

MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS STATE POLICE RETIREMENT SYSTEM
AUGUST 18, 2011

The regular meeting of the Board of Trustees of the Arkansas State Police Retirement System was held on Thursday, August 18, 2011 at 10:00 a.m. in the Arkansas State Police Commission 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*

Mr. Kirk Bradshaw, *Vice Chair, Citizen at Large*

Lieutenant Brant Tosh, *ASP Tier II*

Corporal Blake Wilson, *ASP Tier I*

Mr. Joe Miles, *Citizen at Large*

Dr. John Shelnett, *Designee for Mr. Richard Weiss, Director Dept. of Finance & Administration*

BOARD MEMBERS ABSENT:

Mr. Donnie Underwood, *Citizen at Large*

VISITORS PRESENT:

Mr. Norm Jones, Gabriel Roeder Smith

Mr. David Hoffman, Gabriel Roeder Smith

Mr. Mike Knapp, Bureau of Legislative Audit

Colonel J. R. Howard, ASP

Lt. Col. Tim K'Nuckles, ASP

Major J.R. Hankins, ASP

Major Kathy Sparks, ASP

Capt. Stan Witt, ASP

Capt. Steve Coleman, ASP

Lt. Glenn Sligh, ASP

Ms. Harmony Daniels, ASP

Mr. Mike Knapp, Bureau of Legislative Audit

Ms. Janelle Evyan, Bureau of Legislative Research

Mr. Mike Wickline, *Arkansas Democrat-Gazette*

STAFF:

Ms. Gail H. Stone, Executive Secretary, Arkansas State Police Retirement System

Ms. Michele Williams, Deputy Director, APERS

Mr. Jay Wills, Attorney Specialist, APERS

Mr. Carlos Borromeo, Chief Investment Officer, 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 KLRT/FOX16, Radio Station KARN, and Radio Station KAAY. This letter of notification is pursuant to A.C.A. 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

ELECTION OF NEW BOARD CHAIR AND VICE-CHAIR:

Mr. Allison nominated Mr. Kirk Bradshaw to assume the Chair position of ASPRS for the next year. Mr. Miles seconded the motion and it passed unanimously. Mr. Allison asked for suggestions for the Vice-Chair position before nominating Mr. Joe Miles. Lt. Tosh seconded and the motion passed unanimously.

MINUTES:

A copy of the Minutes from the May 19, 2011 meeting of the ASPRS Board of Trustees was mailed to each member for review prior to the meeting. Mr. Miles motioned for the May Minutes to be approved; he was seconded by Lt. Tosh. The Minutes were approved as submitted.

SUMMARY OF RETIREES:

- June 1, 2011 – Debra Ditto, QDRO
- July 1, 2011 – Margarette Cater, Beneficiary of Don G. Cater
Andy Foster
- Aug 1, 2011 – Betsy Speer-Shahan, QDRO
Joan Kellebrew, Beneficiary of Billy J. Kellebrew

DROP PARTICIPANTS WHO ARE RETIRING:

- | | |
|-------------------------------|---------------------|
| July 1, 2011 – Charles Hefner | Robert Herron |
| Robert York | Jackie Speer |
| Roger Whitmore | Dennis Johnson, Jr. |
| Nathaniel Jackson | Keith Sullivan |

APPROVAL OF DROP APPLICANTS:

- July 2011 – James Brett Pritchard
Dale A. Blaylock

On a motion by Cpl. Wilson and a second by Mr. Bradshaw, the Board voted unanimously to approve both DROP applications.

QUARTERLY REPORT FOR THE PERIOD ENDING JUNE 30, 2011 – Presented by Ms. Gail Stone, ASPRS Executive Secretary

Using a handout, Ms. Stone stated that the Actual and the Target Asset Allocations were very close; the differences were due to movements in the market. She explained the results for the recent manager searches that the APERS’ Board had undertaken earlier in the week, noting that UBS had been replaced by two new GTAA (Global Tactical Asset Allocation) managers: Newton Capital Management and AQR Capital Management. Each manager was being initially funded with \$50 million. With the \$100 million that Westwood was giving back to the fund in order to stay within their cap limit, APERS had funded Lombardia Capital Partners. They are a Small Cap Value firm which will compliment Westwood’s SMID Growth mandate.

