

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
NOVEMBER 21, 2007**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, November 21, 2007 at 9:00 a.m., in the Kie D. Hall Conference Chamber, 124 West Capitol, Little Rock, Arkansas. Mr. Don Zimmerman presided.

QUORUM PRESENT:

Mr. Zimmerman recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Don Zimmerman (Municipal Employee Member), *Chair*, North Little Rock, AR
Mr. Artee Williams (State Employee Member), *Vice Chair*, Director, Dept. of Workforce Services
Mr. Larry Fratesi (County Employee Member), Pine Bluff, AR
Ms. Ouida Wright (State Employee Member), Retired, Conway, AR
Mr. Maurice Henry (School Employee Member), Fulton, AR
Mr. Mike Creekmore, State Treasurer's Office (*proxy*)
Mr. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Mr. Steve Kelly, Deputy State Auditor (*proxy*)
Mr. Bill Gaddy (State Employee Member), Retired, Little Rock, AR
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Hon. Martha Shoffner (Ex-Officio Member), State Treasurer
Hon. Jim Wood (Ex-Officio Member), State Auditor

VISITORS PRESENT:

Mr. John Krimmel, Callan Associates, Inc.
Mr. Norm Jones, Gabriel, Roeder, Smith & Company
Mr. Mita Drazilov, Gabriel, Roeder, Smith & Company
Ms. Estella Smith, Bureau of Legislative Research
Ms. Mary Cameron, Bureau of Legislative Research
Ms. Kay Durnett, Arkansas State Employees Association
Ms. Erika Gee, Attorney General's Office
Ms. Judy West, District Court Clerk
Ms. Pam Hickman, AR Game and Fish Commission
Mr. Jody Carreiro, Osborn, Carreiro & Associates, Inc.
Mr. Michael Wickline, Arkansas Democrat-Gazette
Mr. David Fuqua, Attorney – Hope, Fuqua & Campbell
Ms. Deidra Parish, Attorney – Hope, Fuqua & Campbell
Ms. Adrienne Moore, Daughter of Brenda J. Moore

STAFF PRESENT:

Ms. Michele Williams, Deputy Director, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Mr. Craig Blackard, Internal Auditor, APERS
Ms. Linda McGrath, Executive/Administrative Secretary, APERS

NEWS MEDIA NOTIFIED:

A letter of notification of the APERS Board Meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Radio Station KARN, and Radio Station KAAY. This letter of notification is pursuant to A.C.A. 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the meeting of October 1, 2007 were mailed to each APERS Board member for review. On a motion made by Mr. Fratesi and seconded by Mr. Weiss, the Minutes were approved as submitted.

ANNUAL ACTUARIAL VALUATION AS OF JUNE 30, 2007 – Presented by Mr. Norm Jones and Mr. Mita Drazilov of Gabriel, Roeder, Smith and Company

Mr. Jones recapped the preliminary results that were presented at the August meeting, confirming that there was \$676 million in unfunded liabilities that were to be amortized over 18 years. This will require an employer contribution rate of 11.01% for Fiscal Year 2008.

The retirement system presently covers 43,613 active members, 77% of which are expected to receive monthly retirement benefits in the future. Mr. Jones calculated that within 7 years, over half of the covered membership would consist of new hires (i.e. people not in the system as of June 30, 2007) and in 10 years, half of the current members will likely be retired.

He stated that for accounting purposes separate accounts must be maintained for retirees, deferred annuitants and employer accumulation account. He reminded the Trustees that they needed to approve the annual transfer to “true up” these accounts so the CAFR could be completed. In addition, Mr. Jones recommended that the Board approve the annual transfer to cover the remaining members of the General Assembly. He stated that the computed cost for this year amounted to \$1,101,585. Mr. Weiss motioned to approve the recommended transfers and he was seconded by Mr. Henry. Motion carried.

Currently the plan is 89% funded. This is slightly improved from last year and is expected to increase again over the upcoming year. Mr. Jones stated that the fund has trended up nicely since its lowest point in 2005 and compares nicely against other large public sector retirement funds in the U.S. that currently average in the low 80's. At this time, APERS still has over \$183 million of unrecognized gains that will be included as of June 30, 2008.

