

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

**Monday, February 6, 2017
11:15 a.m.
1400 West Third Street
Little Rock, AR 72201**

ATTENDEES

Board Members Present

Jeff Stubblefield, Chair
Dr. Richard Abernathy
Anita Bell
Lloyd Black
Kelly Davis
Luther Guinn, designee for Candace Franks
Johnny Key*
Andrea Lea*
Bobby Lester
Robin Nichols
Autumn Sanson, designee for Dennis Milligan
Deborah Thompson
Janet Watson

Board Members Absent

Kathy Clayton
Danny Knight

Guest Present

Donna Morey, ARTA
Katie Comstock, AHIC (Aon Hewitt)
Chae Hong, AHIC (Aon Hewitt)
Chris Caldwell, Div. Legislative Audit*

**via teleconference*

ATRS Staff Present

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

- I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 11:15 a.m. Roll call was taken. Ms. Kathy Clayton and Mr. Danny Knight were absent.

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

Mr. Lester *moved to excuse Ms. Clayton and Mr. Knight from the February 6, 2017 Board of Trustees meeting. Ms. Thompson seconded the motion, and the Board unanimously approved the motion.*

III. Adoption of Agenda

Dr. Abernathy *moved for adoption of the Agenda. Ms. Davis seconded the motion, and the Board unanimously approved the motion.*

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

V. Approval of Minutes.

A. Approval of December 5, 2016 Minutes.

Mr. Lester *moved for approval of the Minutes of the Board of Trustees meeting of December 5, 2016. Ms. Watson seconded the motion, and the Board unanimously approved the motion.*

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

A. Authority to Transact Business. (Resolution 2017-01)

Ms. Nichols *moved to adopt Resolution 2017-01, granting George Hopkins, Executive Director; Gail Bolden, Deputy Director; G. Wayne Greathouse, Associate Director of Investments, and Rod Graves, Assoc. Director of Operations, authority to transact investment business on behalf of the ATRS Board of Trustees. Dr. Abernathy seconded the motion, and the Board unanimously adopted the resolution.*

B. Specific Powers of Executive Director. (Resolution 2017-02)

Ms. Bell *moved to adopt Resolution 2017-02, authorizing and empowering the Executive Director's actions on behalf of the ATRS Board of Trustees. Ms. Nichols seconded the motion, and the Board unanimously adopted the resolution.*

C. Appointment of ATRS as Manager of LLC's. (Resolution 2017-03)

Mr. Lester *moved to adopt* Resolution 2017-03, authorizing the ATRS Executive Director or his delegates to transact business and perform all duties relating to the management of ATRS LLC's. Ms. Davis *seconded the motion*, and the Board *unanimously adopted the resolution*.

VII. Authority to Reimburse Trustee Expenses for 2017. (Resolution 2017-04)

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. Nichols *moved to adopt* Resolution 2017-04, 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. Bell *seconded the motion*, and the Board *unanimously adopted the resolution*.

VIII. Authorization for Board Travel and Expense Reimbursement for 2017. (Resolution 2017-05).

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. Discussions were made by the Board members to allow a 3rd conference with the prior permission of the Board Chair.

Ms. Bell *moved to adopt* Resolution 2017-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.

IX. Employer Contribution Rate. (Resolution 2017-06) Mr. Hopkins explained the 2017-2018 employer contribution rate resolution. Every year, a resolution is adopted by the Board to set the employer contribution rate prospectively for each fiscal year. The rate is based upon actuarial valuation and legislative restrictions.

Ms. Nichols *moved to adopt* Resolution 2017-06, establishing the employer contribution rate at the current rate of 14% for the fiscal year starting July 1, 2017. Mr.

Lester seconded the motion, and the Board unanimously adopted the resolution.

X. Actuarial Valuations, June 30, 2016. Mr. Hopkins presented the Annual reports prepared by the Actuaries concerning the valuation of liability to active and inactive members along with the valuation of liabilities for annuities being paid to current retirees and current beneficiaries.

A. Active & Inactive Members. This report reflects the liabilities owed by ATRS to active and inactive members.

B. Retirees & Beneficiaries. This report reflects the liabilities to ATRS retirees, beneficiaries, survivors, and incapacitated children.

Ms. Nichols moved to accept the Actuarial Valuations as of June 30, 2016. Ms. Watson seconded the motion, and the Board unanimously approved the motion.

XI. Report of Member Interest Waived Under A. C. A. Section 24-7-205. Mr. Hopkins presented the member interest amount waived report. ATRS waives interest 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. One (1) member interest was waived for this reporting period in the amount of \$.91cents. This was the standard report for information and no action was required.

