

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, September 3, 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
Tim Hill, Retired Police Employee Trustee
J. Scott Baxter, 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.

Approval of minutes

Mr. Baxter made a motion, seconded by Ms. Cook, to approve the June 4, 2015 minutes. The motion passed unanimously.

Disability appeal findings

See court reporter's transcription [here](#).

Physical fitness parameters follow up

Mr. Richard Ramsay, LOPFI legal counsel, provided an update regarding a request from the June meeting. The request was for LOPFI to have more stringent physical fitness requirements in terms of eligibility to join the retirement system. The request would have LOPFI make decisions as to which employees could be hired by an employer, based on the results of a pre-employment physical. Mr. Ramsay stated his review revealed LOPFI's code does not provide that level of authority to the retirement system. The proposal would take the Board beyond its statutory mandate and raises liability for LOPFI. Mr. Neal agreed and stated our purpose is to protect the retirement system and it is the responsibility of the cities to enforce the physical fitness requirements. Mr. Henson stated that the purpose of LOPFI is not to dictate to the cities who they can hire. There needs to be significant information provided to help educate employers with their hiring practices. Chairman Gaskill recognized Mr. Ed Jaros, Arkansas Professional Fire Fighters Association. Mr. Jaros stated he is disappointed in the tone of the discussion and does not feel a sense of desire or urgency from the Board to be proactive in terms of physical fitness requirements. Mr. Jaros stated that the reoccurring theme every time he attends a LOPFI Board meeting is that the rate of disabilities are much higher than what was anticipated. He also stated that as of yet, he has not seen any action taken by the Board to make real changes. Mr. Jaros stated that what he is asking of the Board is currently being done in other states. He stated the job of the trustees are to protect the retirement system. Mr. Jaros asked the Board to be proactive and obtain a census from other retirement systems. Mr. Henson asked Mr. Clark if he could poll other retirement systems to find out what their procedures are

for physical fitness requirements. Mr. Clark advised he would do so. Mr. Lambert made a motion, seconded by Mr. Henson, for Mr. Clark to poll other retirement systems and send the Board his findings. The motion passed unanimously.

Investment Consultant report

Mr. Larry Middleton, Stephens Inc., presented the second quarter investment report. Overall, LOPFI had a good second quarter. LOPFI's unaudited total portfolio value as of June 30, 2015 was \$1.629 billion, a \$15 million increase from the prior period. The standout year-to-date performer has been Wellington Management. Wellington manages \$243 million and this accounts for 14% of the total portfolio, which is too large for a single manager. As such, he plans to meet with the Investment Committee to determine the best course for paring down this amount. Mr. Middleton stated LOPFI has approximately \$83 million in the liquidation account and he will allocate \$30 million of this amount to several existing managers. Mr. Middleton alerted the Board that the next quarter might not be as positive since it is anticipated that the Fed will likely raise rates in the third quarter. And last, Mr. Middleton was pleased to advise that as of August 12, 2015, LOPFI formally concluded its securities lending. With the recent market volatility the timing for wrapping up the securities lending program was solid. Mr. Lambert stated he is very appreciative of the work Mr. Middleton and Stephens Inc. performs for LOPFI and noted that at the bottom of the market downturn in March 2009 to the end of June 2015, the total portfolio had increased by \$1 billion. This is an impressive result.

Centerton Police DROP

Chairman Gaskill recognized from the City of Centerton Mayor Bill Edwards, City Attorney Brian Rabal and Police Chief Rodney Reed. Mayor Edwards stated that he would like to retain Mr. Reed as Centerton's police chief and did not agree with LOPFI's interpretation of how the Deferred Retirement Option Plan (DROP) worked in terms of leaving one place of employment and moving to another. Mr. Reed stated that he was unaware of the terms when he enrolled in the DROP and did not understand why leaving Bethel Heights Police for Centerton Police was not allowed. Mr. Rabal asked the Board to defer a decision until the Attorney General's (AG's) Office has issued an Opinion on this matter. Chairman Gaskill recognized Mr. Ramsay who discussed the applicable laws and Board Rules that pertained to the LOPFI DROP. Mr. Ramsay also reviewed the affirmation that Mr. Reed completed when he enrolled in the DROP. Regarding the pending AG Opinion, Mr. Ramsay advised that past Opinions on DROP, while Local Plan-related, have relevance and are consistent with LOPFI's decision that Mr. Reed cannot continue employment given that he enrolled in the DROP while at Bethel Heights Police, later terminated that employment and subsequently was hired at Centerton Police. Further, Arkansas Courts have held that great deference is given to an agency in terms of interpreting their own laws and rules, unless the agency was clearly wrong. LOPFI is not wrong in its handling of this current case. Mr. Ramsay stated that LOPFI has followed its laws and rules and that we must comply with deferred income plans, which involves deferred income tax or risk non-qualification with the IRS. Chairman Gaskill stated that he understood the situation and that it was unfortunate that department heads may lose their jobs when a new mayor is elected, which is what Mr. Reed was concerned about when he left employment with Bethel Heights Police. The Board took no action to amend LOPFI's decision that Mr. Reed must terminate employment at Centerton Police due to his previous election of the DROP.

The Board recessed at 10:43 a.m. and reconvened at 10:50 a.m.

Actuarial report

Ms. Heidi Barry and Mr. David Hoffman, actuaries with Gabriel, Roeder, Smith & Company advised some Local Plans under LOPFI administration have expressed a desire to have

more predictability with their employer contribution rates from year-to-year. The information provided is not a recommendation for changes, rather, it is for informational purposes. Ms. Barry described the assumptions that are used to develop employer contribution rates, which include an 8% investment return and 4% wage inflation. The wage inflation assumption for future wage growth is important when using the level percent of payroll method to establish employer contribution rates. For Local Plans with lower than expected payroll growth, it means there is also a lower than expected receipt of the dollar amount of the employer contributions. The result is an increasing employer contribution rate as a percent of payroll. Ms. Barry also stated that new mortality tables have been released, which means those changes will have an effect on employer contributions. The mortality changes coupled with a possible lowering of the current investment return assumption that LOPFI uses will result in increased employer contributions. Therefore, the current 22% cap for the LOPFI-only portion of the employer contribution rates may need to be increased. Mr. Hoffman advised he and Ms. Barry will provide more information on these items at the December LOPFI meeting.

June 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. Henson made a motion, seconded by Ms. Cook, to approve the June 2015 financial statements. The motion passed unanimously.

Chairman Gaskill adjourned the meeting at 11:06 a.m.

Respectfully submitted,

Approved 12/10/15

Tiffiney Lewis
Secretary to the Board