

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

The Arkansas Fire and Police Pension Review Board met on Wednesday, September 3, 2014 in the PRB office at 620 W. 3rd, Suite 200, Little Rock, Arkansas

Members Present: Rusty Watson, Police Employee Member, Chairman
 Bill Lundy, Fire Employee Member
 Jim Gates, Fire Employee Member
 Mayor Chris Claybaker, Employer Member
 Jimmy Bolt, Employer Member
 Richard Drilling, DF&A Member
 Buddy Ledford, Public Member

Teleconference: Farris Hensley, Police Employee Member, Vice-Chairman

Excused Member: Mayor Jackie McPherson, Employer Member

Staff Present: David Clark, Executive Director
 Tracy Warfe, Assistant Director
 Crystal Holsted, Secretary to the Board
 Jen Sines, Secretary to the Board

Chairman Watson called the meeting to order at 9:31 a.m. and recognized a quorum and notification of the news media.

Approval of minutes

Mr. Claybaker made a motion, seconded by Mr. Bolt to approve the June 11, 2014 minutes. The motion passed unanimously.

2014 Premium Tax report follow up

Jody Carreiro, actuary, Osborn, Carreiro & Associates (OCA), stated that he would like to table the "At Risk" update until after the Summary of 2013 Actuarial Valuations topic. The Board agreed. Mr. Carreiro proceeded with an update of the Premium Tax report. Mr. Carreiro stated all Premium Tax distributions were made on time. In addition, a development occurred after the June Board meeting. It was learned that \$852,377.30 previously allocated to the state police retirement fund was returned to the Premium Tax formula. This was due to an incorrect accounting of reinstatement fees on the state police retirement fund side. These monies will stay in the formula for use in next year's additional allocation. Mr. Drilling stated these monies would not be allocated to other needs as they are specifically assigned to the Premium Tax formula for police and fire retirement purposes.

Mr. Lundy made a motion, seconded by Mr. Ledford to excuse Mr. McPherson. The motion passed unanimously.

2015 Legislative Session

Mr. Claybaker stated that he would like the Board to support two (2) constitutional amendments as they pertain to pension funding needs, Amendments 62 and 78. Chairman Watson recognized Paul Young, Arkansas Municipal League (AML). Mr. Young stated that the AML policies and goals are updated and renewed each year. The AML has issued resolutions to support finance reform to Amendments 62 and 78. All changes would be local option, which means the voters at the local level would be the ones to approve any changes. One of the changes would be to increase millages for pension needs from 1mil to 5mil. Another would give local governments opportunities to amend existing bond authority. And another would extend the financing period for short-term debt. Mr. Bolt stated that this would lower the cost of doing business and free up money. The Board asked Mr. Young to provide a draft of the amendments in time for review by the PRB at their December 2014 meeting. Hopefully the Board will be able to support the changes once a review of the draft language occurs. Mr. Young agreed to provide this information.

Mr. Hensley stated that he would like the Board to look at a legislative remedy to level out the variation from year-to-year in the additional allocation distribution. Mr. Carreiro stated that he will bring proposals to the December 2014 PRB meeting.

Summary of 2013 actuarial valuations

Lawrence Watts, actuary, OCA gave the presentation. Mr. Watts stated that 132 valuations were performed on Fire and Police Pension Funds as of December 31, 2013. There are a total of 47 active members, 21 members on DROP, and 2,381 benefit recipients. The total assets applied were \$243 million, with a total actuarial accrued liability of \$433 million resulting in police plans being 57% funded, fire plans 52% funded and volunteer plans 89% funded. Mr. Claybaker asked what is considered healthy for closed retirement plans. Mr. Watts stated that closed plans should be 100% funded; however, 80% funding is considered healthy. Mr. Lundy asked why the volunteer plans funding percentage decreased from 1997-2007. Mr. Carreiro stated that in 2003 the increase in the minimum monthly benefit payment for Local Volunteer Fire Plans going from \$30 to \$100 and the locations not contributing the recommended contribution rate caused the rise in the unfunded percentage during 1997 through 2007. Local Plans are contributing only 36% of the recommended contributions. Mr. Watts extended his thanks to staff for providing accurate, timely reports with clean data. Mr. Lundy asked if there was hope that any of these plans would be in better shape 5 years from now if they exceed the 5% investment assumption. Mr. Watts stated that plans will not be able to earn their way out of funding problems through investment earnings alone. Plans that have a good funding source (i.e. a growing millage) that allows them to make the mandatory contributions will be in better shape. Mr. Watts concluded the presentation.

GASB 67 & 68

Mr. Carreiro stated that GASB 67 is for the Local Plans' financial statements and GASB 68 is for the employers' financial statements that will be effective December 31, 2014. The discount rate must be blended if a plan is projected to deplete assets (cash flow projection). Mr. Carreiro discussed the differences of an independent audit verses a Legislative Audit regulatory audit. Currently Legislative Audit is determining how to recognize the pension liability on the employers' balance sheet. Independent audits will require cities to include the Local Plan's unfunded liability on their financial statements. Mr. Bolt stated that the changes will make the financial reports cleaner and easier to read. Mr. Carreiro stated that some employers will look like they have no money, which may cause their financial statements to be viewed in an unfavorable light.

Projected insolvent/At Risk funds update

Mr. Carreiro reviewed the content of the previously issued “At Risk” reports. The PRB agreed that the content of the previous report was sufficient and the same format should be used for future notices, including a request for the plan to respond with their plan of action. Mr. Carreiro advised two Local Plans either Projected Insolvent, Newport Police, or At Risk, Green Forest Fire, are in the process of completing consolidations with LOPFI. Also, the Benton City Council is considering contributing additional millage to the Benton Local Fire Pension Fund, which should help with their needs.

Discuss RFQ process for actuarial services

Mr. Hensley stated that he would like to perform due diligence as it relates to the Board’s professional service providers. The letter OCA provides every two years that outlines the cost and details of the actuarial services will expire at the end of fiscal year 2015. Therefore, he would like to table this discussion until the March 2015 Board meeting. There were no objections from the Board.

Financial statements

Mr. Gates made a motion, seconded by Mr. Drilling to approve the June 2014 financial statements. The motion passed unanimously.

Review/approve benefit increase items

Mr. Clark reviewed the benefit increase inventory log and explained this was for informational purposes only. Next, Mr. Clark reviewed the Osceola Fire Investment Management and Trust Arrangement. This type of arrangement is used when a Local Plan applies for a benefit increase using an alternate cash flow valuation. A review of the documents for this type of arrangement was completed and approved by both Mr. Clark and the actuaries. It now needs to be approved by the Board. Mr. Lundy made a motion, seconded by Mr. Drilling to accept the Investment Management and Trust Arrangement for Osceola Fire. The motion passed unanimously.

With no other business to discuss Chairman Watson adjourned at 10:55 a.m.

Respectfully submitted,

Approved 12/03/14

Jen Sines
Secretary to the Board