



**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS STATE POLICE RETIREMENT SYSTEM
MAY 20, 2010**

The regular meeting of the Board of Trustees of the Arkansas State Police Retirement System was held on Thursday, May 20, 2010 at 10:00 a.m. in the ADEQ Room at the State Police Headquarters, #1 State Police Plaza Drive, Little Rock, Arkansas. Commissioner John Allison presided.

QUORUM PRESENT:

Mr. Allison recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. John W. Allison, *Chair, State Police Commissioner*
Sergeant Brant Tosh, *ASP Tier II*
Corporal Blake Wilson, *ASP Tier I*
Mr. Kirk Bradshaw, *Citizen at Large*
Mr. Donnie Underwood, *Citizen at Large*
Mr. Richard Weiss, *Director Dept. of Finance & Administration*

VISITORS PRESENT:

Colonel Winford Phillips, Director ASP
Lt. Col. Tim K'Nuckles, ASP
Major Kathy Sparks, ASP
Lt. Cora Gentry, ASP
Lt. Stan Witt, ASP
Ms. Janet Chappell, ASP
Mr. Cleve Barfield, ASP
Ms. Erika Gee, Attorney General's Office
Ms. Janelle Evyan, Bureau of Legislative Research
Mr. Jody Carreiro, Osborn, Carreiro & Associates, Inc.
Mr. David Clark, Director of LOPFI

STAFF:

Ms. Gail H. Stone, Executive Secretary, Arkansas State Police Retirement System
Ms. Michele Williams, Deputy Director, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Mr. Carlos Borromeo, Chief Investment Officer, APERS
Mr. Jay Wills, Attorney Specialist, APERS
Mr. Bill Dull, Chief Fiscal Officer, APERS
Ms. Linda McGrath, Administrative Specialist, APERS

NEWS MEDIA NOTIFIED:

A letter of notification of the Arkansas State Police Retirement System Board meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Television Station KLRN/FOX16, Radio Station KARN, and Radio Station KAAZ. This letter of notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

MINUTES:

A copy of the Minutes from the February 18, 2010 meeting of the ASPRS Board of Trustees was mailed to each member for review prior to the meeting. Mr. Weiss motioned for the February Minutes to be approved and was seconded by Cpl. Wilson. The motion was unanimous.

SUMMARY OF RETIREES:

March 1, 2010 – Catherine Henson, Beneficiary of Carrol DJ Henson
Roger Ahlf, Retiring from DROP

April 1, 2010 – William Manasco, Retiring from DROP
Ronald Anderson, Retiring from DROP

May 1, 2010 – Steven Pickens, Retiring from DROP

REQUEST FOR DROP PARTICIPATION:

The Trustees discussed the five applicants and Ms. Stone stated that all fulfilled the necessary qualifications needed to enter the DROP.

April 1, 2010 – Calvin Gregory

July 1, 2010 – Shelby Clark, Jr.

Kenneth W. Foley, Jr.

Alex Finger

Robin L. Kuykendall

On a motion by Cpl. Wilson and a second by Mr. Weiss, all five applicants' were approved to enter the DROP.

QUARTERLY REPORT FOR THE PERIOD ENDING MARCH 31, 2010 – Presented by Ms. Gail Stone, ASPRS Executive Secretary

Starting with the Actual Asset Allocation compared to the Target Allocation, Ms. Stone explained that the fund is pretty close to target with no rebalancing necessary. She pointed out that Global Energy has now been given its own section of the pie chart instead of being lumped in with Alternative Investments as it had been in previous reports. She continued, detailing the fund's investment in the Fayetteville Shale play and the other alternative investments, especially the REITs with all their write-downs.

The total fund returned 3.89% for the quarter, with active managers adding value above the benchmark. For the past twelve months, the fund grew by 34.66% slightly lagging the policy's benchmark. Ms. Stone showed a breakdown by asset class, of which outperformed their benchmark for the quarter and which lagged.

Lastly, Ms. Stone explained how the fund looked in comparison to other similar-sized public funds. ASPRS share of the fund is 3.72% until after the next Insurance Premium Transfer in late June. At the next Board meeting in August, Ms. Stone stated that she would give the updated percentage.

FINANCIAL STATEMENTS FOR THE PERIOD ENDING MARCH 31, 2010

ASPRS' share of the fund had a value of just over \$198 million as of March 31, 2010. This represented a \$30 million increase since the start of the fiscal year (9 months ago) and about a \$50 million increase over their low-water mark. Mr. Allison commented that the fund had grown by \$30 million over the past 9 months, but it had also paid out \$15 million to retirees and beneficiaries over that same time period. Ms. Stone agreed with his assessment.

Ms. Stone gave raw numbers through April 30th stating that the fund was up 22.03% for the first 9 months of this fiscal year. April alone, with its ups and downs, managed to return 1.25%. The outlook for May was not as promising.

OTHER BUSINESS:

Attorney General's Opinion Request – Mr. Jay Wills, APERS Attorney Specialist

Back in February, Mr. Wills had requested an Attorney General's Opinion regarding the ASPRS Board's ability to change the DROP interest rate for members who were already in the DROP. He told the Board that when he contacted the A.G.'s office earlier in the week and they'd told him it would probably be out by the end of the week or early next week. Mr. Wills promised to pass that information along to the Trustees as soon as he received it.