Finally, Mr. Jones discussed the major risk areas and how they contributed to the change in APERS' financial position; pay increases are down, investment returns are way up, service retirements, disabilities and withdrawals showed small gains, while death-in-service incidents were very close to the actuarial prediction.

Mr. Drazilov took over at this point and explained how the absorbing of the old District Judges Retirement System had added a new component to the APERS Valuation. He presented the history of ADJRS to the present and explained how, for actuarial purposes, the plan was broken into two parts: Old Plan (benefits accrued by district judges through December 31, 2004) and the New Plan (benefits accruing for district judge service beginning January 1, 2005). Furthermore, the Old Plan is broken down into two separate categories: “Paid-off Old Plan” refers to employers with no unfunded liabilities in the Old Plan as of June 30, 2007 and “Still-Paying Old Plan” for employers that still had unfunded accrued liabilities in the Old Plan as of June 30, 2007. The biggest actuarial difference between the Old Plan and the New Plan is the Old Plan is separately experience-rated, with each employer paying for their own past liabilities based on a 30-year amortization rate (now down to 28 years). In the “New Plan” all employers pay the same percent of payroll.

Mr. Drazilov stated that during Fiscal Year 2007, three entities had fully paid off their “Old Plan” liabilities: Blytheville, Pine Bluff and Siloam Springs. Approximately three-quarters of the district judge employers still owe a balance on their “Old Plan.” He added that for its final Fiscal Year ADJRS' investments had returned over 13.5%, against an actuarial assumption of 7%. On June 30, 2007, the assumption rate was increased to 8% to make district judges consistent with the other APERS divisions. As of June 30, 2007, the district judges division of APERS covers 73 active members with an average pay of \$46,121. Currently the district judge's portion of the system is 51.6% funded; up nicely from 31.4% in 2005 and 40.7% in 2006. Finally, Mr. Drazilov detailed the development of the employer contribution rate for the “New Plan” participants for Fiscal Year 2008 and recommended the rate be set at 15.48%; down from 18% in the previous years.

After a short discussion regarding the concept of financial economics, Mr. Weiss motioned to adopt the actuarial suggested employer rates for Fiscal Year 2008. Mr. Kelly seconded and the motion passed unanimously.

Ms. Williams asked for Board's clarification on when the computed employer rates for purchase of past service would go into effect. She recommended January 1, 2008 would be

the most logical. Mr. Fratesi motioned to approve that date and was seconded by Mr. Henry. Motion carried.

QUARTERLY REPORT FOR THE PERIOD ENDING SEPTEMBER 30, 2007 - Presented by Mr. John Krimmel of Callan Associates, Inc.

Mr. Krimmel began by reviewing some of the topics that had been highlighted during the APERS Investment Retreat the previous month; review of quantitative strategy practices, international equity changes and possible new Fixed Income strategies. He outlined the volatile investment environment of the third quarter of 2007, especially in light of the sub-prime meltdown that started in August. Domestic Fixed Income was the place to be, returning 2.84%. Large Cap Growth did well, 6.4%, as the “flight to quality” hurt Small Cap Growth (2.98%). Mr. Krimmel expressed his opinion that the plan was over-all positioned quite well.

Target Asset Allocation and the Actual Allocation were close in line and normal activities will bring them even closer in the upcoming quarter. The fund had a net growth of approximately \$93 million during the quarter and returned 16.1% for the last twelve months, bringing the total value of the portfolio to well over \$6 billion. This return placed them in the top third of all Public Funds for the year. Mr. Krimmel reminded the Trustees that, as they had discussed at the November Retreat, he would bring them back a report on International Equities along with some recommendations at the February meeting.

In regards to questions about Goldman Sachs’ dismal performance, Mr. Krimmel referred to a memo before the Trustees in which he described the results of an on-site visit with Goldman Sachs in mid-November 2007, and commented that their returns have been in the bottom decile of their peers for the past 5 years. This quantitative manager is in the process of changing their securities analysis, revamping their optimizer and switching their trading process. In short, Mr. Krimmel stated that they were not the same firm that APERS had hired 2½ years ago and if APERS wanted to end their relationship with this manager, Callan would support the decision. At the very least, Mr. Krimmel strongly suggested that APERS remove a portion of Goldman Sachs funding. He offered some suggestions on which managers APERS could transfer these funds into in order to remain within the Target Asset Allocation.

