

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 6, 2018 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  
Bev Lambert, Public Trustee  
J. Scott Baxter, Police Employee Trustee  
Damon Reed, Fire Employee Trustee  
Tim Hill, Retired Police Employee Trustee  
Mayor Gary Baxter, Employer Trustee

Staff Present: David Clark, Executive Director  
Laura Nixon, Membership Coordinator  
Lesley Weaver, Secretary to the Board

Chairman Gaskill called the meeting to order at 9:30 a.m. and recognized a quorum and notification of the news media.

Approval of minutes

Mr. J. S. Baxter made a motion, seconded by Mr. G. Baxter, to approve the September 13, 2018 LOPFI meeting minutes. The motion passed unanimously. The Board also reviewed the November 8, 2018 Administrative Services Committee minutes.

Legal Update

Mr. Richard Ramsay, legal counsel for LOPFI, gave an update on the request to obtain a favorable Determination Letter from the Internal Revenue Service (IRS). Mr. Ramsay stated that the IRS has approved the amendments to Board Rule 35 that the Board will be asked to adopt later in this meeting. Mr. Ramsay stated Mr. Clark has executed the appropriate closing documents and has the receipt for payment of the required fee. Mr. Ramsay advised in approximately 60 to 90 days the IRS will issue LOPFI the Determination Letter. The Board thanked Mr. Ramsay for his update.

2019 Legislative Session

Mr. Clark reviewed the proposed legislative changes to LOPFI's benefit structure that the Board approved at the September 2018 meeting. All changes have been reviewed and approved by legal counsel and are as follows:

1. Amend the eligibility condition and the amount of service credit available under the Simultaneous Service Credit provision. The proposed changes would apply to new members; not current members. Members will be required to first have at least ten (10) years of actual LOPFI service credit to be eligible for simultaneous service credit, and will be limited to a total of five (5) years of simultaneous service credit. The proposed changes would be effective July 1, 2019. In addition, section (c)(1) was amended as a technical change. Current code states an employer has up to one (1) year to certify any periods of prior employment at the time LOPFI coverage is adopted. LOPFI no longer

allows prior periods of employment to be certified for new departments. Also, the ten (10) day timeline matches language in 24-10-302.

2. Eliminate Other Service Credit (OSC) Recognition provision for current and future members. All OSC currently standing to a member's account would not be affected; this change would simply remove the ability to recognize additional OSC effective April 1, 2019.
3. Amend aspects of the disability process. All disability applications must be received by LOPFI no later than 30 days after termination of active membership, and approved disability benefits would not be retroactive before the date that a retirement application is received. These changes would be effective July 1, 2019.
4. Eliminate the increase in Final Average Pay (FAP) used to calculate deferred retirements. This change would result in a deferred benefit being calculated using the FAP in place at the time a member left LOPFI-covered employment. This amendment would apply to all current and future terminated participants with an annuity effective date on or after July 1, 2019.

In addition, there are two new proposed changes in the disability section of code for the Board to consider. The changes are as follows:

1. The first proposed change is to address the increasing cost of disabilities and would have the Board classify all duty disability retirements, with an effective date on or after July 1, 2019, as either hazardous or non-hazardous. The base benefit level for non-hazardous cases would be 30% instead of 65%, unless the accrued service credit produces a monthly benefit that exceeds 30%, then the higher benefit amount would be awarded. After discussion from the Board, Mr. Neal made a motion, seconded by Mr. Reed, to table this proposal. The motion passed unanimously.
2. Mr. Ramsay presented the second proposed change, intended to address off-duty employment cases where a member was being paid as an employee or independent contractor by an entity other than their LOPFI-covered employer. The basis for this change is a recent appellate court decision that was unfavorable towards LOPFI. In that case, an applicant became disabled while working at an off-duty private employer. The Board denied the award of a duty disability benefit, but awarded a non-duty disability benefit. The lower court agreed with the Board; however, on appeal, the applicant prevailed and was awarded a duty disability benefit. After discussion from the Board, Mr. J. S. Baxter made a motion, seconded by Mr. Reed, to not take any action regarding off-duty employment cases. The motion passed unanimously.

Mr. Clark advised in recent legislative sessions the Board directed him, on behalf of the Board, to oppose any legislative changes that would incur a cost. Mr. Clark asked if that same directive applied to the 2019 session. Mr. J. S. Baxter made a motion, seconded by Mr. Reed, for Mr. Clark to oppose any legislative change that incurs a cost or any legislative change that changes benefits. The motion passed unanimously.

#### Investment Consultant Report

Mr. Larry Middleton, Stephens Inc., presented the third quarter investment report. LOPFI's total portfolio value as of September 30, 2018 was \$2.183 billion. Mr. Middleton stated the portfolio is up 9.45% for the trailing 12 months. As of close of business on December 5, 2018, the unaudited total portfolio value was \$2.124 billion. The Board thanked Mr. Middleton for the report.

