

Minutes
Arkansas Fire and Police Pension Review Board (PRB)
Quarterly Meeting

The Arkansas Fire and Police Pension Review Board met on Wednesday, September 2, 2015 in the PRB office at 620 W. 3rd, Suite 200, Little Rock, Arkansas

Members Present: Rusty Watson, Police Employee Member, Chairman
Farris Hensley, Police Employee Member, Vice-Chairman
Bill Lundy, Fire Employee Member
Buddy Ledford, Public Member
Jimmy Bolt, Employer Member
Jim Gates, Fire Employee Member
Sara Lenehan, Employer Member
Steve Miller, Employer Member

Excused Member: Richard Drilling, DF&A Member

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

Chairman Watson called the meeting to order at 9:30 a.m. and recognized a quorum and notification of the news media. Mr. Hensley made a motion, seconded by Mr. Lundy, to excuse Mr. Drilling. The motion passed unanimously.

Approval of minutes

Mr. Bolt made a motion, seconded by Mr. Gates, to approve the June 17, 2015 minutes. The motion passed unanimously.

Projected Insolvent/At Risk

Mr. Jody Carreiro, actuary, Osborn, Carreiro & Associates (OCA), stated that two (2) Plans have been previously declared Projected Insolvent: Fayetteville Fire and White Hall Fire. Mr. Carreiro stated that a visit has been scheduled for September 29, 2015 with Fayetteville Fire to present a revised Special Report. White Hall Fire will be scheduled for a visit when their Special Report is completed. Mr. Carreiro will report the results of both visits at the December 2, 2015 PRB meeting.

Impact statements

Mr. Lundy asked Mr. Carreiro to provide an assessment on the two (2) impact statements that were agreed to be produced from the June meeting. Mr. Carreiro explained the first statement had to do with the possibility of establishing a contribution amount to Local Plans that would pay off their liabilities by the year 2028. For a 5-year period, the current amortization schedule, the annual employer contribution of all locally administered Local Plans would be \$16.1 million each year. The total valuation of unfunded liabilities would be \$42.8 million for that amortization period and the shortfall would be \$28.7 million. For a 12-year period, the required annual employer contribution would be \$20 million for each year and the shortfall

would be \$7.3 million. Mr. Carreiro stated that if the Board agreed to a required annual employer contribution, the cost for the 17 largest plans would make up the vast majority of that amount. Mr. Carreiro stated he will provide the Board greater details at the December 2, 2015 PRB meeting.

Mr. Carreiro explained the second impact statement was regarding a Cost of Living Adjustment (COLA) and discussed three (3) possible scenarios. The Board agreed to explore the first scenario, which encompassed the award of a COLA, of up to 3%, to be effective when the LOPFI investment results are achieved over a defined period such as three or five years. The COLA could be suspended or reduced to 0% if the desired investment results were not achieved and/or a certain funded percentage for the Local Plan was not attained/maintained. The funded percentage amount would need to be determined by the Board. Mr. Carreiro stated he will provide more details at the December 2, 2015 PRB meeting.

Board Rule 4

Ms. Lenehan stated it may be time to evaluate how benefit increases are handled under Board Rule 4. Mr. Carreiro provided a brief history of Board Rule 4, including its various amendments that have occurred through the years such as the addition of the Cash Flow Projection Valuation and the Alternate Cash Flow Projection Valuation models. Ms. Lenehan stated there needs to be a minimum threshold in place for Local Plans to be eligible for a benefit increase and that the members and employers rely on this Rule; however, they may not adequately understand the risks/impacts of a benefit increase. Ms. Lenehan asked what modifications to this Rule can be changed by the Board. Mr. Clark explained the Board has authority to change its Rules through defined steps. Currently that includes having modifications first reviewed by the Governor's office and then on to Legislative Counsel for ultimate approval. However, the Board has the latitude to adjust the parameters being discussed without making formal changes to the current Rule. After further discussion, Mr. Carreiro and Mr. Clark will work on a draft for how to handle Plans that are not well funded, yet request a benefit increase, and present it to the Board at the December 2, 2015 PRB meeting.

Local Millages

Ed Armstrong, Assistant Attorney General and PRB legal counsel, advised this topic came from an audience participant's question during the June meeting. The question raised was if a millage that was enacted by the voters and later reduced by city action, can the city increase the millage back up to the previously approved amount. Mr. Armstrong stated that such questions should be referred back to the location and their legal counsel. The PRB is not charged with providing private legal counsel. Having said that, the law, ACA 24-11-404 and 24-11-812, states that the city must have an election to raise the millage, so that the voters weigh in and provide their approval. Mr. Armstrong emphasized that it is best for each location to first consult their own legal counsel in order to determine the appropriate course of action.

June 2015 financial statements

Chairman Watson advised the financial statements have been available to the Board in the meeting packet and if there were any questions they could be addressed now. Mr. Gates

made a motion, seconded by Mr. Miller, to approve the June 2015 financial statements. The motion passed unanimously.

Review/approve benefit increase items

Mr. Clark reviewed the benefit increase inventory log and explained that all locations have submitted their payments and valuations are in process of being completed. Mr. Clark then explained the purpose of the two checklists in the meeting packet. The checklists are used for when a Local Plan requests an Alternate Cash Flow Projection Valuation. The checklist requires both Mr. Carreiro and Mr. Clark to review the information submitted by the Local Plan to ensure all items are in order and demonstrate that a PRB Recognized Investment Management and Trust Arrangement is used. For the two Plans in the meeting packet, Harrison Police and Osceola Fire, Mr. Carreiro and Mr. Clark concur that both provided the necessary information and can proceed. This now requires the Board's approval. Mr. Lundy made a motion, seconded by Mr. Gates, to accept the PRB Recognized Investment Management and Trust Arrangement for Harrison Police and Osceola Fire. The motion passed unanimously.

Summary of 2014 actuarial valuations

Lawrence Watts, actuary, (OCA) provided a summary of the December 31, 2014 Annual Actuarial Valuations. Mr. Watts stated that 124 valuations were performed for the locally administered Fire and Police Pension Plans. There were a total of 42 active members, 14 members on DROP and 2,257 benefit recipients. The total assets applied were \$240 million, with a total actuarial accrued liability of \$181 million resulting in Police Plans being 59% funded, Fire Plans 52% funded and Volunteer Plans 90% funded. Overall, the actual employer contribution amounts for the Local Plans continue to be less than the actuarially required contributions.

Mr. Carreiro stated that the implementation of Governmental Accounting Standards Board Statement (GASB) No. 67 is for the Local Plan's financial statements and GASB No. 68 is for the employer's financial statements. Mr. Carreiro explained the new benefit and asset information that is going to be added to the balance sheet of the annual actuarial valuations as required by GASB and provides a projection of an initial risk indicator (cross-over point) when income sources are low. Ms. Lenehan asked if this could be included in the cover letter that is sent to the Local Plans in an effort to make this information more prominent. Mr. Carreiro stated that he would present suggested language for this idea at the December, 2, 2015 PRB meeting.

With no further business, Chairman Watson adjourned the meeting at 11:47 a.m.

Respectfully submitted,

Approved 12/02/15

Tiffiney Lewis
Secretary to the Board