beverly Leming as elected to fill Position #4 in accordance with ATRS Board rules and regulations. Ms. Morey seconded the motion, and the Board unanimously adopted the resolution.

XIII. Actuarial Valuations. Mr. Hopkins gave a summary of the actuarial valuations received from Gabriel, Roeder, Smith & Company.

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.

Ms. Leming moved to approve the Active & Inactive Members Actuarial Valuation report from Gabriel, Roeder, Smith & Company. Mr. Black 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.

Ms. Nichols moved to approve the Annuities Being Paid to Retirees & Beneficiaries Actuarial Valuation report from Gabriel, Roeder, Smith

& Company. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

- XIV. **Report of Member Interest Amount Waived under A.C.A. Sec. 24-7-205 and Employer Interest and Penalties Waived under A.C.A. 24-7-411.** Mr. Hopkins gave a report on member interest waived under A.C.A. Sec. 24-7-205 and employer interest and penalties waived under A.C.A. 24-7-411. The Board has authorized the executive director to waive interest on various accounts for members based upon operational issues and special circumstances. The Executive Director is authorized to waive penalties and interest applied to employers. When a new bookkeeper is employed, computers are changed, or illness occurs, mistakes may be made by an employer. ATRS tries to work with bookkeepers to encourage proper reporting, while at the same time, taking into consideration the circumstances of employers. The typical approach is to waive interest and penalties if the employer has a strong record of compliance and has a valid explanation for the failure to file all forms when required.

There has been one member waiver and no employer waivers since January 1, 2011. The member waiver was \$112.99, and was due to time constraints caused by their financial institution.

- XV. **Report of the 88th General Assembly for 2011.** Mr. Hopkins gave a report on the 88th General Assembly for 2011. The 88th General Assembly is now underway. In addition to retirement legislation, other bills may affect ATRS and this will be an opportunity for ATRS staff to obtain direction from the Board on any bills or issues the Board decides to address on any legislation.
- XVI. **Investment Committee Report.** Ms. Leming gave a report on the Investment Committee meeting.

A. Arkansas Real Estate Holdings Update.

1. **Update of Negotiations with ISB Management Company for Management of Victory Building.** ATRS was able to negotiate a 2% management fee through an RFQ process in Nashville, TN for the American Center. In Little Rock, the market is somewhat different. Currently, ISB has 2.85% management fee for the Victory Building. ATRS was hopeful that it could negotiate a management fee closer to the American Center Management fee of 2%. At this time, ISB has agreed to drop its management fee to 2.5%. For the Little Rock market this is actually a good rate. At this time, the staff has not been highly motivated to attempt to finalize a lease when the month-to-month verses a long term commitment difference is 35 basis points.

ATRS staff recommended to the Committee either signing a two to three year lease with ISB at the 2.5% management fee rate, or alternatively to continue the 2.85% rate on a month-to-month basis as ATRS has had for over a year with ISB. The Committee advised ATRS staff to continue month-to-month with ISB until further instruction from the Board.

2. **Update on Woodland Heights.** Woodland Heights is now 53% occupied with another 7% preleased with financial commitments already paid to ATRS as units are touched up for occupancy. The upward trend at Woodland Heights has continued with occupancy expected to rise above 60% when these preleases become occupied. This represents essentially a 50% increase in occupancy in about one year.
3. **Other Arkansas Related Issues.** The tax lawsuit is now before the Arkansas Supreme Court with a briefing schedule in place. Hopefully, in the next few months, ATRS will have a final decision on its tax-exempt status while holding Arkansas real estate
4. **Agriculture.** ATRS continues to try to finalize contracts with the two agriculture managers selected by the Board at the last meetings subject to final due diligence. ATRS is working with the consultants and legal counsel to obtain quality agreements for the long term management of agriculture resources in Arkansas and in other states.

B. General Investment Consultant Update – Hewitt EnnisKnupp.

1. **Portfolio Performance Update for the Quarter ended December 31, 2010.** Mr. Kelly reported on the portfolio performance for the quarter ended December 31, 2010. For the year ending December 31, 2010, the stock market was up 17.5%. The total fund performance for the fourth quarter was up 6.9%, and 16.2% since June 30, 2010. The vast majority of the U.S. equity managers outperformed for the fourth quarter and year ending December 31, 2010. Notable global equity managers were UBS Global, outperforming at 25.1% since June 30, 2010, beating the benchmark of 24.3%, and Wellington Global Perspectives, outperforming at 32.8% since June 30, 2010, beating the benchmark of 29.3%. Total fixed income outperformed across the board for the fourth quarter and since June 30, 2010.
2. **2011 Investment Opportunities.** For 2011, there are several areas that Hewitt EnnisKnupp would like to explore for ATRS: global macro

funds, credit funds, agriculture, and infrastructure. Currently, ATRS has policy targets of 25% to illiquid or low liquid investments, such as real estate, private equity, and alternatives like timber and agriculture. Hewitt EnnisKnupp recommends giving higher priority to credit and global macro funds because they expected return is similar to stocks, they provide a diversification benefit, and are timely due to volatility of market and uncertainty in credit.