#### Actuarial Discussion

Mr. David Hoffman and Ms. Heidi Barry, actuaries with Gabriel, Roeder, Smith & Company (GRS), reviewed proposed changes in policy for amortization periods for Local Plans

under LOPFI administration and the investment return assumption. GRS recommends that for new consolidations, that the closed amortization period selected by the location be either 15 years or 20 years. Currently locations have a choice of either 15 years or 25 years. Given that the future period over which benefit payments will occur continues to shorten, it is appropriate to reduce the 25-year option to 20 years. Also, when a consolidated Local Plan's amortization reaches five years, gains and losses occurring in later years be amortized over separate five-year closed periods, which will help reduce volatility in the employer contribution that would otherwise result. And last, use of the current assumed rate of return of 7.50% assumption falls outside the range of reasonable results. A 6.25% to 7.00% assumption and even a 7.25% assumption remains reasonable. Mr. Reed made a motion, seconded by Mr. Lambert, to accept the proposed 20-year amortization schedule for new consolidations beginning with the 2019-year. The motion passed unanimously. Mr. Neal made a motion, seconded by Mr. Lambert, to continue with the current 7.50% assumed rate of return and re-review at the March 2019 LOPFI meeting. The motion passed unanimously.

#### Board Rules Amendments 16 and 35

Mr. Clark reviewed the proposed changes to Board Rules 16 and 35. The proposed changes were reviewed and approved by LOPFI legal counsel. Mr. Clark explained the updates:

Rule 16: This Rule provides details for handling disability retirement cases. There are two (2) areas with changes. The first proposed change states that evidence for a disability application must be provided by the applicant. The second change introduces more clarity as to an applicant's responsibility to show a causal connection between their LOPFI-covered employment and the duty disability application. Mr. G. Baxter made a motion, seconded by Mr. J. S. Baxter, to approve the proposed changes to Rule 16. The motion passed unanimously.

Rule 35: This Rule covers information required by the IRS for LOPFI's compliance as a tax-qualified retirement plan. The IRS requires additional language be added to the Rule that covers the adoption of actuarial assumptions and the easy access of those assumptions via the Board's meeting minutes. The IRS also requires the Board to re-adopt this Rule at today's meeting to show that the language in the Rule is current and has fully encompassed the regulatory items needed for a Determination Letter. Mr. J. S. Baxter made a motion, seconded by Mr. Neal, to approve the proposed change and to re-adopt Rule 35. The motion passed unanimously.

#### September 2018 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. J. S. Baxter made a motion, seconded by Mr. Lambert, to approve the September 2018 financial statements. The motion passed unanimously.

#### ASC Report

Chairman Gaskill stated that the Administrative Services Committee (ASC) met on November 8, 2018, and approved, effective January 1, 2019, a 2.3% cost of living adjustment (COLA) increase for the entire staff. Mr. J. S. Baxter made a motion, seconded by Mr. G. Baxter, to approve the ASC recommendations. The motion passed unanimously. Mr. Clark thanked the Board.

#### Proposed 2019 Budget

Mr. Clark reviewed the proposed 2019 LOPFI budget, which totals \$14,517,354. Mr. Clark stated that for the 2019-year the LOPFI-only funded staff position, Membership Coordinator, will be reclassified to Membership Services. This change is the result of the pending promotion of the Membership Coordinator, Laura Nixon, to the Assistant Director role, assuming the Board concurs with this promotion. Mr. Clark also advised the proposed budget allows for the replacement of all workstations, hardware for network security, and a new failover device for phone service. These items, including labor, will have their costs shared with the PRB. LOPFI's portion of this cost is budgeted at \$19,026.00. Mr. G. Baxter made a motion, seconded by Mr. Hill, to approve the proposed budget for 2019. The motion passed unanimously.

#### Set dates/times for 2019 meetings

The Board agreed on the following dates/times for their 2019 meetings:

- March 7 - at 9:30 a.m. - Quarterly Meeting
- June 6 - at 9:30 a.m. - Administrative Services Committee Meeting
- June 6 - at 10:00 a.m. - Quarterly Meeting
- September 12 - at 9:30 a.m. - Quarterly Meeting
- December 5 - at 9:30 a.m. - Quarterly Meeting

#### Upcoming Board Appointments

Mr. Clark stated we have two (2) Trustee positions coming up for re-appointment effective January 1<sup>st</sup>. Mr. Clark stated that both Chairman Gaskill and Mr. Lambert have agreed to let us submit their names for consideration. Letters will be sent to the Governor and Joint Retirement asking that both Trustees be considered for re-appointment.

With no further business to discuss, the Board adjourned at 11:24 a.m.

Respectfully submitted,

Approved 03/07/19

Lesley Weaver  
Secretary to the Board