

Minutes  
The Arkansas Local Police and Fire Retirement System Board of Trustees  
Quarterly Meeting

The Arkansas Local Police and Fire Retirement System Board of Trustees met on Thursday, December 1, 2016 in the LOPFI office located at 620 W. 3<sup>rd</sup>, Suite 200, Little Rock, Arkansas.

Members Present: Mayor Mike Gaskill, Employer Trustee, Chairman  
John Neal, Retired Fire Employee Trustee, Vice-Chairman  
Catherine Cook, Employer Trustee  
Bev Lambert, Public Trustee  
J. Scott Baxter, Police Employee Trustee  
Tim Hill, Retired Police Employee Trustee  
Damon Reed, Fire Employee Trustee

Staff Present: David Clark, Executive Director  
Tracy Warfe, Assistant Director  
Tiffiney Lewis, Secretary to the Board

Chairman Gaskill called the meeting to order at 9:00 a.m. and recognized a quorum and notification of the news media.

Approval of minutes

Mr. Neal made a motion, seconded by Ms. Cook, to approve the September 8, 2016 minutes. The motion passed unanimously. The Board also reviewed the November 3, 2016 Administrative Services Committee minutes.

2017 Legislative session

Mr. Clark provided a follow up to the discussion at the September 8, 2016 Board meeting regarding technical changes to section ACA 24-10-206. The changes are intended to aid the retirement system in its work towards meeting the requirements for a Determination Letter issued by the Internal Revenue Service. Mr. Clark also made the Board aware of a request from one of the Membership groups to amend the DROP section of code for LOPFI members to be able to leave their DROP monies on account. If the Board agreed to this request, it is understood the Membership group would pursue the request, not the Board. After discussion by the Board, Mr. Reed made a motion, seconded by Mr. Neal that the Board will support the proposal to leave DROP monies on account as long as its cost neutral to the system. The motion passed unanimously.

Actuarial assumptions

Mr. David Hoffman and Ms. Heidi Barry, actuaries with Gabriel, Roeder, Smith & Company (GRS) discussed two (2) items. Ms. Barry gave an overview of the funding issues that the average Public Employee Retirement System (PERS) faced from the time periods of 1981 through 2016. Ms. Barry stated that LOPFI's market rate of return from 2001-2010 averaged 3.6% and from 2011-2015 the rate of return averaged 6.9%. Ms. Barry explained how an employer or PERS is affected by the market experience is heavily dependent upon the following factors: benefit provisions in place, maturity of the plan membership, and funding policy and discipline of the plan sponsor. Ms. Barry stated that as a result of the impact of the Great Recession, on December 31, 2007 the unfunded actuarial accrued liability (UAAL) for LOPFI-

only (not including Local Plans under LOPFI administration) was \$70 million and as of December 31, 2015 the UAAL was \$509 million. Ms. Barry discussed the Economic Assumptions going forward with regards to the annual actuarial valuations. The purpose of the actuarial valuations is to develop employer contribution rates which remain approximately level from year to year. The valuation process depends on a number of assumptions. The current major economic assumptions are:

- 7.75% rate of investment return
- 3.75% wage inflation and payroll growth
- 2.75% price inflation

Ms. Barry recommended that the Board lower the current Price Inflation from 2.75% to 2.50% and to also lower the current Investment Return Assumption from 7.75% to 7.50%. After further discussion, Mr. Neal made a motion, seconded by Mr. Baxter, to keep this topic on the agenda for further discussion at the March 2017 meeting. The motion passed unanimously.

Mr. Hoffman discussed a memo in the Board packet regarding an inquiry as to the increases in employer contribution rates for LOPFI as compared to those for the Arkansas Public Employees Retirement System. Mr. Hoffman stated this is a complex topic that requires consideration of the difference in benefit formulas, member contribution rates, and turnover patterns with each system. It appears that the benefit structure for the LOPFI paid service members is appropriate. Weighing all factors, including future investment results, it is anticipated that employer contributions will continue to increase over the next several years, especially as the system moves towards a single employer contribution rate for paid service. Mr. Hoffman also noted that a question was raised as to whether the current amortization period could be extended to dampen future employer contribution rate increases. While the amortization period could be extended, the 1% cap on employer contribution increases places LOPFI at risk of not being able to charge the appropriate rate in the event of significant unfavorable experience. Therefore, adjusting the amortization period is not recommended. After comments from the Board, Mr. Hoffman and Ms. Barry concluded their reports.