Hewitt EnnisKnupp recommends hiring two credit and two global macro managers with an allocation of \$50 million to each.

3. **Global Credit Search and Firms for Review.**

- a. **Anchorage Capital Partners.** Anchorage Capital Partners is an opportunistic credit/distress fund that invests across the non-investment grade spectrum on a long and short basis, primarily in the U.S. and Europe. The firm has highly experienced investment and operational staff, a highly institutional investor base, and is SEC registered. The fund has a one year lock up period with a 3% redemption charge for withdrawals made on the initial expiration of the lock up. Afterward, investors may redeem on the quarter end of the annual investment anniversary date, subject to 90 days notice. The fund also offers a management fee share class of 1.5% for rolling two year redemptions, with 45 days notice.

Ms. Leming *moved to approve* the Investment Committee's recommendation to fund Anchorage Capital Partners for up to \$50 million. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion*.

- b. **Avenue International.**

- c. **York Credit Opportunities.** York is a well-established event driven manager, with sizeable assets under management. The investment team is very experienced and well resourced. The Credit Opportunities fund combines the firm's specialist credit research with its event driven views. Hewitt EnnisKnupp feel confident in the fund's ability to continue to generate attractive risk-adjusted returns over the medium to long term. The fund charges a management fee of 1.5% and a performance fee of 20%.

Ms. Leming *moved to approve* the Investment Committee's recommendation to fund York Credit Opportunities for up to

\$50 million. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

4. Global Macro Search and Firms for Review.

- a. **Graham Proprietary Matrix.** Graham Capital Management is a large commodity trading adviser (CTA) firm with a sixteen year track record. Its systems, transparency, and risk management are good, and its rapid fire trading and diversity of positions should serve to diversify other positions in the portfolio. The Proprietary Matrix strategy blends systematic and discretionary trading in a 50/50 mix. This hybrid fund can be appropriate for investors who are considering the addition of both managed futures and macro funds to their portfolio. The most significant drawback to this fund is the high fee burden. The fund charges a management fee of 2% and a performance fee of 20%. Additionally, annual trading fees of 1.7% are added, which include futures commission merchant (FCM) commissions.

Ms. Leming moved to approve the Investment Committee's recommendation to fund Graham Proprietary Matrix for up to \$50 million, conditional upon negotiation of annual fees. Ms. Nichols seconded the motion, and the motion carried. Ms. Coleman abstained from voting.

- b. **Capula GRV Master Fund.** Capula is a sizeable hedge fund manager with high quality people. Their investment process is dynamic and Capula is in a good position to continue generating impressive risk adjusted returns. The fund has a two year soft lock up period with a 3% early redemption fee. After the initial two year period the fund offers quarterly liquidity subject to 45 days notice. The management fee is 2.0% per annum with a 20% incentive fee.

Ms. Leming moved to approve the Investment Committee's recommendation to fund Capula GRV Master Fund for up to \$50 million. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

- c. **MAN AHL Alpha.** Man AHL is a highly capable hedge fund manager. Their long history, stable team, and strength of systems infrastructure indicate their ability to deliver impressive investment returns. The firm has a diversified client base, with a tilt towards private clients. The fund charges a management fee of 2% and a performance fee of 20%.

5. **Recommendation for Tennenbaum Capital Partners as an Alternative Investment Subject to Final Due Diligence.** Tennenbaum Capital Partners, LLC (Tennenbaum) is forming Tennenbaum Opportunities Fund VI, LLC (TOF VI) to focus on acquiring corporate securities and commercial loans through both deep value distressed/special situations credit and distressed-for-control strategies. The Fund will accumulate debt securities that are trading at a steep discount to par or provide rescue financing as well as acquire deeply discounted distressed securities and commercial loans in the secondary market and arrange and fund direct capital infusions into distressed companies. The Firm is seeking \$1.0 billion in capital commitments and intends to make 30 to 40 investments with approximately \$20 to \$50 million invested per transaction. The fund will target a 20% net IRR. Based on preliminary due diligence, the Investment Committee recommended a \$40 million commitment to TOF VI, subject to a legal review of the Limited Partnership Agreement

Ms. Leming *moved to approve* the Investment Committee's recommendation to fund Tennenbaum Capital Partners for up to \$40 million. Mr. Lester *seconded the motion*, and the Board *unanimously approved the motion*.

- C. **Approval of Changes to Investment Guideline Statement.** In order to put farmland and macro investments in the alternative investment category, the guideline needs to be amended. The changes would allow broader investment types into alternative investments.