XII. 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. One (1) employer penalties was waived for this reporting period in the amount of \$300.00. This was the standard report for information and no action was required.

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

1. Internal Audit Report: ATRS Off-Site Storage. Shane Benbrook gave the committee the audit report on the off-site storage. IA's objectives in conducting the audit were to determine if (1)proper internal controls are in place for off-site storage, including a policy for

purging documents; (2) if departments keep an inventory of what they have in off-site storage; and (3) if off-site storage is being properly utilized, or if it is even necessary. Nine different departments within ATRS utilize off-site storage: Investments, Member Services, Human Resources, Administration, Data Processing, Legal Counsel, Reporting, Fiscal Affairs, and Member Disbursements. To accomplish the objectives, IA interviewed employees and conducted joint off-site visits with these departments. IA also requested all departments submit a plan for their files currently in off-site storage as well as their usage for off-site storage going forward. After findings and recommendations, management has developed a plan to address off-site storage and record retention issues. The plan is long-term in nature, but the Agency is making progress toward achieving their goals.

XIV. 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.** Mr. Hopkins gave the Committee a report on the following Fund Closings:
 - a. **UBS Trumbull Property Income Fund, LP, a Core Real Estate Debt Fund Focused on Hybrid Debt and Equity Investments in Income Generating Properties, the Board Authorized Commitment of up to \$50 Million Dollars on June 6, 2016, was Accepted and Closed on January 20, 2017.** The ATRS full commitment of \$50 million dollars was negotiated, accepted, and closed on January 20, 2017.
 - b. **GCG Investors IV, L.P., a Private Equity Mezzanine Fund Focused on Investments in Both Debt and Equity Securities in the Small and Lower Middle Market, the Board Authorized Commitment of up to \$30 Million Dollars on December 5, 2016, was Accepted and Closed on December 30, 2016.** The ATRS full commitment of \$30 million dollars was negotiated, accepted, and closed on December 30, 2016.

- a. **Recommendation to Modify the Process for Funding Recallable Distributions for Funds Managed by Halderman Real Asset Management.** The Board passed a motion at the October 3, 2016 meeting to allow Halderman Real Asset Management (HRAM) to recall all distributions since inception of the fund similar to other more direct investments by ATRS, such as the American Center, Almanac V, Almanac VI, Big River Steel, Blackstone, BlueOak, Carlyle VII, Franklin Park Venture Fund 2014, Highland, KPS III, Levine Leichtman, Atlas II, Lime Rock III, and Vista Foundation II. ATRS has the ability to reinvest in the projects through returning returned capital and distributions for reinvestment. The ability to accept distributions and later to redirect the distributions to the projects as needed versus having the currently unneeded capital held by outside management helps enhance ATRS returns by ATRS having the immediate use of the distributions for investments and cash flow.

The current Board motion states that all distributions since the inception of the fund are recallable with consent of ATRS staff and Board Chair affirmative notice. Now, the entire committed amount of capital has been drawn. ATRS has a distributions balance left from previous distributions. **At this time, any size recall of distribution by the farmland manager requires Board Chair affirmative notice.** If even a \$5,000 recall is needed, the Board Chair would be required to consent. ATRS hopes that the Committee and Board will allow staff to return distributions of up to \$100,000 without Board Chair affirmative notice with all distributions over \$100,000 still requiring affirmative notice. The typical farmland purchase usually costs from a low of \$5 million dollars to a larger farm of up to \$10 million dollars. Smaller improvement projects, small acreage add-ons, smaller farmland purchases, and earnest money for potential farm purchases are requested on a fairly frequent basis. ATRS staff is requesting to modify the

Board motion to allow recallable distributions in amounts less than \$100,000 require only ATRS staff consent and recallable distributions over \$100,000 require both ATRS staff consent and Board Chair affirmative notice. This request is an administrative function designed to streamline the process for recallable distributions less than \$100,000.

