

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

**Monday, April 17, 2017  
10:45 a.m.  
1400 West Third Street  
Little Rock, AR 72201**

**ATTENDEES**

**Board Members Present**

Jeff Stubblefield, Chair  
Danny Knight, Vice Chair  
Dr. Richard Abernathy  
Lloyd Black  
Kathy Clayton  
Kelly Davis  
Candace Franks\*  
Bobby Lester  
Hon. Andrea Lea\*  
Robin Nichols  
Deborah Thompson

**Board Members Absent**

Anita Bell  
Johnny Key  
Hon. Dennis Milligan  
Janet Watson

**Consultants Present**

PJ Kelly, AHIC (Aon Hewitt)\*  
Katie Comstock, AHIC (Aon Hewitt)\*  
Chae Hong, AHIC (Aon Hewitt)\*

**ATRS Staff Present**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Shane Benbrook, Internal Audit/Risk Mgmt.  
Curtis Carter, Chief Fiscal Officer  
Laura Gilson, General Counsel  
Rod Graves, Assoc. Dir. of Operations  
Wayne Greathouse, Assoc. Dir of investments  
Jerry Meyer, Manager, Real Assets  
Martha Miller, Staff Attorney  
Manju, Manager, Data Processing  
Tammy Porter, Executive Assistant  
Michael Ray, Dir., Member Services  
Clint Rhoden, Director of Operations  
Joe Sithong, Software Support Analyst

**Guest Present**

Donna Morey, ARTA.  
David Kizzia, AEA  
Julie Baggett,  
Kelly Baggett  
Rep. Dan Sullivan  
Rep. Johnny Rye  
Charles Talbert, ARTA

*\*via teleconference*

- I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 10:51 a.m. Roll call was taken. Ms. Bell, Ms. Watson, Mr. Key, and Mr. Milligan were absent. Ms. Lea arrived at 11:00 a.m.
  
- II. **Motion to Excuse Absences.**

**Ms. Nichols moved to excuse Ms. Bell, Ms. Watson, Mr. Key, and Mr. Milligan from the April 17, 2017, Board of Trustees meeting. Ms. Clayton seconded the motion, and the Board unanimously approved the motion.**

Chairman Stubblefield addressed the Board regarding guest in the audience requesting to speak to the Board. Chairman Stubblefield outlined the guidelines on speaking. The only person requesting to speak to the Board was Representative Dan Sullivan.

Representative Sullivan introduced himself. He is retired teacher and a member of ATRS. He taught in Arkansas for 8 years, and is licensed to teach in Missouri, Ohio, Tennessee and Mississippi. He is here on behalf of his constituents regarding a bill that was just passed in the 2017 session. The bill regarding teachers in the system who are retiring early. The bill gave the ATRS board the authority to make decisions on early retirement. The language says "may" and there are always other remedies for teachers who have other considerations. One particular constituent already submitted her paper work and the bill has cause a great impact. Right now there are probably 20-30 more of those that fall in that area. Any consideration the Board can give would be appreciated.

### **III. Adoption of Agenda**

**Ms. Nichols moved for adoption of the Agenda. Ms. Thompson 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 February 6, 2017 Minutes**

**Mr. Lester moved for approval of the Minutes of the Board of Trustees meeting of February 6, 2017. Ms. Clayton seconded the motion, and the Board unanimously approved the motion.**

**VI. 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 this reporting period for a total amount of **\$4,022.60**.

**VII. 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. Seven (7) employer penalties and interest were waived for this reporting period for a total amount of **\$1,705.69**.

**VIII. Legislative Audit Report, June 30, 2016 – Official Review. NO FINDINGS.** The Division of Legislative Audit has provided ATRS staff with the 2016 fiscal year audit report for the fiscal year that ended on June 30, 2016. The audit report has been shared with the Board via email and also in the Board documents for this meeting. The law requires that the ATRS Board have the Legislative Audit report on the ATRS Board agenda and that the ATRS Board pass a motion reflecting that the audit report was received and reviewed by the Board in the event issues arise in the future related to the audit.