Ms. Leming *moved to approve* changes to the ATRS Investment Guideline statement. Ms. Morey *seconded the motion*, and the Board *unanimously approved the motion*.

- D. **Real Estate Consultant Update – Hewitt EnnisKnupp.**

1. **Portfolio Performance Update for the Quarter ended September 30, 2010.** Ms. Christopher reported on the portfolio performance updated for the quarter ended September 30, 2010. Transaction volume continued its upward trend, but remained well below 2006/2007 levels. Fundamentals remain unstable and open-end funds continue to reduce redemption queues. The current market outlook expects deleveraging to continue, distress persisting into 2011, core pricing starting to rebound, and opportunities presenting themselves in various areas, such as secondary markets investments, debt and

mezzanine lending, distressed investments, and core investments at an attractive cost basis.

The net IRR for the quarter ended September 30, 2010, is 4.4%. Total portfolio level leverage remained substantially unchanged from the prior quarter. The real estate program exceeded the NPI during the quarter and has outperformed the index over the trailing 10-year period. Core fund performance continued its rebound during the quarter, with UBS continuing to be the best performing core fund in the portfolio. Higher leverage and exposure to non-core investments hurt some funds through the downturn, but will be accretive if a sustained recovery occurs.

There were no new commitments made during the third quarter of 2010. Landmark Partners, a \$40 million commitment, closed during the second quarter of 2010. ATRS committed an additional \$100 million to core funds during the second quarter of 2010, split evenly between J.P. Morgan and UBS. Current pacing projections call for one \$50 million core commitment, one to two value-added commitments aggregating to \$70 million, and one to two opportunistic commitments aggregating to \$50 million for 2011.

2. **Recommendation for Real Estate Commitment Pacing.** Ms. Christopher presented the Hewitt EnnisKnupp recommendation for real estate commitment pacing for 2011. Current pacing projections call for one \$50 million core commitment, one to two value-added commitments aggregating to \$70 million, and one to two opportunistic commitments aggregating to \$50 million for 2011.

Ms. Leming *moved to approve* Hewitt EnnisKnupp's recommended Real Estate Commitment Pacing schedule for 2011. Ms. Coleman *seconded the motion*, and the Board *unanimously approved the motion*.

E. Private Equity Investment Consultant Update – Franklin Park.

1. **Private Equity Market and Portfolio Update for the Quarter ended September 30, 2010.** Mr. Bacine reported on the private equity market and portfolio update for the quarter ended September 30, 2010. The percent change in value for the quarter ended September 30, 2010, was 4.2% with a net cash flow of -\$25,153,263. The total commitments for the year ended December 31, 2010, were \$120 million.

2. **Recommendation for Investment in Wicks Capital Partners IV.** The fund is being formed to make buyout investments in the information, education, and media industries, principally in the U.S. Wicks targets small to lower-mid market companies and non-core subsidiaries of large corporations and often seeks to make initial platform acquisitions and then build companies through add-on acquisitions. The fund has proposed an annual management fee of 2.0% per annum of commitments during the commitment period and, after the commitment period, 2.0% per annum on net invested capital. Franklin Park recommends a commitment of up to \$40 million, subject to satisfactory negotiation of final documentation.

Ms. Leming moved to approve the Investment Committee's recommendation to fund Wicks Capital Partners IV for up to \$40 million. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

3. **Recommendation to Amend KPS III Supplemental Agreement.** In August 2009, ATRS committed \$40 million to the Fund. The Fund has approximately \$816 million in aggregate commitments. As of September 30, 2010, the Fund has invested approximately 15.4% of its capital commitments and has made two investments. KPS is seeking the consent of a majority in interest of the Fund's limited partners to expand the Fund's ability to make investments in companies outside the U.S. and Canada. Currently guidelines limit outside investments and the proposed amendments would rectify the guidelines to allow for investments outside of the U.S. and Canada. Franklin Park recommends ATRS consent to the amendment to allow KPS to evaluate and make investments outside of the U.S. and Canada.

Ms. Leming moved to approve the Investment Committee's recommendation to amend the KPS III Supplemental Agreement. Mr. Lester seconded the motion, and the Board unanimously approved the motion

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

A. **ATRS Bills.**

1. **Senate Bill 48: ATRS Appropriation Bill.** An act for the Arkansas Teacher Retirement System appropriation for personal and operation expenses for the 2011-2012 fiscal year.

2. **Senate Bill 63: Reciprocal Reduction & T-DROP Payout Options.**

An act to expand a member's options for distribution of a member's teacher deferred retirement option plan in the Arkansas Teacher Retirement System to include a partial distribution; to include reciprocal service when calculating plan deposits; to declare an emergency; and for other purposes.