Ms. Nichols *moved to approve the Recommendation to Modify the Process for Funding Recallable Distributions for Funds Managed by Halderman Real Asset Management. The Board *unanimously approved the motion.**

- b. Recommendation to Commit up to an Additional \$25 Million Dollars to Halderman Real Asset Management.** ATRS began investing in farmland through Halderman Real Asset Management (HRAM) in 2011 and the commitment has expanded over time to currently total \$100 million dollars with recallable distributions. HRAM recently worked with ATRS to establish an expanded strategy to include a program to opportunistically purchase smaller tracts of farmland. The agricultural industry experienced an extended period of rising land values along with record high commodity prices and many farmers used this increase in income to finance new equipment and buy more farmland. As commodity prices have declined some farmers are experiencing liquidity needs and this approach allows HRAM to gain access to quality farmland by approaching owners that may need working capital and are willing to sell small land parcels at below market rates. The farmland purchased by HRAM for ATRS can then be leased back to the farmer that sold the land at market rates or better and provide liquidity for the farmer while they still farm the land. This strategy helps provide working capital to farmers and should generate quality returns for ATRS.

The opportunities for this strategy are expected to increase. ATRS staff and HRAM are requesting up to an additional \$25 million dollar commitment to HRAM. While the majority of the requested allocation increase is expected to be used for this unique opportunity to purchase smaller tracts of farmland, some of the requested allocation may also be deployed to larger farmland opportunities. The requested \$25 million dollar allocation would be in addition to the Real Assets Commitment Pacing of approximately \$180 million dollars approved by the Board at the December 5, 2016 meeting. The Commitment Pacing did not include any increase to ATRS farmland investments because the pacing did not anticipate the increasing opportunities this strategy brings to the farmland program. At the same time, the pacing is a target range and should never be used to limit a quality opportunity for strong risk adjusted returns. Both ATRS staff and Aon Hewitt Investment Consulting recommend an additional commitment of up to \$25 million dollars to Halderman Real Asset Management.

Ms. Nichols moved to approve the Recommendation to Commit up to an Additional \$25 Million Dollars to Halderman Real Asset Management. The Board unanimously approved the motion.

- B. General Investment Consultant Update – Aon Hewitt Investment Consulting.**
- 1. Preliminary Performance Report for the Quarter Ended December 31, 2016.** Katie Comstock of Aon Hewitt Investment presented the preliminary report for the quarter ending December 31, 2016. The ATRS fund had a market value of approximately \$15.1 billion dollars. The total fund had a return of 8.4% since inception, underperforming its benchmark of 8.5%. Total equity had a market value of approximately \$8.5 billion dollars. Total equity had a return of 3.1% since inception, underperforming its benchmark of 3.9%.

C. Real Assets Investment Consultant Report.

1. **Performance Report for the Quarter Ended September 30, 2016.** Chae Hong, of Aon Hewitt Investment Consulting presented the performance report for the quarter ended September 30, 2016. NCREIF's NPI registered at 1.8% and NFI-ODCE (net) returned 1.8%. The NPI returned showed a 20 bps decrease quarter over quarter while the NFI-ODCE showed a 10 bps decrease. Though the trailing 12 month returns currently remain above the sector's long run average, returns are expected to moderate going forward as evidenced by the observed returns through the first half of 2016. NCREIF Timberland Index returned 0.7% for the quarter and 3.3% for trailing one year. Timberland showed a decrease of 30 bps quarter over quarter and a decrease of 10 bps over the trailing one year. NCREIF Farm Index gained 1.4% for the third quarter, an increase of 10 bps, while posting a 8.69% return for the trailing one year, a decrease of 110 bps over the second quarter results.

- 2.. **Recommendation to Commit up to \$20 Million Dollars in LaSalle Income and Growth Fund VII, LP, a Closed End Value Added Real Estate Fund Focused on Non-Core Real Estate with Strong Income with Imminent Need.** Established in 1980, LaSalle Investment Management is a wholly-owned subsidiary of parent company Jones Lange LaSalle Inc., a publicly traded firm. LaSalle Investment Management provides a fully integrated real estate platform including portfolio management, asset management and property management. As of March 31, 2015, the firm had \$56 billion in assets under management with over 300 clients worldwide. The organization has 680 employees in 25 offices based in 17 countries.

LaSalle Income & Growth VII (Fund VII) will be a closed end, domestic, value added fund. The investment strategy will focus on the current and growing demand for core real estate assets by aggressively pursuing non-core properties that can be leased, redeveloped or repositioned and later sold to core buyers. Specifically, Fund VII will seek to acquire non-core assets with a strong in-place income in major markets and select secondary markets that are temporarily out of favor. The Fund is targeting a return of 12% net IRR. Fund VII represents LaSalle Investment Management's seventh offering in its Value Added series. ATRS previously invested in LaSalle Income &

Growth Fund VI in April of 2013 and Fund VI has produced an approximate net IRR of 14%. Both Aon Hewitt Investment Consulting and ATRS staff recommend an investment of up to \$20 million dollars in LaSalle Income and Growth Fund VII, LP. Since ATRS will likely need to close on this investment before the next meeting of the Arkansas Legislative Council (there are no meetings scheduled at this time due to the legislative session), Imminent Need is requested.