**Mr. Knight *moved to approve the Legislative Audit Report, June 30, 2016. Mr. Abernathy seconded the motion, and the Board unanimously approved the motion.***

**IX. GASB Report after Legislative Audit Review.** The Division of Legislative Audit and GRS Actuaries have completed their annual report required by the Governmental Accounting Standards Board (GASB) Statement No. 68 "Accounting and Financial Reporting for Pensions." This report allocates certain pension amounts to participating employers based on the employers' proportionate share of contributions received for the previous fiscal year. Employers use this information as a footnote in their financial statements as required by GASB 68.

**Ms. Nichols *moved to approve GASB Report after Legislative Audit Review. Ms. Clayton seconded the motion, and the Board unanimously approved the motion.***

**X. Manifest Injustice Claim - Board Review**

**A. Pine Bluff School District/Linda Watson.** Pine Bluff School District and its former superintendent, Linda Watson, reached a complicated settlement regarding her termination from the Pine Bluff School District. Various sums were paid as W2 salary and other sums were paid through a 1099 disbursement. ATRS took the position that

approximately \$22,000 was owed on the 1099 disbursement. Pine Bluff School District and its attorneys have argued that nothing is owed on that amount. The dispute with Pine Bluff School District and similar disputes led ATRS staff to recommend that the ATRS Board pursue legislation to cease providing salary credit on settlements. That law was passed and no longer will school districts pay a 14% contribution on settlement amounts. This is the last remaining case to the knowledge of ATRS staff.

The manifest injustice committee found that it was a manifest injustice due to the complication of the payment process, the burden on the school district and ATRS to continue to litigate the issues of salary and contribution when the school district's attorneys and ATRS staff concur that it is best to end this matter if Pine Bluff School District would agree to make a one (1) time payment to resolve this matter of \$6,000.00. It is the executive director's recommendation that the Board concur that a manifest injustice exists and that all but \$6,000 of what could otherwise potentially be considered employer contributions on the settlement be waived. Essentially, this allows ATRS and Pine Bluff School District to settle a disputed claim on the last known case since all future cases would have no contribution owed whatsoever.

**Mr. Knight *moved to approve the Recommendation of the Manifest Injustice Committee to accept the Settlement of \$6,000.00. Dr. Abernathy seconded the motion, and the Board unanimously approved the motion.***

- B. David E. Thompson.** Mrs. Thompson, an active member of ATRS, passed away on March 5, 2015. She was credited with 3.50 years of actual ATRS service. She had 12.75 years of reciprocal service in APERS. In error, ATRS staff placed Mrs. Thompson's husband, David Thompson, on survivor benefits based on the cumulative total of years between the two systems. ATRS proposed legislation adopted in the 2017 legislative session to reinstate the use of reciprocal service to qualify for survivor and disability benefits. The proposed legislation was passed and became law in Act 505 of 2017.

The manifest injustice committee met and found that a manifest injustice did occur and recommends that Mr. Thompson retain any benefits currently received based upon the calculation of reciprocal service, and that he continue receiving the benefit going forward, consistent with Act 505 of 2017, which applies to all other similarly

situated ATRS members. This is the only known survivor affected by the law that existed for four (4) years that required five (5) years of service for a lifetime spousal benefit. The manifest injustice committee and the executive director recommend that the survivor be allowed to draw a lifetime benefit based upon the 3.5 years of service effective on the date that the survivor benefits were initially paid. This would mean the survivor would not pay back any benefits received and would continue to receive the spousal benefit until his death.

**Ms. Thompson *moved to approve* the Recommendation of the Manifest Injustice Committee to allow member's spouse to retain money paid to him and continue receiving the benefit going forward. Mr. Black *seconded the motion*, and the Board *unanimously approved the motion*.**

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

**A. Internal Audit Report: Retirant Posting.** Shane Benbrook presented the Audit Report on the Retirant Posting to the Committee. The objective of the retirant posting audit was to determine if retirant postings were guided by written procedures, procedures were being followed by employees, is operating efficiently, and operates in accordance with internal controls that are adequate to deter fraud and abuse. IA findings and recommendations were provided to assist management in implementing internal controls that ensure proper procedures are implemented and followed. While the audit revealed no errors, the proposed automated changes should yield greater efficiencies resulting in a more timely correction of benefits that may be in error due to the use of estimates.