This is a cost saving and member oriented bill. First, this bill gives the Board of Trustees authority to clarify how part time T-DROP participants receive T-DROP deposits. Currently, there is no law to give direction on how many T-DROP deposits that a part time member of ATRS can receive in a twelve month period. The Board of Trustees will clarify this after public hearings and analysis on what is appropriate. This bill has a significant cost savings by applying the same reduction for reciprocal years in a system like APERS as a member receives in ATRS. Under current law, an ATRS member with thirty (30) years of ATRS contributory service receives 70% of their annuity placed into a monthly T-DROP deposit account. This is based upon a 1% reduction for every year of contributory service in ATRS. If a member has ten (10) years of ATRS service and twenty (20) years of APERS service, under current law, the reduction is only 10% giving the member 90% of the annuity. This change would have a 1% reduction for every year in the reciprocal system, thereby, giving a reciprocal member 70% of the deposit instead of 90% in the example above. This will save money and bring equity by treating all years of service equally at ATRS. This bill provides members an option of splitting their T-DROP balance when they retire. Currently, they must roll it all to another administrator like Valic or annuitize the entire balance with ATRS. ATRS wants to give the members the authority to split their balance by leaving 100%, 75%, 50%, or 25% with ATRS to become part of their monthly benefit check, and roll the remaining balance to another retirement plan. This should give ATRS the ability to enhance cash flow while, at the same time, giving members more options.

3. **Senate Bill 68: Contract Buyout.** An act to specify conditions for calculating service credits under a contract buyout agreement; to declare an emergency; and for other purposes.

This bill addresses concerns due to the short vesting period of ATRS (five years) and contract buyout establishing future credit service. Over the past years, ATRS has recognized years of service during the length of the buyout thus, allowing members the benefit of a substantial retirement without providing the employment services. This

bill prevents the contract buyout from establishing service credit when onsite employment services are not provided.

4. **Senate Bill 85: Strengthen Disability Requirements.** An act to clarify that the onset of a disability must occur while employed as an active member in order to qualify for disability retirement under the Arkansas Teacher Retirement system; to declare an emergency; and for other purposes.

Currently, a member can separate from ATRS and remain active for up to twenty-two (22) months after separation. Under the current law, the member's disability does not have to begin during employment, but can occur months, or even more than a year later. Example, a member quits working at a school, buys a motorcycle and rides through Central and South America, has a terrible accident in Chile and is now disabled. ATRS would begin paying disability retirement benefits to that member, and the benefits would be paid back to the first month that the member was not employed by the school district. This bill would require the onset of the injury or illness to begin while the members are still employed.

5. **Senate Bill 86: Increase Days to 160 to Earn One Year of Credit.** An act to increase the number of days employed to earn credited service under the Arkansas Teacher Retirement System each fiscal year; to declare an emergency; and for other purposes.

This is a cost savings bill. In 1971, ATRS lengthened the days of service for a year of credit from 85 days of service to 120 days. It has not been lengthened since that time, although the school year has been lengthened several times. In order to save money, ATRS would require 160 days of service for a year of credit versus the 120 days required now. This will save several thousand service years that are being earned by part time members that will not be earned in the future. For instance, members working less than full time currently receiving a full year of service credit may get three-quarters of a year, members with three-quarters of a year may get one-half year, and some members with half-year of service may only get a quarter-year of service. All of this will amount to savings for ATRS and more fairly represent the actual service at a public school in Arkansas.

6. **Senate Bill 88: Allow Board of Trustees to Fill Vacancies/Attend Meetings/Reimburse Reasonable Expenses.** An act to allow the Board of Trustees of the Arkansas Teacher Retirement System to fill a vacancy for an unexpired term of an elected trustee; to reimburse a

Trustee for reasonable expenses to attend an official Board meeting; and for other purposes.

This bill has three main provisions. One, it allows the Board of Trustees to name a replacement Trustee in the event a Trustee resigns, dies, or becomes ineligible if the Board determines it is best at that time to appoint someone rather than have a special election. Depending upon the position, a special election can cost ATRS \$30,000 or more. The appointment would remain in place only until the next regular election. Provision two is due to the ATRS Board going to paperless meetings and often sends hundreds of pages of documents electronically to Trustees to read before a meeting. Some Trustees have limited income and ATRS has paid the cost for high speed internet, ATRS wanted provisions in the Arkansas Code to allow the Board to keep paying for this service. In addition, the Department of Finance and Administration asked ATRS to clarify the right of ATRS to reimburse a teacher Trustee for substitute teachers at a district when a teacher attends an ATRS meeting and the district requires the Trustee to pay for the cost of a substitute for their classes. These expenses are minimal and are necessary for ATRS operational activity. The third provision is for the active teacher members of the Board. A school district cannot prohibit these Trustees attending official ATRS Board and Committee meetings and that they cannot have a negative job action due to attendance at official ATRS Board and Committee meeting. This is to ensure that members, who are elected to the Board, are allowed to attend and not be excluded from participating as Trustees.