Mr. Hopkins confirmed staff supports recommendation

Ms. Nichols *moved to adopt* Resolution 2017-08, to Commit up to \$20 Million Dollars in LaSalle Income and Growth Fund VII, LP, a Closed End Value Added Real Estate Fund Focused on Non-Core Real Estate with Strong Income with Imminent Need. The Board *unanimously adopted the Resolution.*

D. Private Equity Consultant Report – Franklin Park

1. **Private Equity Portfolio Review for the Quarter Ended September 30, 2016.** Michael Bacine of Franklin Park presented the private equity report for the quarter ended September 30, 2016. ATRS Legacy Portfolio is in liquidating stage and has a remaining value of 2.4% with a total IRR of 9.2%. CSFB Portfolio is also liquidating and will continue to see distributions. CSFB has a remaining value of 18.0% 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 15.0%. The total fund had a net IRR of 10.1% for the quarter ended September 30, 2016.
2. **Recommendation to Commit up to \$30 Million Dollars in BVIP Fund IX, L. P., a Private Equity Buyout Fund Investing in Middle Market Companies in the Business Services, Information Technology and Communication Services Sectors with Imminent Need.** BV Investment Partners was founded in 1983 as Boston Ventures but was rebranded in 2010 following a leadership succession plan that started in 2004. ATRS has invested in the firm's previous two funds as well as a co-investment which have an average net return of over 30% IRR. The four principals are highly experienced and three of the four have been successfully investing together for sixteen years. Due to the departures of some principals from

the team in recent years, the current team's track record is considered to be about ten years, starting with the 2006 fund.

The fund will primarily make control buyout and growth capital investments in the information and business services sector as well as the communications sector in the U.S., frequently targeting family-owned businesses. The general partner seeks to drive portfolio company growth through operational improvements and earnings growth and is targeting a net return of 20+% in the current fund. Both Franklin Park and ATRS staff recommend an investment of up to \$30 million dollars in BVIP Fund IX, L.P. Since ATRS will likely need to close on this investment before the next meeting of the Arkansas Legislative Council (there are no meetings scheduled at this time due to the legislative session), Imminent Need is requested.

Mr. Hopkins confirmed staff supports recommendation.

Ms. Nichols *moved to adopt Resolution 2017-09 to Commit up to \$30 Million Dollars in BVIP Fund IX, L. P., a Private Equity Buyout Fund Investing in Middle Market Companies in the Business Services, Information Technology and Communication Services Sectors with Imminent Need. The Board *unanimously adopted the Resolution.**

- 3. Recommendation to Commit up to \$30 Million Dollars in One Rock Capital Partners II, L. P., a Private Equity Multi Strategy Fund Specializing in Lower Middle Market Companies in the Specialty Manufacturing, Healthcare Products, Chemical and Processing, Business and Environmental Services and Auto Retail Sectors with Imminent Need.** Based in New York and Los Angeles, the General Partner was founded in 2010 by two former managing directors of Ripplewood, a successful private equity firm. The founders have three additional principals and together they average over sixteen years of experience each in the private equity industry. The firm invests in lower middle market companies in established sectors and individual investments are typically characterized by complexity. These are often corporate carve-outs, misunderstood industries or companies, or underperforming companies and are usually acquired at attractive prices. The firm also has a strategic relationship with Mitsubishi Corporation. Mitsubishi will invest in the fund and will assist with deal sourcing, market intelligence, cost

benchmarking and operational improvements. For its services, Mitsubishi will receive a portion of the fund's carried interest.

The One Rock team has invested over \$225 million and generated an average net IRR above 20% as of September 30, 2016. Both Franklin Park and ATRS staff recommend an investment of up to \$30 million dollars in One Rock Capital Partners II, L.P. Again, since ATRS will likely need to close on this investment before the next meeting of the Arkansas Legislative Council (there are no meetings scheduled at this time due to the legislative session), Imminent Need is requested.

Mr. Hopkins confirmed staff supports recommendation.