**B. Internal Audit Follow-up Report: ATRS Off-site Storage.** Shane Benbrook provided the Committee with a report on ATRS' off-site storage. The Agency is in the process of finalizing an agency-wide document and record retention policy. All departments have either removed their files from off-site storage or compiled a detailed list of files housed in off-site storage. : The need for off-site storage will be eliminated when files have been removed and destroyed.

**XII. 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. **EnCap Energy Capital Fund XI, L.P., a Private Equity Fund that Seeks to Make Control Investments in Oil and Natural Gas Exploration and Production Companies, the Board Authorized Commitment of up to \$35 Million Dollars on December 5, 2016 was Accepted and Closed on March 6, 2017.** The ATRS full commitment of \$35 million dollars was negotiated, accepted, and closed on March 6, 2017.
  - b. **Franklin Park Venture Fund Series 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in Venture Capital Private Equity Funds, the Board Authorized Commitment of up to \$25 Million Dollars on December 5, 2016 was Accepted and Closed on March 1, 2017.** The ATRS full commitment of \$25 million dollars was negotiated, accepted, and closed on March 1, 2017.
  - c. **Franklin Park International Fund 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in International Private Equity Funds, the Board Authorized Commitment of up to \$25 Million Dollars on December 5, 2016 was Accepted and Closed on March 1, 2017.** The ATRS full commitment of \$25 million dollars was negotiated, accepted, and closed on March 1, 2017.
2. **Fund Maturities.** Mr. Hopkins gave the Committee a report on the following Fund Maturities:
  - a. **Blackstone Mezzanine Partners L.P., a Private Equity Fund Focused on Middle Market Company Debt, the Board Authorized Commitment of \$100 Million Dollars in 1999 has Matured and the Final Distribution was Received December 28, 2016. The Investment Produced a Net IRR of 9% Since Inception.** The Board authorized investment in Blackstone Mezzanine Partners has matured and the final distribution was received from the fund on

December 28, 2016. The investment produced a net IRR of 9% since inception.

**B. General Investment Consultant Update – Aon Hewitt Investment Consulting.**

- 1. Preliminary Performance Report for the Month Ended February 28, 2017.** PJ Kelly and Katie Comstock of Aon Hewitt Investment Consulting presented the preliminary report for the Month Ended February 28, 2017. The ATRS fund had a market value of approximately \$15.5 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 \$9 billion dollars. Total equity had a return of 6.0% since inception, underperforming its benchmark of 6.9%.

PJ Kelly discussed the handout for the performance report for the Month Ended March 31, 2017. Based on preliminary returns through March 31, 2017, it appears the trailing one–year return is expected to be greater than 12.0%. This will be presented to the Board for setting T-DROP and Post 10 Year T-DROP interest rates.

- 2. Recommendation to Commit up to \$150 Million Dollars in Parametric Global Defensive Equity Fund, LLC, an Opportunistic/Alternative Fund that Uses Options Based on Global Markets Designed to Enhance the Returns of the Underlying Global Benchmark.** The Clifton Group, founded in 1972, focused on risk management for institutional clients and was acquired by Parametric Portfolio Associates, LLC (Parametric), in 2012. These firms have been considered industry leaders in options overlay services since their founding and the merger in 2012 combined the firms' strong business operations into a group with a long track record of successful options overlay programs. Based in Seattle, the team is led by Jay Strohmaier. Mr. Strohmaier has 31 years of industry experience in managing options overlay programs.

Similar to the ATRS investments in the Allianz 500, Allianz 350, and Allianz 250 option overlay funds, this strategy uses put and call options on a variety of indices to create “profit zones”. If the value of the index falls within those zones at expiration, the strategy profits from the structure of the options strategy. This is similar to selling insurance – you pay a premium for the rights

provided by the option or you collect premium to provide that right.