7. **Senate Bill 89: Refund Cancels Noncontributory Service.** An act to clarify that a member who elects to receive a refund of member contributions also elects to cancel any service credit for noncontributory years; to declare an emergency; and for other purposes.

Currently, if a member at ATRS has six years of noncontributory service, and ten years of contributory service, and quits their job and asks for a refund of their contributions, ATRS will refund the contributions, but leave in place the noncontributory service. This means that this member will actually receive a retirement benefit since they are vested with the noncontributory service. On the other hand, if a member with sixteen (16) years of only contributory service quits work and asks for a refund, it cancels all service credit. If this passes, a refund will cancel all service, not just contributory service. This is a cost saving measure that prevents a member from splitting their

contributory and noncontributory service in a way to allow them to receive both a refund and a retirement benefit when leaving employment.

8. **Senate Bill 95: Maximum Lump-Sum Death Benefit with 15+ Years of Contributory Service.** An act to allow the maximum lump-sum death benefit to be paid to members who have accrued fifteen (15) years of contributory service, regardless of noncontributory years of service; and for other purposes.

Currently, the ATRS death benefit varies between \$6,667 for totally noncontributory members, up to \$10,000 for totally contributory members. Currently, a ratio is established between contributory and noncontributory years and the difference of \$3,333 is proportioned between the two. For instance, if a member has ten (10) years of service with five (5) contributory and five (5) noncontributory, the member would receive \$6,667 plus one-half of \$3,333. In addition, a member with fifty (50) years of service that has forty-nine (49) contributory years and one (1) noncontributory year would not get the full \$10,000 but would get \$6,667 plus 49/50ths of \$3,333. This bill has a cutoff that says once a member has fifteen (15) years of contributory service, the member is entitled to the maximum death benefit without reduction since many people receive the full death benefit with between ten (10) and fifteen (15) years of total service if it is all contributory. This bill has a slight cost but any cost should be minimal.

9. **Senate Bill 126: College Changes.** An act to establish the right of an Arkansas Teacher Retirement System member to remain an active member when employed by an institution of higher education; to enable institutions of higher education to recruit experienced public school employees by allowing the employer to enroll vested members of the Arkansas Teacher Retirement System after July 1, 2011; to provide accurate verification and reporting requirements; to declare an emergency; and for other purposes.

The attorney general issued an opinion in 2009 that made college participation problematic and difficult. This bill greatly reduces the ability of colleges to offer ATRS, while at the same time, allowing colleges to participate in ATRS on a fair but more limited basis. Essentially, this bill provides that all current employees at a college can remain (grandfather) into ATRS regardless of whether full time, part time, or positions they may hold. After July 1, 2011, colleges may only enroll new employees into ATRS if the employee is already vested with

ATRS, a full time employee, and the employee makes an irrevocable election to stay in ATRS while employed at any public college in Arkansas. This bill also prohibits stacking of salary at a college and a public school to prevent an arbitrage against ATRS during a teacher's last three years of employment by going to work at a college, while employed at a school district and stacking the salaries for a big boost in the final average salary. ATRS is prepared to compromise on this bill to obtain passage. ATRS does not have a hard and fast line on any specific provision of the bill.

10. **House Bill 1111: National Guard Changes.** An act to allow members of the Arkansas Teacher Retirement System to purchase armed forces reserve Service credit; to allow the purchase of one year of credit in the Arkansas Teacher Retirement System for one year of service in the national guard and armed forces reserve up to a maximum of five years; and for other purposes.

This is a military service bill that allows members of the military reserve and national guards from other states to also be able to purchase ATRS service. Arkansas currently only allows Arkansas National Guard service, no out of state national guard, and no military armed forces reserve service. In addition, ATRS requires five (5) years of military service for each one (1) year of national guard service purchased, whereas, APERS and others allow one for one purchase. This bill would also bring ATRS to a one for one basis in order to purchase service. However, if another bill passes, all the service would be purchased at actuarial cost, which means ATRS will not have any cost related to these purchases.

11. **House Bill 1117: Accounting Definitions.** An act to permit the Arkansas Teacher Retirement System to create appropriate accounts to properly manage the system; to accurately reflect the accounting of the assets of the system; to allow the Board of Trustees of the Arkansas Teacher Retirement System to create additional accounts as needed; to declare an emergency; and for other purposes.

This is a simple bill caused by contact with Legislative Auditors. ATRS has archaic account designations in the law, which are no longer used due to modern accounting principles. This law simply says ATRS will follow prudent accounting principles rather than use the accounts established by the old law.

12. **House Bill 1135: Repeal Rescission.** An act to repeal the choice to rescind retirement; to make the Arkansas Teacher Retirement System

statutes consistent with other state pension plans; to declare an emergency; and for other purposes.