Ms. Nichols *moved to adopt* Resolution 2017-10 to \$30 Million Dollars in One Rock Capital Partners II, L. P., a Private Equity Multi Strategy Fund Specializing in Lower Middle Market Companies in the Specialty Manufacturing, Healthcare Products, Chemical and Processing, Business and Environmental Services and Auto Retail Sectors with Imminent Need. The Board *unanimously adopted the Resolution.*

- XV. Operations Committee Report.** Bobby Lester, Chair gave a report on the Operations Committee meeting.
- A. Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.**
 - 1. Open Forum. None.**
 - B. ATRS Executive Director Update – Week 3.** For informational purposes only.
 - C. ATRS Legislative Package for the 2017 Legislative Session.**
 - 1. SB76: An Act for the Arkansas Teacher Retirement System Appropriation for the 2017-2018 Fiscal Year.**
 - 2. SB141: Authority to adjust final average salary anti-spiking percentage. Senator Cooper.** This bill would allow the Board to adjust the anti-spiking formula used to calculate retirement benefits to maintain actuarial soundness. The bill would allow

the percentage to be adjusted from a high of 120% to a low of 105% per year, and the automatic salary differential allowance to be set from a high of \$5,000 to a low of \$1,250 per year.

3. **SB142: Internal Auditor Evaluation. Senator Cooper.** This bill would allow the audit committee of the ATRS Board of Trustees, instead of the Executive Director, to perform the annual employee evaluation of the internal auditor, so long as the Board has an Audit Committee. This bill is currently on the Governor's desk for signature to become law.
4. **SB184: Authority to adjust T-DROP Interest rates by Board resolution and transfers of Deferred Retirement Option Plan (DROP) balances between reciprocal Arkansas public retirement systems. Senator Hester.** This bill would allow the Board to determine the T-DROP plan interest rate based upon a variable rate formula (like used today) or use a fixed interest rate adopted by Board resolution prior to the beginning of a fiscal year and applied to all subsequent fiscal years until modified by the Board. A variable interest rate formula would likely be based upon investment returns and other similar factors. If the Board adopts a variable interest rate formula, the plan interest rate is established prior to the beginning of a fiscal year to which the plan interest rate applies. 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.

This bill is also designed to save money by delaying retirements and encouraging experienced employees to work longer. It allows a member with reciprocal service who simultaneously enters the DROP of two reciprocal retirement systems with varying lengths of time for DROP participation to transfer the DROP balance from the system with the shortest term of participation (when the DROP is fully completed) to the retirement system with the longest term of participation.

In order to make this transfer, the member would have to be actively employed by an employer of the retirement system with the longest DROP period at the time of entry in both plans and at the time of completion of the DROP plans; the member would have to have completed the participation term of the plan from which the transfer would occur; the member would have at least

two years of continuing eligibility to participate in the DROP to which the transfer occurred; and would have to apply for the for the transfer and notify both the transferring system and receiving system of the intended transfer at least one month before the transfer effective date.

The member would not be eligible to draw a monthly retirement benefit from either system until twelve months after completion of the DROP transfer. The transfer would be treated as a rollover. The transferring system and receiving system would not pay a monthly retirement benefit to the member until he or she officially retires from the receiving system or for 12 months, whichever is later. The transferring system will calculate a monthly retirement benefit as if the member had retired at the end of the plan term and chosen one hundred percent lump sum payment of the DROP balance. Once transferred, the receiving system's law or rules shall apply to the DROP account.

5. **SB185: CASH program modifications and expansions may be implemented by ATRS; CASH program benefit designation for certain inactive vested members by ATRS. Senator Hester.** This bill would allow a buyout plan established by the Board, to be extended, modified or expanded. The Board could also designate the buyout plan benefit for certain inactive vested members as the available plan to maintain actuarial soundness.
6. **SB186: Multipliers for future service credit may be adjusted, if needed. Senator Hester.** ATRS already can already adjust the benefit multiplier if the ATRS amortization period is over 30 years. This bill would allow the ATRS Board greater flexibility to adjust the multiplier used in benefit calculations, if needed in order to maintain actuarial soundness. This bill does so by eliminating the requirement that an amortization period in excess of thirty (30) years exist for the Board to make modifications to the benefit multipliers.
7. **SB187: Modifies process of setting the employee contribution rate. Senator Hester.** ATRS already can increase the employee contribution rate if the ATRS amortization period is over 30 years. This bill would allow the employee contribution rate to be adjusted if needed to maintain actuarial soundness. This bill also eliminates an amortization period in excess of thirty (30) years requirement in order for the Board to change the employee contribution rate.