The difference in this strategy and the Allianz strategy is the Parametric strategy is designed to reduce the volatility of the fund's underlying benchmarks by using a systematic approach to determine the "profit zone" on the premiums collected by selling options. The Parametric strategy is designed to limit possible equity market downturns by using a mix of underlying assets including U.S. Treasuries to offset the total market exposure of the fund. The Allianz strategies also collect premiums but use more active involvement as the fund manager may shift the "profit zones" according to their research to try to generate alpha or returns that exceed each strategies particular benchmark.

Mr. Hopkins confirmed staff supports recommendation.

**Ms. Nichols *moved to adopt* Resolution 2017-11, to Commit up to \$150 Million Dollars in Parametric Global Defensive Equity Fund, LLC, an Opportunistic/Alternative Fund that Uses Options Based on Global Markets Designed to Enhance the Returns of the Underlying Global Benchmark. The Board *unanimously adopted the Resolution.***

**C. Real Assets Investment Consultant Report – AON Hewitt Investment Consulting.**

- 1. Recommendation to Commit up to \$25 Million Dollars in Clarion Ventures 4, L.P., a Closed End Opportunistic Real Estate Fund Focused on Repositioning and Redeveloping Underperforming Properties.** Based in New York, the General Partner was founded in 1982 and is one of the largest real estate managers in the U.S. with \$44 billion dollars in assets under management. The investment team is led by Rick Schaupp. Mr. Schaupp has over 21 years of investment experience and will be supported by a successful veteran team with extensive industry experience. The strategy's prior funds have produced an average net IRR of 9.2%.

The firm invests in underperforming middle market institutional quality properties in locations that are supported by growing infrastructure, demand, and strong job growth forecasts. The

team uses its extensive experience to reposition and redevelop these properties to core investments and is targeting a net IRR of 15%. Both Aon Hewitt Investment Consulting and ATRS staff recommend an investment of up to \$25 million dollars in Clarion Ventures 4, L.P.

Mr. Hopkins confirmed staff supports recommendation.

**Ms. Nichols *moved to adopt* Resolution 2017-12, to Commit up to \$25 Million Dollars in Clarion Ventures 4, L.P., a Closed End Opportunistic Real Estate Fund Focused on Repositioning and Redeveloping Underperforming Properties. The Board *unanimously adopted the Resolution.***

**XIII. Operations Committee Report.** Dr. Richard Abernathy, Vice 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.** Mr. Hopkins brought up an issue for the 2019 Legislative Session. Looking at how school allows members use sick leave when they enter T-DROP and preparing to retire. When a member accrues sick leave, the school will let them use it when not sick, will buy it back for 3 years while in T-DROP, and various other methods the school allows the members to use. This is something the Committee will want to discuss for the 2019 legislative session and develop some type of legislation to deal with this issue.

**B. ATRS Legislative Package for the 2017 Legislative Session.** Mr. Hopkins gave the Committee a report on the 2017 Legislative Package which were all ACTs.

**1. SB141: Authority to adjust final average salary anti-spiking percentage. Senator Cooper. Now ACT 611.** This Act will allow the Board to adjust the anti-spiking formula used to calculate retirement benefits to maintain actuarial soundness. Act 611 will 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.

2. **SB142: Internal Auditor Evaluation. Senator Cooper. Now ACT 127.** This Act will 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.
3. **SB184: Authority to adjust T-DROP Interest rates by Board resolution. Senator Hester. Now ACT 1049.** This Act will 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.
4. **SB185: CASH program modifications and expansions may be implemented by ATRS; CASH program benefit designation for certain inactive vested members by ATRS. Senator Hester. Now ACT 647.** This Act will 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.
5. **SB186: Multipliers for future service credit may be adjusted, if needed. Senator Hester. Now ACT 551.** ATRS can already adjust the benefit multiplier if the ATRS amortization period is over 30 years. This Act will allow the ATRS Board greater flexibility to adjust the multiplier used in benefit calculations, if needed in order to maintain actuarial soundness. This Act 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.
6. **SB187: Modifies process of setting the employee contribution rate. Senator Hester. Now ACT 550.** ATRS already can increase the employee contribution rate if the

ATRS amortization period is over 30 years. This Act will allow the employee contribution rate to be adjusted if needed to maintain actuarial soundness. This Act also eliminates an amortization period in excess of thirty (30) years requirement in order for the Board to change the employee contribution rate.