ATRS is one of the few retirement plans in the country that allow members to retire and thereafter, change their mind, unretire, and go back and obtain additional service credit. It is administratively problematic and is only used by a handful of members a year who profit after returning to active service under the current law. This would repeal the right of a member to rescind retirement and obtain additional service credit. It should be noted that ATRS members are already able to return to work and receive both a retirement check and a pay check. By rescinding they give up a retirement check until they reretire. Few members would ever want to give up retirement benefits while returning to an ATRS employer unless they expected to enhance their benefit payments. This is a cost savings and an administrative efficiency measure.

13. **House Bill 1140: Antispiking.** An act to prevent inequity in the calculation of final average salary by removing the anti-spiking provisions for a major gap of employment under the Arkansas Teacher Retirement System; to declare an emergency; and for other purposes.

An anti-spiking law is a law that is aimed at preventing manipulation of salaries at the end of a career before retirement to greatly enhance retirement benefits. Examples would include large bonuses, and large payments of salary in the last year or two of employment. The anti-spiking law limits the three best salaries to be 120% of each other year-to-year. ATRS imposed a very effective anti-spiking law in 2009. However, ATRS has found issues exist with some part time employees because ATRS currently requires full years of service to be used in the calculation of final average salary and some members do not have three (3) years of service credit. In addition, since full years are used, often, partial years that are much later, have more salary than full years from ten (10) or more years ago. This bill attempts to bring fairness to this process by allowing non-complete years to be used in the final average salary calculation, and also provide that if there is an eight (8) or more year difference between two of the salaries in the anti-spiking calculation, that the anti-spiking formula will not be used to reduce the next salary. This brings fairness in that no one will be thinking of using a salary decision spread eight (8) years apart to spike salary and further, inflation usually represents the difference in salary and not a spike.

- 14. House Bill 1142: Interest on Deceased Member's Residual Contributions Ceases 1 Year After Death.** An act to specify that interest on a deceased Arkansas Teacher Retirement System member's accumulated contributions when no survivor annuity is payable ceases after the first full fiscal year following the member's death; to declare an emergency; and for other purposes.

Currently, when a member dies, ATRS works hard to try to find the deceased member's relatives to pay accrued benefits. If a member is not vested, and the member has contributory service, ATRS quickly tries to pay the balance of all contributions and accrued interest. Some beneficiaries have refused to take the payment when ATRS locates them because ATRS pays between 2% and 6% interest per year. In order to save money and to create administrative efficiency, ATRS proposes that ATRS only pay interest on the July 1 after the member's death, and no more interest thereafter, in order to encourage beneficiaries to withdraw the residual balance and to prevent large amounts of interest accruing on these residual balances.

- 15. House Bill 1143: Allow Member to be Eligible for Disability, Survivor, and Lump-Sum Death Benefits for an Additional Year after Last Fiscal Year of Service.** An act to allow a member to be eligible for disability benefits, survivor benefits, and lump-sum death benefits under the Arkansas Teacher Retirement System for an additional fiscal year after the last fiscal year of actual service; to declare an emergency; to authorize the Board of Trustees of the Arkansas Teacher Retirement System to promulgate rules concerning annuity options; and for other purposes.

This bill helps put into the code the standard that ATRS has used for years on what constitutes eligibility for disability, survivor, and lump sum death benefits. Since it was not in the law, some confusion has occurred. This allows members to be considered active for one fiscal year after the last year in which they get at least one-quarter year of service credit. This allows a member who has a health difficulty to have additional time to determine whether the difficulty is something that can be overcome or whether it will require a disability retirement application. In addition, some members in the process of applying for disability may die. This bill would ensure that minor survivors are covered when the member is not actively working but recently had worked. Further, this bill allows the ATRS Board to determine when marriage options are available. The current law is inconsistent and needs significant adjustment and policy consideration. Instead of placing the marriage qualifications in the law, the ATRS Board decided

it would be more effective for the Board to consider this change after public input and careful review. Until the Board changes the marriage options, the options will remain in place as they currently exist.

- 16. House Bill 1147: Limit Look Back to 5 Years.** An act to limit the number of years that the Arkansas Teacher Retirement System, a benefit participant, or an employer may look back when adjusting records, correcting overpayments, correcting underpayments, correcting contribution calculations, or correcting benefit calculations to the system; to declare an emergency; and for other purposes.

This is one of the most important bills of the session for ATRS. Under current law, there is no statute of limitations or administrative end of adjustments to benefits, service credit, or obligations of ATRS, a system employer, or a member. It is not uncommon for ATRS to be looking at benefit issues that are twenty-five (25) or thirty (30) years old such as unreported service or a member overpayment. This type activity is administratively problematic and can become a financial burden for members and system employers due to compound 8% interest on 25 years on an obligation to ATRS. This five (5) year look back bill will limit any party's ability to seek adjustments or additional payments or credits if the adjustment sought is more than four (4) fiscal years prior to the current fiscal year. However, there is an exception for fraud, criminal acts, and intentional concealment.