Ms. Stone explained how the fund compared in Asset Class Weights when put side-by-side with other public funds of the same size. The fund was slightly overweight in Equity, both Domestic and International, and was 5% underweight in Alternatives compared to its peers.

For the quarter, the fund’s net investment was up \$71.6 million. There was some minor stumbling in the energy portfolios and the GTAA product (which has since been replaced). Over the past 12 months, the fund grew by 26%, closing out Fiscal Year 2011 with one of the best annual returns among all U.S. public pension funds. Ms. Stone noted that there had been lots of discussions in the news regarding the feasibility of an 8% annual assumption. She pointed out that over the last 20 years APERS has an annualized rate of 9.63% - so yes, it is possible.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING JUNE 30, 2011:

The ASPRS portion of the portfolio grew from 3.82% to 3.91% over the fiscal year and is currently valued at just under \$230 million before any payouts for the quarter. For Fiscal Year 2011, which closed June 30, 2011, the ASPRS portion took in just over \$14 million in contributions from various sources; however it paid out \$21.5 million in benefits over that same time period, leading to \$7.5 million shortfall.

Ms. Stone noted that FY 2011 & 2012 were projected to be the worst in regards to DROP payouts. After that time period, the number of DROP payouts is expected to decrease rapidly which should help the cash flow of the pension plan.

PRELIMINARY ACTUARIAL RESULTS FOR 2011 – Presented by Mr. David Hoffman & Mr. Mita Drazilov of Gabriel Roeder Smith and Co.

Mr. Hoffman reviewed the historical data used to create the valuation. Over the past 10 years the number of active members has ranged from 477 (FY 2003) to 555 (FY 2008) while the number of retirees and beneficiaries had increased steadily: 411 (FY 2002) to 554 (FY 2011). Currently, there are 76 DROP participants in the plan. Regarding the recent conversation about cash flow, he pointed out that in 2011, the total payroll was about \$28 million, while the monthly payouts for the same twelve months (not counting lump-sum DROP payments) were almost \$22 million or 78% of payroll.

The Development of the Funding Value of Assets was explained by Mr. Hoffman. He reviewed how they immediately recognize the 8% (APERS Assumed Actuarial Rate) and then divide the remaining gains (or losses) by four. These quarters will be rolled in over the next four years in an effort to smooth out the highs and lows, thus maintaining a more stable employer rate from year to year as directed by law. Mr. Hoffman pointed out that 2011 was the last year to recognize the devastating losses from 2008 and at this time, the fund only had gains to recognize over the next three years. Based up on this, if all other assumptions are met, within the next few years, the employer contribution rate will be lower than with it is today.

Mr. Hoffman continued and detailed how the preliminary Employer Contribution Rate had been calculated. Tier One required a 65.52% contribution rate, while Tier Two needed 24.57%. The weighted average of these two resulted in a preliminary Employer Contribution Rate of 45.85%.

Mr. Allison asked if the new revenue stream from the car titles had been figured into these costs. Mr. Jones stated that they had not, since the new fees only went into effect on July 1, 2011. The new revenue stream would be calculated in the Preliminary Actuarial report for ASPRS next August. To illustrate how the additional revenues and better market returns had affected the plan, Mr. Hoffman pointed out that in 2009 the funded value of the plan was only 49%. In 2010, the Funded Ratio on a Market Value basis was 55% and for 2011, it had increased again to 68%.

Mr. Jones showed three different scenarios for market returns going forward and how this would affect the Funded Ratio over the next three years. These projections ranged from the current 63% to an optimistic 70% by 2014 (based on 8% annual returns) or dropping to 61% if the Fund experienced a 10% loss in 2011. Based on these projections, the Employer Contribution Rate could possibly drop from the current rate of 45.85% to 40.95%, or increase to 47.36% in the more pessimistic scenario. Mr. Jones closed with the comment that with all the volatility in the current market, it was the actuary's duty to do what they could to dampen the swings.