McLemore vs. Weiss Litigation – Mr. Jay Wills, APERS Attorney Specialist

Mr. Wills stated that he believed that Judge Brantley was preparing to establish a briefing schedule and that this case should be resolved as a question of law, since everyone seemed to agree on the facts. If the events moved along the way Mr. Wills anticipated that this matter would be submitted on briefs later this summer and each side would file for a motion of summary judgment, eliminating the need for a trial. He felt confident that Judge Brantley had a good understanding of the case.

DROP Interest Rates

Ms. Stone reminded the Board that at the last meeting Cpl. Wilson had requested that Staff work up some calculations of what the impact would be on the system of selected DROP interest rates. Cpl. Wilson pointed out that currently ASPRS was paying out 3.25% while APERS members enjoyed a 6% rate of return. He stated that in May 2009, the Board had reduced the rate from 7.75% in an effort to save money when the markets were in such terrible shape. The Board had promised to revisit this issue when the markets improved. Cpl. Wilson said he had been approached by a number of Troopers wondering if and when the rate might be adjusted again.

Mr. Allison asked about the average ASP DROP participant and what amounts were being discussed. Ms. Stone replied that she'd taken an "average Trooper" and run various hypothetical scenarios based on his data. She asked the Board to tell her which of these scenarios they were interested in and she would get them a hard copy of all the relevant statistics. This average Trooper started out in the DROP in 2004 collecting 7.75%, until last year when his interest rate was lowered to 3.25%. When this individual leaves the DROP next year, he will collect \$407,000 in a lump sum. If this Trooper had received the 7.75% interest rate for his entire DROP period, he would receive an additional \$14,000, for a total of \$421,600. If this individual received a 3.25% interest rate for his entire 7 years in the DROP, his lump sum would be \$360,800; a \$60,000 difference.

Cpl. Wilson asked if, in light of the better returns the fund was experiencing, the Board might revisit the issue of the DROP interest rate. Mr. Weiss stated that while the investment markets had gotten better, the retirement system a long ways from being flush and that the Governor's policy for this fiscal session will be to keep everything flat; no COLAs and no raises for state employees. Ms. Stone urged the Trustees to hear their own actuarial report in August before making any decisions, reminding them they still had 3/4 of last year's losses to factor into the accounts, since the smoothing process only recognizes a quarter of the losses (or gains) each year. There would also be additional retirees creating further liabilities, so while the absolute dollar amount of the fund has increased, so have the claims on it. She anticipated that the actuarial numbers would not look much better than they were for Fiscal Year 2009.

It was pointed out that APERS members enjoyed a 6% return on their DROP accounts. Ms. Stone commented that might change at the next legislative session, and also that the average state employee paycheck was far lower than the average ASPRS Trooper. Mr. Allison pointed out that in today's financial environment a guaranteed 3.25% interest rate was a tremendous return.

Lt. Col. K'Nuckles was recognized by the Chair and stated that he had further information of which the Board was probably unaware. He said that in creating the latest ASP budget, they had been forced to cut 31 core positions. The loss of these positions translated into a loss of \$245,000 annually for the retirement system, with no improvement expected for the next 2-3 years. This, in addition to the lack of "troop school" meant that there would less new employees entering the system to keep up the employer contributions. He urged everyone to consider all these effects before they discussed raising the interest rates.

Mr. Allison acknowledged that few people would enlist in the State Police if not for the insurance and retirement benefits, which he called a "sacred fund". He felt compelled to ensure the future of the retirement program for State Police was protected, not just those in the DROP today. But, Mr. Allison stated, he wanted to do what was right for these troopers and promised to take some action at the next meeting.

Ms. Stone continued with her breakdown of the hypothetical trooper's DROP account at 3.75%, 4.0%, 4.5% and 5% interest rates. The monthly retirement annuity is based on years of service and age. Looking at the actual cash flow into the retirement system, Staff currently has to pull money out of the investment program each month to cover annuity payouts: a negative cash flow. Since last July, the system has paid over \$6 million in DROP payouts alone and anticipates paying out almost \$3 million more before the end of the fiscal year. A flat rate of new, incoming troopers meant no increasing income through employer contributions and rapidly increasing liabilities as higher paid members retired was not a good combination for the health of the fund. At last count, there were 550 retired members and 547 active members.

Buying Reserve Military Time

Cpl. Wilson brought up adding ASPRS' members the ability to buy Reserve military time. This retirement system had been accidentally over-looked when the Bill was drafted at the last legislative session. Ms. Stone agreed that there would not be a problem adding this option to the benefit package as it was cost-neutral to the system however, she believed that the average price

tag of \$30,000 to purchase that time might defer most from utilizing the option. Cpl. Wilson commented that he believed only 5-6 members would be able to avail themselves of the benefit.

Replacement of former Board Member Martin Silverfield/Vice Chair Position

Ms. Stone pointed out that unless Mr. Allison was reappointed by the Governor, this would be his last meeting. Normally, the Vice Chair would roll up to the Chair position, however Mr. Silverfield resigned his position just before the last meeting and had not been replaced. Ms. Stone offered to write a letter to the Governor seeking a replacement for Mr. Silverfield and Mr. Allison accepted.

After short discussion, Mr. Allison nominated Mr. Bradshaw for the position of Vice Chair. He was seconded by Mr. Weiss and the motion carried unanimously.

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the ASPRS Board will be held on August 19, 2010 at 10:00 a.m. at State Police Headquarters in the Commission Room.

ADJOURNMENT:

With no other business to be discussed, the meeting was adjourned.

COMMISSIONER JOHN W. ALLISON
Chair, Arkansas State Police Board of Trustees

GAIL H. STONE
Executive Secretary