- 17. House Bill 1212: Actuarial Cost for Purchase of Service.** An act to provide that the actuarial-equivalent shall be used for the purchase of service credit in the Arkansas Teacher Retirement System; to simplify accounting procedures by allowing existing service purchase accounts at the Arkansas Teacher Retirement System to be paid within a time certain; and for other purposes.

This is also one of the most important bills for ATRS in the session. Currently, when a member purchases service from ATRS, the average member purchases service at a 55% discount to the real value to the member. This bill will require the members to pay the real value of this purchased service. In addition, ATRS has hundreds of old purchase accounts that have been inactive for years but have no basis in law to be closed. This bill will give members a year to submit to ATRS a reasonable payment plan to purchase the service. If a payment plan is not provided, the purchase account would be closed. In addition, if the member fails to comply with their purchase plan, the account would be closed. This will eliminate purchase accounts over time and create greater administrative efficiency at ATRS.

- 18. House Bill 1223: Technical Corrections.** An act to make technical corrections to Arkansas Code Title 24, Chapter 7 concerning the Arkansas Teacher Retirement System; and for other purposes.

This bill is just that. The changes in this bill do not change operational activity at ATRS but rather cleans up wording, and puts into the code the actual processes at ATRS. It also references required federal provisions. There is no change to ATRS operational processes or procedures (unless due to federal preemption), but rather clarifies terms.

B. Other Bills of Note.

1. **Senate Bill 111: Retirement Plans for elected Officials.** An act to include state-authorized, local retirement systems and plans for elected public officials within the Arkansas Public Employees' Retirement System; to provide reciprocal credit for locally elected public officials; to provide two-for-one credited service for locally elected public officials; to declare an emergency; and for other purposes.
2. **Senate Bill 135: Clarify Reciprocal Service Credits.** An act to repeal the choice to rescind retirement; to make the Arkansas Teacher Retirement System statutes consistent with other state pension plans; to declare an emergency; and for other purposes.
3. **House Bill 1040: Eliminate Return to Work for a Public Employer.** An act to prevent retired members of a state retirement system from returning to work for the state following retirement except under certain circumstances; and for other purposes.

Mr. Lester moved to oppose House Bill 1040. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

4. **House Bill 1119: Prevent Retirees Convicted of Theft from an ATRS Employer from Drawing Retirement.** An act to prevent state employees convicted of theft of property against the employer from drawing state retirement benefits based on the months in which the theft occurred; to declare an emergency; and for other purposes.

Mr. Lester moved to authorize ATRS staff to work with the sponsors of House Bill 1119, Representatives Pennartz, Summers, and Sanders to draft an acceptable amendment. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

5. **House Bill 1186: Increase Amount of Time a Retiree Drawing Benefits Must Wait Before Being Rehired.** An act to increase the amount of time a retiree drawing benefits must wait before being rehired by a covered employer; to declare an emergency; and for other purposes.

Mr. Lester moved to oppose House Bill 1186. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

6. **House Bill 1216: Define Terminate as it Applies to Retirement under ATRS.** An act to define "terminate" as that term applies to eligibility for retirement under the Arkansas Teacher Retirement System; to declare an emergency; and for other purposes.

Mr. Lester moved to authorize ATRS staff to work with the sponsor of House Bill 1216, Representative Kerr, to draft an acceptable amendment. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

7. **House Bill 1262: Reemployment of Retirees.** An act concerning the reemployment of members of the Arkansas Public Employees' Retirement System and the Arkansas Teacher Retirement System; and for other purposes.

Mr. Lester moved to oppose House Bill 1262. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

C. Shell Bills.

1. **Senate Bill 64: ATRS General.** Sponsor: Senator Jimmy Jeffress
2. **Senate Bill 90: ATRS General.** Sponsor: Senator Gene Jeffress
3. **Senate Bill 91: State Retirement Systems-General.** Sponsor: Senator Gene Jeffress