7. **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. Now ACT 549.** This Act will 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 no later than 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 Act will 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 Act

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 Act 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 Act will also recognize all reciprocal service credit with another Arkansas public retirement system to be counted for vesting purposes for disability retirement.

8. **SB193: Accrued sick leave to count as service credit if death of an active member occurs. Senator Cheatham. Now ACT 200.** This Act will 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.
  
9. **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. Now ACT 505.** This Act will 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 Act will 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.

10. **SB203: Adjustment of Employer early separation incentive programs. Senator Sample. Now ACT 503.** This Act will end the requirement in some ATRS employers' early separation programs that members must retire from ATRS in order to participate in the employers' programs.
11. **SB205: Allow members with concurrent reciprocal service to voluntarily waive ATRS service credit. Senator Sample. Now ACT 612.** This Act will 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. The Act allows a member to 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.
12. **SB218: Employer contribution rate may be adjusted, if needed, and conditions met. Senator Hutchinson. Now ACT 821.** ATRS already has the authority to raise the employer contribution rate. This Act will allow an employer contribution rate adjustment even when below a 30 year amortization if needed to maintain actuarial soundness. This Act 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.
13. **SB233: Pension advance companies prohibition. Senator Caldwell. Now ACT 199.** This Act protects 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.
14. **HB1286: Authority to adjust early voluntary retirement or early T-DROP entry reductions, if needed. Representative Rye. Now ACT 750.** This Act will 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 Act will also allow the early T-DROP participation reduction to be adjusted to maintain actuarial soundness.

15. **HB1287: Outsourcing election by ATRS employers. Representative Rye. Now ACT 575.** This Act will 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 will have 60 days after the effective date of the Act to make a one-time decision. The Act defines "outsourcing" to mean employment for a covered employer through a third party, a private employer, an independent contractor or other contractual relationship. ATRS will collect information on outsourced employees from employers and prior to any collection of money. The collections of contributions or surcharges from an employer may be phased in and will not begin earlier than the 2018 fiscal year.

The Committee asked Mr. Hopkins and Staff to bring recommendations to the June Board meeting about timeline for starting the billing of surcharges from employers.

16. **HB1304: Technical Corrections. Representative Maddox. Now ACT 293.** This Act will 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.
17. **HB1305: Automatic spousal survivor benefit rights may be voluntarily waived by member. Representative Maddox. Now ACT 243.** This Act eliminates the automatic statutory designation that residual benefits must go to a spouse. This Act will 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.

18. **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. Now ACT 436.** This Act will 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.
  
19. **HB1373: Benefit stipend adjustments and removal from benefit base may be adjusted, if needed. Representative Deffenbaugh. Now ACT 782.** ATRS can already adjust the benefit stipend if the ATRS amortization period is over 30 years. This Act will allow the ATRS Board greater flexibility to adjust the benefit stipend, if needed in order to maintain actuarial soundness. This Act 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 Act 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 Act 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 Act does not change the requirement of ten years of actual service needed to qualify for the benefit stipend.
  
20. **HB1374: Reversal of the 2009 compounding of the COLA, if needed. Representative Deffenbaugh. Now ACT 780.** The ATRS Board may already reverse the 2009 compounding of the COLA. This Act will 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 Act will allow the Board to phase in the reversal in order to prevent a retiree from receiving a reduction of benefits at any time.

**C. SUBSTANTIVE BILLS AFFECTING ATRS THAT ARE NOT PART OF THE ATRS LEGISLATIVE PACKAGE.** Mr. Hopkins gave a report on the bills that were passed that affected ATRS, but not a part of the regular ATRS Legislative Package.