OTHER BUSINESS:

Litigation Update – Mr. Jay Wills, APERS Atty.

Mr. Wills stated that he'd recently talked to Ms. Bell over at the Attorney General's Office regarding the McLemore vs. Weiss case. She explained that she and the plaintiff's attorney were trying to get the courts to agree to establish a briefing schedule. As of this morning, no briefing schedule had been set.

DROP Interest Appeal Continuation – Lt. Glenn Sligh

Mr. Wills apologized for missing the last meeting when Lt. Sligh had approached the Board with his questions concerning the legality of changing the DROP interest rate. Mr. Wills stated that he had no issues with any of Lt. Sligh's factual assertions and he was aware of the Attorney General's opinion in the matter. He commented that similar lawsuits had been introduced in Colorado and Minnesota by retired public employees who had found their annual COLA (Cost of Living Adjustment) reduced and had made the same type of argument Lt. Sligh had presented. In both states, a trial court had decided the reduction was permissible and within the Board's discretion.

Mr. Wills acknowledged that the hearing on this matter had been tabled until the November meeting and if the case were to go forward, in an appeal from the administrative decision, for

recording purposes, the Board should take testimony from some of the other Troopers who were similarly affected by the reduced DROP interest. While Mr. Wills felt that there would be no challenge to any factual assertions, he stated any interpretation of the law would be a purely legal question for the court to resolve. After speaking with Mr. Allison and Lt. Sligh prior to the meeting, Mr. Wills promised to go back and research if there was any possible way to extend the DROP period for those affected individuals to make up for the loss of funds they experienced.

The Chair recognized Capt. Coleman who stated he was one of the people affected by the reduction in the DROP interest. He said he entered into the DROP in 2007 and was highly influenced by the amount of money that he expected to collect from that plan. In light of the fact that the expected amount of DROP money would not be available, Capt. Coleman asked if it would not be fair to allow those affected to work past the current 7 year DROP limit to offset those losses. Mr. Wills countered that this would obviously require a change in legislation, as existing law was very firm on the matter. He added that any solution would also need to take in to consideration those who had already retired from the DROP. Mr. Wills was adamant that any solution needed to satisfactorily resolve the issues for both those still in the DROP, as well as those who had left. Capt. Coleman emphatically agreed with Mr. Wills. Mr. Allison stated that it was a "fair and reasonable request."

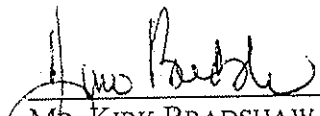
Mr. Wills reminded the Board that there was no statute of limitations with any of these actions. Mr. Bradshaw asked for clarification from Capt. Coleman, if he envisioned it being solely up to that individual Trooper whether or not to continue past the current 7-year DROP, based up on his own financial situation? Mr. Allison pointed out that ASP had a mandatory retirement age of 65; however Capt. Coleman would only be 57 at the end of his 7-year period. Mr. Wills promised to e-mail out his findings to the interested parties on what could and could not be done under current law sometime in September and stated that he'd be available to discuss options once everyone had a chance to read the existing legal parameters.

NEXT QUARTERLY BOARD MEETING:

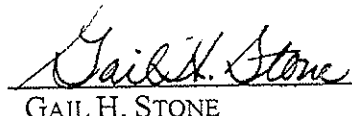
The next regular quarterly Board meeting of the Arkansas State Police Retirement System will be held on November 17, 2011 beginning at 10:00 a.m. at State Police Headquarters in Little Rock, Arkansas.

ADJOURNMENT:

There being no other business the meeting was adjourned.



MR. KIRK BRADSHAW
Chair, Arkansas State Police Board of Trustees



GAIL H. STONE
Executive Secretary