After some discussion, Mr. Fratesi motioned to close out the Goldman Sachs portfolio and transfer \$50 million to the Stephens Small Cap fund and place the remainder in the Index fund, as recommended by Mr. Krimmel. He was seconded by Mr. Weiss and the motion carried unanimously.

Mr. Krimmel commented that APERS Fixed Income portfolio was challenged during the last quarter, however over 75% of all public funds were outperformed by the Lehman Brother’s Aggregate. While Callan was not impressed with APERS’ Fixed Income manager’s results, given the recent investing environment, they were acceptable. Over the three and five year periods, these Fixed Income managers have performed quite well.

The Alternatives portfolio has done quite well, notwithstanding the volatile quarter of Horrell. However, the other portfolio more than compensated for these losses when measures against the benchmark. Overall, Mr. Krimmel stated, the APERS’ portfolio as a whole has performed well and is positioned nicely.

Mr. Henry suggested that, in the future, if a manager has such bad three year numbers as Goldman Sachs has had for the last 36 months, then the Trustees should call them in to explain themselves. Ms. Stone added that she had never in 25 years, urged divestment of a new product so soon after hiring, but in her opinion this portfolio is completely broken.

SUMMARY OF RETIREES FOR SEPTEMBER, OCTOBER & NOVEMBER 2007

Ms. Stone pointed out that due to the ever increasing number of retirees, there was currently a 6-week waiting period to get an appointment with a retirement counselor. She acknowledged the delay was only going to get longer as more and more people began to retire and that she planned to ask for more personnel positions to be granted to APERS to ease the crush that would likely continue until 2010, according to the actuaries.

BENEFITS APPEAL: MS. BRENDA MOORE – Presented by Ms. Erika Gee, Attorney General’s Office & Mr. David Fuqua, Hope, Fuqua & Campbell

Mr. Fuqua, representing Ms. Moore’s survivors, began by reviewing the case for the Trustees. He stated that Ms. Brenda Moore was a vested member of APERS who had been murdered by her husband in 1986 and her children subsequently were denied benefits, due to a “perfect storm” of circumstances. In November 1985, Ms. Moore went on maternity leave, but after exhausting her accrued vacation and sick leave, she finished her pregnancy on leave with pay. In March 1986, she returned to work and was murdered a short time later. Mr. Fuqua commented that the unusual facts in the case led to Staff’s erroneous conclusion to deny benefits since she lacked credit in the 12 months immediately preceding her death.

He felt the Staff’s decision was unfair, not due to their interpretation, but due to the fact that the statute that governed the situation was based on the premise that a sick worker could eventually die from their illness. Mr. Fuqua felt this type of tragic event had never been considered at the time the statute was written, and indeed it would be impossible to write statutes that would cover every circumstance. He pointed out that the Legislature had since amended the requirement of having credited service for the 12 months immediately preceding the member’s death, which would now allow the family to be eligible for survivor benefits.

Ms. Gee distributed copies of the statute (§24-4-608) pertaining to the case and put into the facts in context. She stated that APERS, as a state agency, is required to consistently implement the statutes as they were written. In this instance, Staff correctly interpreted that at the time of Ms. Moore’s death, her children were ineligible for survivor benefits. As to Mr. Fuqua’s argument that the decision was unfair and would be judged differently under the statutes today, Ms. Gee contended Staff is charged with administering the benefits as written in the code at the time and is not in the position to judge if the law is fair or not. The Legislature could have chosen at the time to make the code revision retroactive, but they did not.

After a short discussion, Chair Zimmerman asked Mr. Fuqua what he was asking from the APERS Trustees. Mr. Fuqua replied that he hoped the Board would grant an exception and provide his client, Adrienne Moore, with the survivor benefits associated with the APERS membership of her mother, Ms. Brenda Moore. Mr. Weiss replied that while this was a tough and emotional case, he believed APERS Staff had correctly interpreted the law at the time. He motioned to support Staff’s original determination to deny benefits and was seconded by Mr. Creekmore. Motion carried unanimously.