1. **SB513: To Prohibit Public Entities from Contracting with and Investing In Companies that Boycott Israel. Senator Hester. ACT 710.** This Act will prohibit certain transactions by Public Employee Retirement Systems. SB513 seems to have replaced SB11. It has many of the same requirements as SB11. Senator Hester worked with the retirement systems to reach and agreed amendment that the retirement directors requested. The changes remove virtually all costs of compliance and still achieve the intent of Senator Hester.
2. **HB1290: To require ATRS to correct an error that understates the service credit of a member. Representative Tosh. ACT 241.** This Act 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 Act. 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. ACT 756** This bill was called the "slayer statute". This bill has amended to prevent a person who intentionally causes the death of a retirement system member from receiving benefits that become available due to the member's death. ATRS has no objection to adopting a slayer statute provision.
4. **HB 1355: To make Technical Corrections to Title 24 of the Arkansas Filed Code concerning Retirement and Pensions. Representative Shepherd. ACT 265.** This Act is a technical correction Act 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.

- XV. Adoption of Adjustment to Anti-Spiking Formula used in Final Average Salary Calculation.** ATRS has had an anti-spiking law to prevent excessive one (1) time salary jumps for a number of years. The first anti-spiking law had an exception that made it ineffective to a large extent with a limitation of a 10% growth in salaries between the 3 high salary years used to compute final average salary. In 2009, ATRS adopted a new anti-spiking formula that allowed 20% growth from year to year but eliminated all exceptions. However, it did provide a salary override if the salary on the 2 years being compared was \$5,000 or less, regardless of the percentage change, in order to protect low salary members such as bus drivers and support staff.

Act 611 of 2017 gave the ATRS Board authority to adjust the anti-spiking formula by resolution to continue to ensure salaries are fair and less subject to manipulation. The law allows the Board to adopt a resolution setting the percentage variance from 20% under the existing formula to a low of 5% that could be adopted by an ATRS Board resolution. It is important to note that few employees have greater than a 5% year-to-year salary differential and the ATRS actuaries assume the salary differential is only going to be 3.25% per year.

**Dr. Abernathy *moved to adopt* Resolution 2017-13, Adjustment of Anti-Spiking Formula used in Final Average Salary Calculation is established at a maximum annual salary of 110% if the salary is no more than \$5,000. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- XVI. Adoption of Early Retirement Reduction for Potential Action.** ATRS has allowed members to retire with 25 years of service for a long period of time. Once 25 years of service is reached, ATRS also considers the member's age in that, if the member is over age 57 when the 25 years of service is reached, the reduction is based upon the lessor of years of service before 28 years of service (maximum of 3 years) or years less than 60 (maximum of 3). So, if a member is age 59 with 25 years of service, the reduction would only be a 1 year reduction since the member is 1 year from reaching age 60, the reduction is only for 1 year instead of the 3 years the member lacks for 28 years of service. When ATRS required 30 years to retire, the 5% per year reduction required members retiring at 25 years of service and age 55 or less to have a 25% reduction in benefits. When ATRS adopted a 28 year requirement for full retirement, the reduction for 25 year retirement was

reduced from a 25% reduction to a 15% reduction. In a typical year, ATRS has just over 100 members retire using the early retirement mechanism with the plurality of those early retirements at precisely 25 years of service.

The actuaries have informed ATRS that new mortality tables will reflect significantly longer lives and greater liability based upon members living longer. This means that early retirement actually will cost ATRS significantly more. At one time, ATRS had a 25% early retirement reduction that is now only 15% (5% per year).

Act 750 of 2017 allows the ATRS Board to adjust the early retirement reduction from the current 5% reduction per year up to a 15% reduction per year. As ATRS absorbs the new mortality table in the near future, the question is should those participating in early retirement have a larger reduction, and if so, what amount? A resolution has been prepared that would allow the Board to adjust the early retirement reduction and also determine the effective date of the change, if the resolution is adopted.

