

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 10, 2015 in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

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

Excused Member: Tim Hill, Retired Police 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. Mr. Henson made a motion, seconded by Mr. Lambert, to excuse Mr. Hill. The motion passed unanimously.

Approval of minutes

Mr. Neal made a motion, seconded by Ms. Cook, to approve the September 3, 2015 minutes. The motion passed unanimously.

Pre-employment physicals

Mr. Clark summarized the results of the survey conducted on other retirement systems as directed by the Board at the September 3, 2015 meeting. The purpose of the survey was to learn what measures other retirement systems around the country use in terms of pre-employment physicals for police officer and firefighter members. With the help of the National Conference on Public Employee Retirement Systems (NCPERS), twenty (20) separate retirement systems were contacted by phone and asked to provide responses to four (4) questions. The result of the survey shows LOPFI handles pre-employment physicals very well. Mr. Clark stated that for LOPFI, the retirement system requires pre-employment physicals for paid service members when they are first hired by a LOPFI-covered employer. LOPFI supplies a pre-employment physical packet for use by the participating employers. LOPFI does not have the authority to reject membership in the retirement system due to pre-existing conditions. However, such conditions are excluded from LOPFI disability retirement benefits. Should a member have a pre-existing condition that is not disabling, the member simply accrues service credit and potentially retires with a system benefit. Mr. Henson commented that he appreciated the efforts of staff for their research. Mr. Neal stated that the findings were very helpful and the cities should use the pre-employment packet to take heed in how they proceed in hiring members. Alicia Smith, LOPFI legal counsel, reiterated what was stated at the previous meeting, that LOPFI does not have the authorization to make decisions as to which employees could be hired by an employer based on the results of a pre-

employment physical. There was no further discussion by the Board.

Actuarial assumptions

Ms. Heidi Barry and Mr. David Hoffman, actuaries with Gabriel, Roeder, Smith & Company (GRS) discussed two (2) items. Mr. Hoffman gave a brief overview for determining the employer contribution rates for the Local Plans under LOPFI administration. Mr. Hoffman stated that the LOPFI assumption for long term payroll growth is 4%, but most Local Plans do not see that type of growth. The recent observations for Local Plans under LOPFI administration has only 7 of the 42 groups achieving the 4% payroll growth. Mr. Hoffman recommended that the Board approve GRS to work with staff to develop two or three suggestions to payoff Unfunded Actuarial Accrued Liabilities for Local Plans with no payroll growth and provide the information at the March 2016 LOPFI meeting. Ms. Cook made a motion, seconded by Mr. Neal, to proceed with the stated recommendation. The motion passed unanimously.

Ms. Barry discussed the Economic Assumptions with regards to the December 31, 2015 Valuations. The purpose of the actuarial valuations is to develop employer contribution rates which remain approximately level from year to year. The annual valuation process depends on numerous actuarial assumptions. The current major economic assumptions are:

- 8% rate of investment return
- 4% wage inflation and payroll growth
- 3% price inflation

Ms. Barry recommended that the Board lower the current 8% Investment Return Assumption and also increase the current upper-end employer contribution rate from 22% to 23% of payroll. After further discussion, Mr. Henson made a motion, seconded by Mr. Neal, to lower the Investment Rate of Return Assumption to 7.75% with the understanding that the Board may consider further reductions, perhaps to 7.5% in the future, and also to raise the capped employer contribution rate from 22% to 23%. The motion passed unanimously.

Investment Consultant report

Mr. Larry Middleton, Stephens Inc., presented the third quarter investment report. Overall, the third quarter was difficult. LOPFI's total portfolio value as of September 30, 2015, was \$1.575 billion. As of close of business on December 9, 2015, the unaudited total portfolio value was \$1.593 billion, an \$18 million increase from the end of the third quarter. There was a consistent theme of negative numbers, which happened in every asset class in the equity markets globally. Wellington Management remained the largest and most stable manager for LOPFI. But as a percentage of the overall portfolio, it is overweight as a single manager. Mr. Middleton plans to meet with the Investment Committee on January 21, 2016 to determine the best course for reallocating assets to existing managers. Mr. Clark stated the Board's investment policy has the latitude such that the investment consultant can move assets among existing managers as long as the action is first discussed with the Chair of the Investment Committee and the executive director. Such activity would then be reported to the Board at their next meeting. To confirm this understanding Mr. Henson made a motion, seconded by Mr. Neal, to affirm the authorization for reallocating assets to existing managers, as described, is permitted. The motion passed unanimously.

Regarding the LOPFI building, Mr. Middleton stated that building management will periodically suggest improvements to the building to ensure the asset is properly maintained and advised that it is prudent for the Board to continue to reinvest in this facility. Mr. Clark agreed and stated that building management has advised that the heating and air vendor provided a proposal to replace the chilled/heating water valve packages. The previous vendor had recommended replacing only the actuators, but that approach is not a long term solution. And currently there are areas of the building that the temperature cannot be properly maintained. Mr. Clark recommended that the Board allow for the complete replacement of the valves at a cost of approximately \$36,000. Mr. Neal made a motion, seconded by Ms. Cook, to replace the water valves. The motion passed unanimously. Mr. Clark also informed the Board that Entergy sent an energy rebate check related to the LED retrofit. The check amount was \$19,755.45, which was roughly \$4,000 more than what was initially estimated.