BENEFITS APPEAL: MR. BOB McANALLY – Presented by Ms. Pam Hickman, AR. Game & Fish Commission

Ms. Stone gave an overview of the facts of the appeal, stating that Mr. McAnally who worked for AR Game and Fish, expressed his desired to retire November 1, 2007 and understood APERS had to receive his application by October 2, 2007. APERS never received his application and Staff took it upon themselves to call Mr. McAnally to verify his intention to retire. He informed Staff he had submitted to all his paperwork to the Human Resources Department of Game & Fish.

Ms Hickman assured the Trustees that her office had received Mr. McAnally paperwork on September 26th and had immediately forwarded it via regular mail to APERS. She stated that this was the usual method Fish & Game had used in the past and there had never been any problem. Ms. Hickman said that when it came to her attention that the papers had not been received by APERS, she made immediate arrangements for copies to be hand-delivered to the retirement system, along with a letter of explanation of what had happened and a request to honor Mr. McAnally’s original retirement date. She also informed the Trustees that since the incident, AGFC had changed their policies on how they handled employee’s retirement papers and would no longer rely on the U.S. Mail to get critical papers to APERS. Ms. Hickman requested that, in this instance, the Trustees allow Mr. McAnally’s retirement to commence on November 1, 2007, since AGFC could confirm that they had received the papers in a timely fashion and it was not Mr. McAnally’s fault that the Post Office had lost the letter. She claimed he was losing \$3000 if APERS delayed his retirement until December 1, 2007.

Ms. Stone stated that Staff had suggested that Mr. McAnally be allowed to remain on AGFC payroll for the required 80 hours during the month of November (which would have increased

his DROP account) and begin his retirement on December 1. While Game & Fish had been agreeable to that suggestion, Mr. McAnally refused and insisted that he be allowed to retire on the original November 1st date. Ms. Stone read §24-4-508(a) which requires that the member must have their retirement application filed at APERS not less than 30 days prior to their intended retirement date. Mr. Zimmerman commented that this seemed to be a problem between Game & Fish and the postal service. Ms Hickman agreed and asked that the Board not penalize Mr. McAnally, since he had gotten his applications to AGFC in a timely fashion. Mr. Zimmerman asked if AGFC would be willing to pay the \$3000 that Ms. Hickman felt Mr. McAnally was losing and she replied they could not.

When asked if this had ever happened before, Ms. Stone replied that Staff was regularly told that missing papers must have been lost in the mail. On very few occasions these forms were later discovered at APERS having been misfiled, but since agency policy dictates that all forms are immediately date stamped upon being opened, it becomes obvious if they were received prior to the deadline. In those instances, Ms. Stone assured the Trustees that APERS acknowledged their mistake and made it up to the member.

Mr. Weiss said that since the employee acted in good faith by handing his paperwork over to AGFC prior to the deadline, he would motion to not penalize Mr. McAnally and allow him to retire on November 1, 2007. Mr. Creekmore seconded the motion. After further discussion of deadlines, the U.S Post Office's reliability and setting precedence, Chair Zimmerman called for a vote. On a count of 4-4, with the Chair abstaining, the motion failed for lack of a majority.

MEDICAL BOARD RECOMMENDATIONS

The Medical Review Board met at 10:00 a.m. on Wednesday, November 7, 2007 in the APERS Library to discuss five (5) cases: Mr. William E. Fields, Ms. Brenda L. Hardin, Ms. Barbara J. Woods, Ms. Sarah L. Wilson and Mr. Bruce D. Cooney.