**Mr. Lester *moved to adopt* Resolution 2017-14, Adoption of Early Retirement Reduction at the rate of 6% per year through July 1, 2017, and 10% per year being effected April 17, 2017. Mr. Knight *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**XVII. Adoption of Interest Rate for T-DROP Accounts for 2017-2018 (June 30, 2018).** The current ATRS rules would have the Board set interest rates for active T-DROP accounts for the July 1, 2018, interest accrual on accounts using a formula that has been in place for a number of years. The formula states that the interest rate shall be 2% less than the ATRS investment rate of return with a maximum of 6% and a minimum of 2%. The investment rate of return for the 12-month period ending March 31, 2017 would be used as a gauge. It appears that a 6% interest rate on active T-DROP accounts would be in order based upon our consultant's evaluation of the ATRS portfolio having an investment return of over 12% for the 12-month period ending March 31, 2017. However, the Board may wish to consider an alternate interest rate based upon the difficulty with the existing formula and the forward looking view of absorbing new mortality tables and a change in the assumed rate of return.

**Mr. Knight *moved to adopt* Resolution 2017-15, Adoption of Interest Rate of 5% for T-DROP Accounts for 2017-2018**

**(June 30, 2018). Dr. Abernathy seconded the motion, and the Board unanimously adopted the resolution.**

**XVIII. Adoption of Interest Rate for Post 10-Year T-DROP Accounts for 2017-2018 (June 30, 2018) for Potential Action.** The current ATRS rules would have the Board set interest rates for active Post 10 year T-DROP accounts for the July 1, 2018, interest accrual on accounts using a formula that has been in place for a number of years. The formula states that the interest rate shall be 2% less than the ATRS investment rate of return with a maximum of 6% and a minimum of 2%. The investment rate of return for the 12-month period ending March 31, 2017 would be used as a gauge. It appears that a 6% interest rate on active Post 10 year T-DROP accounts would be in order based upon our consultant's evaluation of the ATRS portfolio having an investment return of over 12% for the 12-month period ending March 31, 2017. However, the Board may wish to consider an alternate interest rate based upon the difficulty with the existing formula and the forward looking view of absorbing new mortality tables and a change in the assumed rate of return.

**Mr. Lester moved to adopt Resolution 2017-16, Adoption of Interest Rate of 6% for Post 10-Year T-DROP Accounts for 2017-2018 (June 30, 2018) Mr. Black seconded the motion, and the Board unanimously adopted the resolution.**

**XIX. Interest Rate for Refunded Contributions.** ATRS accrues interest on member contributions paid to ATRS. For a typical member, the interest rate is meaningless. Most members are never paid contributions plus interest. Retirees and T-DROP participants quickly absorb contributions plus interest soon after retiring or entering T-DROP. The interest rate mainly and almost totally impacts only members who obtain a refund of contributions and terminate membership in ATRS by doing so. Since 2009, ATRS has tried to pay an interest rate on contributions equivalent to a short term certificate of deposits at stable regional banks. Due to low interest rates, ATRS dropped its interest rate on contributions from 2% to 1% a few years ago.

A recent review of interest rates payable on 6 months certificates of deposits at stable regional banks varied from a low of .08% (8 basis points) to about .25% (25 basis points). On average, the rates were more to the lower end of that range. Since this rate is one designed to pay the equivalent of short term interest rates and not to compete with rates payable by other retirement administrators, staff recommends the Board consider adjusting the interest rate on member contributions that are typically part of a refund as members terminate membership in ATRS. This rate change can be done by a

resolution adopted by the Board and that change would take effect for all interest payable after June 30, 2017.

**Mr. Knight *moved to adopt* Resolution 2017-17 Interest Rate of 0.08% for Refunded Contributions for the fiscal year beginning July 1, 2017. Ms. Thompson *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**XX. Staff Reports.**

**A. Medical Committee Reports. A Total of 26 Disability Retirement Applications Approved.**

The Medical Committee Report is a standard report made by staff on behalf of the Medical Committee approving disability cases. A total of 27 disability applications were received, 26 were approved for disability benefits, and 1 needed more information.

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

**XXI Other Business: None**

**XXII. Adjourn.**

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

**Meeting adjourned at 12:41 p.m.**

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George Hopkins,  
Executive Director

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Mr. Jeff Stubblefield, Chair  
Board of Trustees

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Tammy Porter,  
Recorder

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Date Approved