

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, March 12, 2020 in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: Mayor Mike Gaskill, Employer Trustee, Chairman
John Neal, Retired Fire Employee Trustee, Vice-Chairman
J. Scott Baxter, Police Employee Trustee
Damon Reed, Fire Employee Trustee
Mayor Gary Baxter, Employer Trustee
Andrew Branch, Public Trustee

Excused Member: Tim Hill, Retired Police Employee Trustee

Staff Present: David Clark, Executive Director
Laura Nixon, Assistant Director
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. Chairman Gaskill advised Mr. Hill needed to be excused.

Approval of Minutes

Mr. Neal made a motion, seconded by Mr. J. S. Baxter, to approve the December 5, 2019 LOPFI meeting minutes. The motion passed unanimously. The Board also reviewed the December 12, 2019 Disability Advisory Committee minutes.

Disability Advisory Committee Report

Mr. J. S. Baxter, Chairman of the Disability Advisory Committee (DAC), stated the DAC met on December 12, 2019 and is scheduled to meet again on Wednesday, March 18, 2020. Mr. Clark advised staff researched comparable retirement systems for best practices and how other systems are managing their disability experiences per the DAC's request. Mr. Clark stated the DAC is researching the possibility of adding a disability load to the employer contribution rate that will not be funded by Premium Tax, for locations with greater instances of disabilities. A best practices model could be provided to employers to help promote healthy hiring practices and encourage healthy behaviors throughout a member's career. Chairman J. S. Baxter advised the DAC is working on recommendations to be presented to the Board at the June 2020 meeting.

Actuarial Assumptions Follow-Up

Mr. David Hoffman and Ms. Heidi Barry, actuaries with Gabriel, Roeder, Smith & Company (GRS) discussed confirming the investment return and wage growth assumptions and establishing the maximum LOPFI Paid Service employer contribution rate for calendar year 2021. The Board could choose whether to change the assumptions at this time or not; however, a decision is needed in order to perform the December 31, 2019 Actuarial Valuations. Mr. Clark asked if the Board needs to consider changing the maximum employer contribution rate of

23.5% by increasing it to 24% in order to maintain the current margin for adverse experience since changes to employer contribution rates cannot exceed 1% from year-to-year. Holding the current maximum rate as is means it will be calendar year 2022 before any increase could occur, if needed. Ms. Barry advised there is no urgency to increase the maximum employer contribution rate at this time. Mr. Hoffman agreed that the current rate of 23.5% is acceptable. After discussion from the Board, Mr. G. Baxter made a motion, seconded by Mr. Neal, to remain at a 7.50% assumed rate of return, a 3.25% wage inflation assumption, and a 23.5% maximum LOPFI Paid Service employer contribution rate for calendar year 2021. Mr. Branch opposed, with the remaining Board members voting for approval; the motion passed.

Investment Consultant Report

Mr. Larry Middleton, Stephens Inc., presented the fourth quarter investment report. Mr. Middleton stated the 2019 calendar year return was 19.00%. The one-year number should be helpful to the actuarial discussion that just occurred. However, Mr. Middleton advised that it is important to recognize the recent market volatility will make for a challenging time certainly in the near term. The total portfolio was down around an estimated 5.5% since the middle of February. At this stage we do not know how long this present environment will last. On a bright note, proceeds from one of the managers that was terminated during the fourth quarter of 2019 have been held in cash. While we generally do not maintain the level of cash that is on account, this action has protected approximately \$25 million from loss due to the market performance. The Board thanked Mr. Middleton for the report.

Investment Monitor Report

Mr. John McCann, AndCo Consulting, reviewed the Executive Summary report as of December 31, 2019. Mr. McCann stated that the year-to-date net return for 2019 was 19.00% versus the System's index of 19.72% (this number is a gross return); the three (3) year return was 9.89% versus the index of 9.46%; and the five (5) year return was 7.13% versus the index of 7.17%, which overall were good numbers. Mr. McCann briefly reviewed each of the individual managers' results including an equity analysis that showed the portfolio was broadly diversified and consistent with the mandates of policy. The Board thanked Mr. McCann for the reports.

Vesting

Chief Keith Humphrey of the Little Rock Police Department and Chief Delphone Hubbard of the Little Rock Fire Department presented a request that Public Safety Executives hired from outside the state of Arkansas at a minimum age of 50 be eligible for retirement benefits with 5-7 years of LOPFI service. Another option presented was to allow any person who is hired at a minimum age of 50 to use up to 5 years of transferable honorable service from their previous organization toward the 10-year vesting requirement. After discussion from the Board, Mr. Branch asked that a cost analysis be performed showing the cost of purchasing 5-7 years of service from a previous organization for a member at age 50 and that the analysis be presented at the June 2020 meeting. Mr. Clark advised that such a purchase will be very expensive, well into the six figures, for a member since the purchase would either make the member immediately eligible for retirement or move them much closer to eligibility. Mr. Clark advised that that comment was simply to ensure everyone was aware of that detail. Mr. Clark advised that the cost analysis would be provided at the June 2020 meeting and encouraged both Chief Humphrey and Chief Hubbard to access the June Board meeting packet from the website in order to see the results of that analysis.

Update Rules 32 and 35 and adopt new Resolution

Mr. Clark reviewed the proposed amendments to Board Rules 32 and 35. All proposed amendments were reviewed and approved by LOPFI legal counsel. Mr. Clark explained the amendments:

Rule 32: This Rule provides for the administration of the LOPFI DROP and DROP accounts for Local Plans administered by LOPFI. The changes reflect a new federal provision signed into law in December 2019, which is named the Setting Every Community Up For Retirement Enhancement Act of 2019 (SECURE Act). The SECURE Act amended the age 70 ½ provision for a required minimum distribution (RMD). Anyone who turns age 70 ½ in 2020 or later can now defer an RMD as late as April 1st of the calendar year following the attainment of age 72.

Rule 35: This Rule provides details for compliance with the Internal Revenue Code regarding LOPFI's operation as a qualified plan. Like Rule 32, the changes in Rule 35 accommodate the age 72 aspect from the SECURE Act.

Mr. Clark went on to review the Resolution that the DAC passed. The DAC requests the Board to adopt the Resolution, which expresses:

- The desire to protect the retirement benefits from impairment for the career members of LOPFI, including the compound cost of living adjustment.
- The recognition that attractive retirement benefits are an important recruitment and retention tool for the LOPFI covered police and fire departments.
- The recognition that the covered employers receive significant funding assistance to defray part of their retirement contribution costs.
- A recognition that the contribution costs for the covered employers should be reasonable in relation to the benefits offered by LOPFI.
- The importance of achieving a fully funded status and maintaining that state over the long term, while holding the amortization period to as short of a timeline as possible.
- The covered employers should seek the most physically, mentally, and emotionally strong candidates as police officers and firefighters and to promote healthy habits throughout the entirety of their careers.

Mr. Branch made a motion, seconded by Mr. Reed, to approve the amendments to Board Rules 32 and 35 and to adopt the Resolution developed by the DAC. The motion passed unanimously.

2021 Legislative Session

Mr. Clark stated recommendations from the DAC will be provided to the Board at the June 2020 meeting along with any other items that may need to be presented.

December 2019 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. G. Baxter made a motion, seconded by Mr. Branch, to approve the December 2019 financial statements. The motion passed unanimously.

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

Respectfully submitted,

Approved 06/11/2020

Lesley Weaver
Secretary to the Board