8. **SB192: Disability retirees allowed to file another disability application with ATRS if Social Security denies disability benefits; disability retirees may return to work full-time/part-time, revert to last benefit if unable to continue working; disability retirement to include reciprocal service credit for vesting purposes. Senator Cheatham.** This bill would do four things. First it will help prevent a disability retiree's loss of ATRS disability by allowing a review by the ATRS' medical committee within three months of disability benefits ceasing due to the lack of a Social Security Administration favorable disability determination letter. A member who fails to be declared disabled by the Social Security Administration may seek a review not sooner than three months before the date that the member's disability retirement would otherwise end and until three months after termination of disability retirement. All applications for review will be heard by ATRS' medical committee consistent with the current definition of disability by ATRS. The committee's decision will be submitted for final order of the Board, consistent with rules for initial disability retirement. The Board's approval would be the final disposition. Second, the bill would allow a disability retiree to work and also receive monthly disability benefits if he or she works less than forty days during a fiscal year or works more than 40 days but the work is substantially different than the work the member did when retiring because of disability and has a computed salary that is less than the final average salary used to compute the monthly disability benefit. The covered employer may request a waiver within 3 months of employment of the member. The system shall grant the waiver unless the member has already worked 40 or more days. If more than 40 days have been worked and if the requirements of substantially different work are met, the system shall grant the waiver based upon review of the request and supporting documentation. If waiver is granted, the member will continue to receive the monthly disability retirement and would not accrue additional service credit. The covered employer would remit contributions on all salary paid in an amount equal to the employer contribution rate applicable to active members. Third, the bill encourages a disability retiree to try to return to work on a full time basis. Currently, if a member goes back to work, disability benefits cease. If the member then returns to disability retirement with the system, the disability retirement benefit may be lower than the disability benefit paid last due to loss of COLAs. This bill will allow the higher amount that the member would receive if they had not returned to

regular work or recalculated based on additional salary and additional service credit earned while working. Fourth, this bill would also recognize all reciprocal service credit with another Arkansas public retirement system to be counted for vesting purposes for disability retirement.

9. **SB193: Accrued sick leave to count as service credit if death of an active member occurs. Senator Cheatham.** This bill would allow ATRS to recognize unused accrued sick leave, whether paid or unpaid, as credited service to determine retirement eligibility, to calculate final average salary, and for eligibility for other system benefits. The deceased member's account is to be credited one day of service for each day of unused accrued sick leave and one day for any remaining partial day of sick leave to be added to the fiscal year in which the member dies. Unused catastrophic leave and other unused donated leave available to the member shall not be credited as service.
10. **SB194: Survivor benefits to use reciprocal service credit for vesting purposes, prorate survivor child benefits in correlation to member's years of service. Senator Cheatham.** This bill would grant a surviving dependent child of the member an annuity in the amount equal to one percent of the member's highest salary year for each quarter of a year credited as actual service in the system, up to a maximum of twenty quarters of a year that are credited as actual service in the system up to a maximum of \$20,000 per year. (Previously a minor child obtained the full benefit or no benefit at all. This modification allows a proration of the benefit based on actual ATRS service while recognizing reciprocal service to vest.) If there are three or more dependent children, the benefit would be limited to sixty percent of member's highest salary year or \$60,000 per year, whichever is less, and prorated among the dependent children. This bill would also make an application by a survivor, survivor's guardian, or legal representative void if the application process is not completed within six calendar months after the application is filed, unless an extension has been granted by the system. The same will apply to an eligible spouse.
11. **SB203: Adjustment of Employer early separation incentive programs. Senator Sample.** This bill would end the requirement in some ATRS employers' early separation programs that members must retire from ATRS in order to participate in the employers' programs. If passed, the early

retirement incentive plans are still allowed but would not allow a condition that the employee had to retire from ATRS. The plan would require the employee to terminate employment at the employer.

12. **SB205: Allow members with concurrent reciprocal service to voluntarily waive ATRS service credit. Senator Sample.** This bill would allow members who have concurrent service with an Arkansas reciprocal public retirement system the opportunity to voluntarily elect to waive ATRS service instead of just the other system's service. Under the proposal, a member may elect to waive all or part of their ATRS service credit if the member has concurrent service in another reciprocal plan. The member's employer and employee accrued contributions will remain with the system.
13. **SB218: Employer contribution rate may be adjusted, if needed, and conditions met. Senator Hutchinson.** ATRS already has the authority to raise the employer contribution rate. This bill would allow an employer contribution rate adjustment even when below a 30 year amortization if needed to maintain actuarial soundness. This bill essentially eliminates an amortization period in excess of thirty (30) years requirement in order for the Board to make a modification to the employer rate.
14. **SB233: Pension advance companies prohibition. Senator Caldwell.** The purpose of this proposal is to protect members by prohibiting pension advance companies from obtaining a retiree's benefit to repay a loan. The interest rates to repay a very small loan may exceed 100%, and may take years to repay. No device, transfer, pension advance, or related scheme would be used to circumvent the prohibition against pension advances, assignments, or transfer of benefits to a person other than a benefit participant.
15. **HB1286: Authority to adjust early voluntary retirement or early T-DROP entry reductions, if needed. Representative Rye.** This bill would allow the Board to set the early voluntary retirement reduction, to be prorated monthly, from a low of five percent to fifteen percent per year to maintain actuarial soundness. The bill would also allow the early T-DROP participation reduction to be adjusted to maintain actuarial soundness.