September 2015 financial statements

Chairman Gaskill advised the financial statements have been available to the Board in the meeting packets and if there were any questions they could be addressed now. Mr. Lambert made a motion, seconded by Ms. Cook, to approve the September 2015 financial statements. The motion passed unanimously.

ASC Report

Chairman Gaskill stated the Administrative Services Committee (ASC) met on November 12, 2015 to review items for the 2016 proposed budget. The ASC acted on and recommends the following items:

1. Reviewed staff salaries, to make sure staff salaries are consistent with the State pay plan.
2. Approved a Cost of Living Adjustment (COLA) increase of 1% effective January 1, 2016.
3. Developed a Staff Longevity Pay Plan to consist of a one-time annual payment equal to one day for each year of employment above 10 years with a cap of 12 days. Eligibility for longevity pay also requires staff members to have a favorable performance review in the same calendar year for which longevity pay is awarded.

Mr. Henson made a motion, seconded by Mr. Lambert, to approve the ASC recommendations. The motion passed unanimously. Mr. Clark thanked the Board on behalf of the staff.

Review/approve proposed 2016 budget

Mr. Clark provided the Board with an overview of the proposed budget with a focus on the Office Supplies line item. The Office Supplies line item will permit the replacement of two (2) existing servers with one (1) server. The server replacement cost is to be shared with the PRB, which will result in an approximate expenditure of \$11,775 for each agency. This proposal includes the Board waiving the current \$10,000 ceiling to capitalize a line item. Staff visited with the auditors to ensure this was acceptable and they advised it was, as long as the Board agreed. The 2016 proposed budget totals \$11,247,401. Mr. Henson made a motion, seconded by Mr. Neal, to accept the proposed budget for 2016. The motion passed unanimously.

NCPERS Code of Conduct

Mr. Clark explained the purpose of the National Conference on Public Employee Retirement Systems (NCPERS) Code of Conduct is to encourage proper fulfillment of a board's fiduciary duties. This includes having reliable ethical expectations for professional service providers. Mr. Clark

recommended that the Board adopt the NCPERS Code of Conduct and to have the professional service providers adopt it as well. Mr. Henson made a motion, seconded by Mr. Neal, to approve to adopt the NCPERS Code of Conduct. The motion passed unanimously.

Proposed change to Rule 21

Mr. Clark discussed the proposed change to Board Rule 21. The proposed change was reviewed and approved by LOPFI legal counsel. Mr. Clark explained that this Rule covers the Purchase/Restoration of Service Credit. Currently any member who chooses to either purchase or restore service credit must ensure full payment for the transaction is completed at least ninety (90) days prior to the effective date of retirement. This timeframe was established when such transactions were completed via paper check processing. Having moved all such activity, including remitting payment(s), to the Member Portal, the ninety (90) day requirement is no longer necessary. The proposed change to thirty (30) days could accelerate the timeline for affected members who desire to retire earlier than the current provisions allow. In addition, the revised schedule is the most compressed timeframe that would still permit the retirement system to receive the final payment, update the member's record, and produce an accurate benefit calculation that uses the purchased/restored service credit. Mr. Neal made a motion, seconded by Mr. Baxter, to approve the proposed change to Rule 21. The motion passed unanimously.

Set dates/times for 2016 meetings

The Board agreed on the following dates/times for their 2016 meetings:

- January 21 – at 9:30 a.m. – Investment Committee Meeting
- January 21 – at 12:00 p.m. – Administrative Appeal Hearing
- March 10 – at 9:00 a.m. – Quarterly Meeting
- May 25 – at 9:30 a.m. – Investment Committee Meeting
- June 2 – at 9:00 a.m. – ASC Meeting
- June 2 – at 10:00 a.m. – Quarterly Meeting
- September 8 – at 9:00 a.m. – Quarterly Meeting
- December 1 – at 9:00 a.m. – Quarterly Meeting

The Board noted that Administrative Appeal Hearings typically coincide on the same date as regular scheduled LOPFI meetings. Since Trustees will be on site January 21, 2016, for an Investment Committee meeting the Board agreed to schedule an Administrative Appeal Hearing on that same date. Further, the Board recognized that scheduling an appeal hearing for a date other than a quarterly meeting is uncommon and is not expected to become the norm.

Election of Chair and Vice-Chair

Mr. Henson who serves as Vice-Chair, stated that this could be his last meeting due to his retirement and upcoming end of his appointment period. Mr. Neal thanked Mr. Henson for his tremendous support and advice. Chairman Gaskill agreed and stated that it has been an honor to serve with Mr. Henson. Mr. Henson stated that it has been an honor and privilege to serve on the Board for the police, fire, and for his brother Jim Henson. Mr. Neal nominated Mr. Gaskill to remain Chairman, seconded by Mr. Henson. The motion passed unanimously. Mr. Henson nominated Mr. Neal to become Vice-Chair, seconded by Mr. Lambert. The motion passed unanimously.

Upcoming Board appointments

Mr. Clark stated that due to Mr. Henson retiring, an active fire member would need to be considered to join the Board. A notification letter will be sent to the Governor's Office regarding Mr. Henson's retirement and open seat on the Board. Mr. Clark stated that Mr. Neal and Mr. Hill's positions are up for re-appointment, and they both expressed the desire to stay on the Board. A letter will be sent to the Joint Retirement Committee asking that each person be considered to remain on the Board.

With no further business, Chairman Gaskill adjourned the meeting at 10:54 a.m.

Respectfully submitted,

Approved 03/10/16

Tiffiney Lewis
Secretary to the Board