4. **Senate Bill 93: ATRS Benefits.** Sponsor: Senator Jimmy Jeffress
5. **Senate Bill 94: ATRS Operations.** Sponsor: Senator Jimmy Jeffress
6. **Senate Bill 120: ATRS General. Sponsor:** Senator Johnny Key
7. **Senate Bill 121: ATRS General.** Sponsor: Senator Johnny Key
8. **Senate Bill 122: ATRS General.** Sponsor: Senator Johnny Key
9. **Senate Bill 123: ATRS General.** Sponsor: Senator Johnny Key
10. **Senate Bill 128: ATRS General.** Sponsor: Senator Johnny Key
11. **Senate Bill 140: Retirement and Pensions-General.** Sponsor:
Senator Johnny Key
12. **Senate Bill 145: AR Retirement Systems-General.** Sponsor:
Senator Johnny Key
13. **Senate Bill 161: Employees of Particular Institutions-Retirement
Options.** Sponsor: Senators D. Wyatt, J. McLean
14. **House Bill 1148: ATRS General.** Sponsor: Rep. Butch Wilkins
15. **House Bill 1173: State Retirement Systems-Contribution Rates.**
Sponsor: Rep. Jim Nickles
16. **House Bill 1174: State Retirement Systems-General.** Sponsor:
Rep. Jim Nickles
17. **House Bill 1175: State Retirement Systems-General.** Sponsor:
Rep. Jim Nickles
18. **House Bill 1176: Adjust Years of Service Needed for Retirement
Purposes.** Sponsor: Rep. Jim Nickles
19. **House Bill 1178: State Retirement Systems-General.** Sponsor:
Rep. Allen Kerr
20. **House Bill 1179: Amend Calculation of Retirement Benefits.**
Sponsor: Rep. Allen Kerr

21. **House Bill 1184: State Supported Retirement Systems-Define Benefit Plans.** Sponsor: Rep. Jane English
22. **House Bill 1236: AR Retirement Systems-COLA.** Sponsor: Rep. Tim Summers
23. **House Bill 1238: ATRS T-DROP.** Sponsor: Rep. Tim Summers
24. **House Bill 1239: AR Retirement Systems-Service Credit Required for Retirement Benefits.** Sponsor: Rep. Tim Summers
25. **House Bill 1240: AR Retirement Systems-Board of Trustees.** Sponsor: Rep. Tim Summers
26. **House Bill 1241: AR Retirement System-Cap Retirement Contributions by City/County/the State.** Sponsor: Rep. Tim Summers
27. **House Bill 1250: Amend Retirement Law as it Relates to General Assembly.** Sponsor: Rep. Randy Stewart
28. **House Bill 1251: Applicable Retirement System-Provide Service Credit for Employees with Grounds for a Grievance.** Sponsor: Rep. Jim Nickles

D. Other Business.

1. **Modification of 2004 Service Purchase Memo to Create Staff Efficiency and Better Serve Members.** In 2004, ATRS made it more difficult to start a service purchase agreement by requiring either \$500 or \$1,000 of “post-tax” money to open a purchase account. Since many members have only pre-tax contributions in their account and intend to use pre-tax payments for the purchase, in hindsight, requiring post-tax money to open a purchase account can be an unfair burden to the members. Therefore, in order to assist members in the expected increase in service purchase accounts between now and July 1, 2011, as ATRS transitions to actuarial cost to purchase service, ATRS staff proposes that members no longer be required to make a “post-tax” down payment to begin a service purchase account, but rather just commit to fund a purchase plan. This will assist the members by not requiring a down payment and prevent a member who intends to pay the purchase with pre-tax money from being required to use post-tax money, which may not best for the member. The purchase account

would be opened by the member indicating how the purchase will be made. This should help everyone.

Mr. Lester moved to approve the modification to the 2004 Service Purchase Memo. Ms. Nichols seconded the motion, and the Board unanimously approved the motion.

XVIII. **Potential At-Large Audit Committee Members.** Ms. West gave a report on potential at-large Audit Committee members. There are six candidates up for Board review. After discussion, the Board chose Shane Pembroke and Dale Coy to serve as at-large committee members with staggered terms.

Ms. Nichols moved to appoint Shane Pembroke and Dale Coy to serve as at-large Audit Committee members with staggered terms of service. Ms. Morey seconded the motion, and the Board unanimously approved the motion.

XIX. **Staff Reports.**

A. **Medical Committee Reports.** Mr. Ray gave the Medical Committee reports for December 2010 and January 2011. In December 2010, there were seventeen applicants, fourteen were approved and three were denied. In January 2011, there were thirteen applicants, nine were approved, and four were denied.

Ms. Nichols moved to approve the December 2010 and January 2011 Medical Committee reports. Ms. Leming seconded the motion, and the Board unanimously approved the motion.

XX. **Other Business.**

A. **Review of Agency Contracts.** Mr. Hopkins explained that ATRS has numerous contracts up for renewal. Most are annual renewals with no changes. A few may have changes to be negotiated due to the nature of the contract and the services being rendered. Staff requests Board approval to finalize all the contracts with staff authority to negotiate final terms and conditions on contracts subject to additional negotiations.

Mr. Lester moved to authorize ATRS staff to negotiate final terms and conditions on contracts subject to renewal or additional negotiations. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.

B. **SCTR Conference.** Mr. Hopkins gave an update on the SCTR Conference. The SCTR Conference is currently scheduled and information is available to the Board. ATRS staff is available for assistance should an ATRS Board Member choose to attend the SCTR Conference.

XXI. **Adjourn.**

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

Meeting adjourned at 3:00 p.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Amy Glavin,
Recorder

Date Approved