- After review and discussion, the Medical Review Board recommended the approval of disability retirement for Mr. William E. Fields, with an onset date of June 2004.
- After review and discussion, the Medical Review Board recommended the approval of disability retirement for Ms. Brenda L. Hardin, with an onset date of July 2006.
- After review and discussion, the Medical Review Board recommended the approval of disability retirement for Ms. Barbara J. Woods, with an onset date of March 2006.
- After review and discussion, the Medical Review Board recommended the approval of disability retirement for Ms. Sarah L. Wilson, with an onset date of March 2006.
- After review and discussion, the Medical Review Board recommended the approval of disability retirement for Mr. Bruce D. Cooney, with an onset date of December 1995.

Mr. Fratesi motioned to approve the Medical Review Board's recommendations and was seconded by Ms. Wright. Motion passed.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30, 2007

Ms. Stone pointed out that this quarter's statements were the first to reflect the addition of the old District Judge Retirement System's assets of approximately \$27 million. Mr. Gaddy motioned to accept the financial statements and was seconded by Ms. Wright. Motion carried.

APERS INTERNAL AUDIT UPDATE – Presented by Ms. Gail Stone, APERS Director

Ms. Stone reminded the Board the results of the previous year's audit and that of the nine (9) areas audited in Fiscal Year 2007, seven (7) achieved their audit objectives. Two (2) areas (the same two from last year) were found to still be deficient: enrollment of contributory members and current agency practices for the contributory plan.

Two practices were implemented after last year's audit. The first is Employer education, which has been very helpful, but was interrupted by health issues of the individual in APERS coordinating that training. It will be resumed in the coming months. Also APERS brought on

its first Chief Fiscal Officer in January 2007, who has been a tremendous help, however shortly afterwards APERS long-time Business Manager retired. Subsequently, Staff learned that he had failed to implement a procedure to separate payables/receivables at the employee/employer level. Once the failure was discovered, it was remedied on a going-forward basis by the new Office Manager, but there is a year's worth of prior data that still needs to be separated. Thanks to budget support from this Board and the Legislature, APERS has hired some wonderful accountants and this problem should not reoccur.

OTHER BUSINESS:

Trustee Liability Insurance – Presented by Ms. Erika Gee, Attorney General's Office

Ms. Gee requested the Board grant her an extension on her report until the February 2008 Board meeting. She explained that currently there was a case before the Arkansas Supreme Court regarding retirement benefits of the Arkansas State Police. She felt the decisions made in this case would have an impact on the answers she gave regarding trustee liability. Ms. Gee felt she would be able to give the Board a much more complete picture of their options in February.

Mr. Weiss asked about governmental bonding. Ms. Stone stated that it only covers theft of state funds. Ms. Stone announced she had inquired of the other state funded retirement system and discovered that LOPFI has Trustee Liability Insurance, ATRS did not but was looking into it, and Highway Retirement has none.

Staff Travel Reports

The Trustees noted the travel reports without comment.

RFQ Update

A recent call from State Procurement informed Ms. Stone that there were 4 responses to the Consultant bid and 5 Actuarial firm responses. She stated that OSP had also told her that they were almost finished reviewing the results and would be passing them on to the screening committee very soon. She promised to create a matrix with a preliminary ranking of the firms and the Board could then decide how many they wished to interview personally. She surmised that these interviews would take up one whole day or two partial days and offered that they could be scheduled immediately before or after the February Board meeting. Mr. Zimmerman commented that a decision would need to be made at that time in order for the selected firms to have an effective starting date of July 1, 2008.

After a lengthy discussion on how many candidates might make it through State Procurement's screening process and the likelihood of a protest being filed, Mr. Gaddy motioned for the Board to hear all candidates that were qualified. Mr. Henry seconded and the motion passed.

It was generally agreed that the Board would review all the candidates on Tuesday, February 19, 2008, with a possibility of allowing the incumbents to interview the following day prior to the normal board meeting.

Proposed 2008 Board Meeting Dates

The Board agreed that these dates were acceptable.

NEXT QUARTERLY BOARD MEETING:

The Trustees will meet at 9:00 a.m. on Tuesday, February 19, 2008 to begin interviewing qualified actuaries and investment consultants. This meeting is expected to take all day. The next quarterly meeting of the APERS Board of Trustees is scheduled for February 20, 2008 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

MR. DON ZIMMERMAN, CHAIR

MS. GAIL STONE, EXECUTIVE DIRECTOR