16. **HB1287: Outsourcing election by ATRS employers. Representative Rye.** This bill would allow ATRS employers that outsource a service common to the normal daily operation of the employer to choose whether to make outsourced employees become members of ATRS or alternatively, to pay a surcharge on the outsourced employees' salaries. Employers would have 60 days after the effective date of the bill to make a one-time decision. The bill would define "outsourcing" to mean employment for a covered employer through a third party, a private employer, an independent contractor or other contractual relationship. ATRS would collect information on outsourced employees from employers after passage of the bill, and prior to any collection of money. The collections of contributions or surcharges from an employer may be phased in and would not begin earlier than the 2018 fiscal year.
17. **HB1304: Technical Corrections. Representative Maddox.** This bill would make minor changes in the wording of existing laws to clarify language and intent of laws affecting ATRS while not making changes to how laws are used or implemented.
18. **HB1305: Automatic spousal survivor benefit rights may be voluntarily waived by member. Representative Maddox.** This bill eliminates the automatic statutory designation that residual benefits must go to a spouse. This bill would allow 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.
19. **HB1365: Settlement agreements may include purchased annuity salary, discontinue adding settlement amounts as salary to member accounts, and possible addition of air time on value of future benefits. Representative Coleman.** This bill would assist employers and members in legal disputes by allowing salary or service credit to be purchased as a part of the settlement. The additional salary would be added to the calculated salary at the time of purchase. The member's official salary record will include the purchased additional salary years in computing the final average salary at the time of retirement if the salary in any of the additional purchased salary years qualify for the final average salary calculation. The system will use the same factors to determine the cost of the additional salary

purchase that is used to calculate an additional monthly benefit in the annuitization of a T-DROP distribution. The calculation shall be made with the assumption the member would have immediately retired at the time of the purchase.

20. **HB1373: Benefit stipend adjustments and removal from benefit base may be adjusted, if needed. Representative Deffenbaugh.** ATRS can already adjust the benefit stipend if the ATRS amortization period is over 30 years. This bill would allow the ATRS Board greater flexibility to adjust the benefit stipend, if needed in order to maintain actuarial soundness. This bill does so by eliminating the requirement that an amortization period in excess of thirty (30) years exist for the Board to make modifications to the benefit stipend. The bill also allows the Board to remove the benefit stipend from the base amount used to calculate cost of living adjustments for current retirees and option beneficiaries, if needed to maintain actuarial soundness. The bill allows the Board to phase in adjustments to the benefit stipend in order to prevent a retiree from receiving a reduction of benefits at any time. The bill does not change the requirement of ten years of actual service needed to qualify for the benefit stipend.
21. **HB1374: Reversal of the 2009 compounding of the COLA, if needed. Representative Deffenbaugh.** The ATRS Board may already reverse the 2009 compounding of the COLA. This bill would allow the Board to reverse the 2009 compounding of the COLA, if needed in order to maintain actuarial soundness. 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 bill would also allow the Board to phase in the reversal in order to prevent a retiree from receiving a reduction of benefits at any time.

D. SHELL BILLS ON BEHALF OF ATRS.

1. **SB231: To amend provisions of the Arkansas Code pertaining to ATRS. Senator Maloch.** No action on this bill at this time.
2. **SB232: To amend laws concerning ATRS. Senator Maloch.** No action on this bill at this time.