#### Investment Consultant report

Mr. Larry Middleton, Stephens Inc., presented the third quarter investment report. LOPFI's total portfolio value as of September 30, 2016, was \$1.711 billion. As of close of business on November 30, 2016, the unaudited total portfolio value was \$1.714 billion. Mr. Middleton plans to reallocate funds from the Liquidation Account and increase the allocations to the following managers:

- \$5 million to Wellington Management – Commodities
- \$5 million to Wellington Management - International Quality Growth
- \$5 million to Alternative Investment Management (AIM) – 13PE4 fund
- \$12 million to Garcia Hamilton

The Board thanked Mr. Middleton for this report.

#### Update from auditor

Mr. Drew Speed and Mr. Andy Richards, auditors with BKD CPAs & Advisors provided a report on the processing of the GASB 68 reports. Mr. Speed stated that the scope was greater than originally anticipated in terms of reconciling the significant number of transactions between LOPFI's general ledger and data processing system. Mr. Speed commented that staff was easy to work with and that while the 2014 reports experienced a delayed release, the 2015 reports have already been issued to all locations. This means we are now ahead of schedule by several months. In addition, the 2016 GASB reports will be issued by June 30, 2017. This will be the

plan for each subsequent year as well. Mr. Richards explained that by producing the GASB reports in conjunction with the regular audit work, it should be a more efficient use of all resources and keep the schedule on track. After comments by the Board, Mr. Speed and Mr. Richards concluded their comments.

#### September 2016 financial statements

Chairman Gaskill stated the financial statements have been available in the Board packet for review and shows current assets and liabilities and that the System is in good shape. Mr. Baxter made a motion, seconded by Ms. Cook, to approve the September 2016 financial statements. The motion passed unanimously.

#### ASC report

Chairman Gaskill stated that the ASC met on November 3, 2016, and approved:

1. A Cost of Living Adjustment (COLA) of 1.5% awarded to the entire staff for the 2017-year effective January 1, 2017.
2. Reclassification of the Administrative Assistant position to Membership Services effective January 1, 2017.

Mr. Lambert made a motion, seconded by Mr. Neal to approve the ASC recommendations. The motion passed unanimously. Mr. Clark thanked the Board.

#### Proposed 2017 budget

Mr. Clark reviewed the details of the proposed 2017 LOPFI budget, which totals \$12,562,183. After discussion by the Board, Mr. Neal made a motion, seconded by Mr. Hill to approve the proposed budget for 2017. The motion passed unanimously.

#### Proposed updates to rules

Mr. Clark discussed the proposed updates to Board Rules 12, 16, and 32. The proposed changes were reviewed and approved by LOPFI legal counsel. Mr. Clark explained the updates on each Board Rule:

Rule 12: This Rule describes the interest crediting to the Retirement Reserve Account (RRA) process that occurs once a fiscal year is closed. The proposed change would remove a stated percentage and replace with language that explains the current assumed rate of return (which is adopted by the Board) will be used. This change accommodates any future changes in the assumed rate of return without then requiring a corresponding update to the Rule. Mr. Baxter made a motion, seconded by Mr. Lambert, to approve the proposed change to Rule 12. The motion passed unanimously.

Rule 16: This Rule provides details for handling disability retirement cases. Mr. Clark noted that Mr. Baxter was instrumental in the development of the proposed changes and thanked him for his assistance. The proposed change adds new language that recognizes that there may be instances when an off-duty LOPFI member is called upon to act in his/her capacity as a police officer/firefighter. And should such action result in a total and permanent disability the Board could, based on the particular set of facts presented in the case, determine the disability to be duty-related. The proposed language also has the member's department state that they support the application as duty-related and remit applicable employer and member contributions associated with the off-duty incident. Mr. Neal made a motion, seconded by Mr. Baxter, to approve the proposed change to Rule 16. The motion passed unanimously.

Rule 32: This Rule covers the handling of LOPFI DROP and DROP for Local Plans under LOPFI administration. This Rule has two (2) proposed changes. The first change recognizes that a LOPFI DROP account can be distributed to a participant during a calendar year with a 6% interest rate awarded at the time of disbursement as opposed to waiting until the close of a calendar year. The second change provides an option for a member to have their DROP account distributed in more than one method, which affords flexibility to the members. Mr. Baxter made a motion, seconded by Mr. Hill, to approve the proposed change to Rule 32. The motion passed unanimously.

Set dates/times for 2017 meetings

The Board agreed on the following dates/times for their 2017 meetings:

- March 2 – at 9:30 a.m. – Quarterly Meeting
- June 8 – at 9:30 a.m. – Administrative Services Committee Meeting
- June 8 – at 10:00 a.m. – Quarterly Meeting
- September 7 – at 9:30 a.m. – Quarterly Meeting
- December 7 – at 9:30 a.m. – Quarterly Meeting

With no other business to discuss, the Board adjourned at 10:47 a.m.

Respectfully submitted,

Approved 03/02/17

Tiffiney Lewis  
Secretary to the Board