E. SUBSTANTIVE BILLS AFFECTING ATRS THAT ARE NOT PART OF THE ATRS LEGISLATIVE PACKAGE

1. **SB11: To Prohibit Certain Transaction by Public Retirement Systems. Senator Hester.** This bill would require ATRS to identify companies that take certain adverse action against Israel, retain a firm to help identify companies, notify adverse companies that ATRS has identified the company as adverse, divest from the companies by working with fund managers unless certain circumstances are met, and provide notice as required. ATRS is evaluating the costs and impact of this bill on ATRS. No position on this bill has been taken at this time.
2. **HB1290: To require ATRS to correct an error that understates the service credit of a member. Representative Tosh.** This bill 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. ATRS is neutral on this bill. ATRS does appreciate Representative Tosh working with ATRS before filing a bill on the important 5 year lookback law. ATRS was involved in the drafting of the language used in the bill.
3. **HB 1336: To provide for the Forfeiture of Benefits under a Public Retirement System by Certain Persons. Representative Tosh.** This is a bill that, as drafted, would apply to all service whether rendered before or after the effective date of the bill. The bill would require forfeiture of all benefits and benefit rights of a member, including benefit accruals, benefits already paid, T-DROP balances at ATRS, T-DROP balances that were rolled out, and the lump sum death benefit, if a member is convicted of a felony associated with or arising from public employment. ATRS has material concerns about this bill in its current form. ATRS has reason to believe that the bill may be unconstitutional as written and would chill entry or reentry into public employment in the current form.

In the current form, a hypothetical circumstance could be that a teacher who retired after 30 years of active service, and 10 years of T-DROP participation (40 years of service), and who had been retired for 4 years, could go back to work to assist a school during testing as extra help. If the teacher had a prescription drug addiction due to long term pain issues and

was found to possess non-prescribed narcotic drugs when a purse was left unattended and thereafter the drugs were discovered by a school resource officer investigating a suspicious purse, then the teacher could face charges that could lead to a felony conviction. Under the bill as currently drafted, a member would forfeit and lose all future retirement benefits, would be required to repay all monthly retirement benefits paid to that date, would forfeit and be required to pay back all T-DROP distributions, and would not receive the death benefit. The total financial impact in this example would be hundreds of thousands of dollars of impact. **NOTE: Representative Tosh has indicated that he is seeking input from the state retirement systems about this bill and has indicated a willingness to make modifications to this bill. Representative Tosh called and indicated that he is intending to make major modifications to the bill that includes greatly limiting the scope of crimes and the application of the provisions to new service or new members.**

4. **HB 1355: To make Technical Corrections to Title 24 of the Arkansas Filed Code concerning Retirement and Pensions. Representative Shepherd.** A technical correction bill on behalf of the Code Revision Commission that only clarifies language such as changing "the system" to the "Arkansas Teacher Retirement System" and has no operational or fiscal impact.

F. NON-ATRS SHELL BILLS WITH SPECIFIC SUBJECT TITLES WHICH COULD IMPACT ATRS AND ITS MEMBERS.

1. **SB228:** To amend the law concerning the Employment of Retired Members of the Arkansas Teacher Retirement System. Senator Irvin.
2. **HB1327:** To amend the law concerning the Board of Trustees of The Arkansas Teacher Retirement System. Representative House.
3. **HB1328:** To amend the law concerning the Investment Practices of the Arkansas Teacher Retirement System. Representative House.

4. **HB1329:** To amend the law concerning Benefit Payments under the Arkansas Teacher Retirement System. Representative House.
5. **HB1330:** To amend the law concerning the Accounting and Auditing Practices of the Arkansas Teacher Retirement System. Representative House.
6. **HB1333:** To amend the law concerning the Administration of the Arkansas Teacher Retirement System. Representative House.

G. NON-ATRS SHELL BILLS WITH NON-SPECIFIC SUBJECT TITLES THAT COULD IMPACT ATRS AND ITS MEMBERS

1. **SB212:** To amend the law concerning the Arkansas Teacher Retirement System. Senator Hester.
2. **SB215:** To amend the law to Facilitate Recovery of Fund by Public Retirement Systems. Senator Hester.
3. **SB217:** To review the law concerning the Arkansas Public Employees' Retirement System; and To Revise the law concerning Retirement and Pensions. Senator Hester.
4. **SB220:** To amend the law concerning the Arkansas Public Employees' Retirement System. Senator Sample.
5. **SB221:** To modify the law concerning State Employee Retirement. Senator Sample.

XVI. Staff Reports.

- A. Medical Committee Reports.** Michael Ray presented the Medical Committee reports. A total of fifteen (15) disability applications were received, and fifteen (15) were approved for disability benefits.

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

XVII. Other Business: None

XVIII. Adjourn.

Ms. Bell moved to adjourn the Board Meeting. Mr. Lester seconded the motion, and the board unanimously approved the motion.

Meeting adjourned at 12:06 p.m.

George Hopkins,
Executive Director

Mr. Jeff Stubblefield, Chair
Board of Trustees

Tammy Porter,
Recorder

Date Approved