

MINUTES
Policemen's Pension and Trust Relief Fund
Thursday, October 14, 2004
9:00 a.m.

On Thursday, October 14, 2004, at 9:15 a.m., a meeting of the Board of Trustees of the Policemen's Pension and Relief Fund of the City of Little Rock, Arkansas was held in the Board of Directors Room at City Hall.

PRESENT:	Bruce Moore	-Chairman
	Farris Hensley	-Secretary
	Bob Biles	-Treasurer
	Brad Furlow	-Member
	Lee Harrod	-Member
	Jerry Best	-Member

ABSENT:	Dr. Marvin Leibovich	-Physician
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Also present was Mr. Ed Adcock, legal counsel for the Fund, Mr. Alex Jordan and Mr. Larry Middleton of Stephens Capitol Management, Mr. Gene Jennings of Metropolitan Trust, and Mr. Danny W. Broaddrick, attorney for members of the Fund seeking retroactive benefit increases. Mr. Mike Verkler, Little Rock Fraternal Order of Police President, Ms. Debbie Helvey, Pension Administrative Technician, Mr. Jody Carreiro of Osborn, Carreiro and Associates, who are actuaries for the Arkansas Fire and Police Pension Review Board, Mr. Rusty Watson, Mr. Kevin Tindle, Mr. James Dickson, Mr. Daral Casteel, Mr. Mark Knowles, Mr. Leslie Gachot, Mr. Marty Garrison, Mr. Vern Dale Lester Junior, Mr. Donald R. McHughes, Mr. David S. Smith, Mr. John Stafford and Mr. Mike Lowery, who are members of the Fund.

Mr. Bruce Moore called the meeting to order at 9:15 a.m., and certified that a quorum of the Board was present.

A letter of September 29, 2004, to the Arkansas Democrat-Gazette that notified them of the meeting was included in the monthly Board members meeting packet.

Following a review of the September minutes that had previously been distributed to Board members, Mr. Harrod made a motion to approve them as submitted. Mr. Furlow seconded the motion and it passed unanimously.

Mr. Moore reported to the Board concerning a non-tobacco use discount on health insurance for retired members. He said that the matter remains under administrative review, and requested that it be tabled until the November meeting. The matter was tabled.

Mr. Biles submitted copies of a revised un-audited balance sheet report, year-to-date through July 31, 2004. The report indicated that on July 31, 2004, Pension Fund assets totaled \$57,725,057.74, of which \$22,187,952.09 was allocated to the DROP. The balance sheet year-to-

date through August 31, 2004 was also submitted and indicated that on August 31, 2004, Pension Fund assets totaled \$59,332,940.44. Also submitted were copies of the September 2004 expense and legal fee report. Following their review, Mr. Harrod made a motion to approve them as submitted. Mr. Hensley seconded the motion and it passed unanimously.

Mr. Larry Middleton and Mr. Alex Jordan of Stephens Capitol Management and Mr. Gene Jennings of Metropolitan Trust reported concerning the status of asset transfers from the prior custodian and investment managers. Mr. Jennings told the Board that new accounts have been established for the Police Pension Fund and all preparations for asset transfers have been completed. Mr. Middleton reported concerning the value of current assets, proposed transfers and liquidations as well as reconciliation of securities and Fund assets. He said that the assistance of Mr. Adcock and all involved parties working together are resulting in an efficient transition.

Mr. Jordan reported on the pending investment strategy and proposed asset allocation that would be represented under the new investment program. The proposed plan consists of ten (10) investment managers as opposed to only six (6) under the preexisting investment program. The proposed asset allocation groups were eight (8) percent in large growth, twelve (12) percent in core fixed income, nine (9) percent in intermediate fixed income, twelve (12) percent in fixed, five (5) percent in real estate, ten (10) percent in international equity, nine (9) percent in small value, nine (9) percent in mid value, nine (9) percent in large value, six (6) percent in small growth, nine (9) percent in mid growth and two (2) percent in cash.

Following a lengthy discussion and based upon the recommendation from both Mr. Middleton and Mr. Jordan, Mr. Hensley made a motion to authorize Stephens Capitol Management to fully liquidate the portfolios of Victory Capitol Management, Janus Fund, Longleaf Small Capitalization Fund and Vanguard Bond Fund, and to partially liquidate Templeton Foreign Equity down to approximately five (5) or six (6) percent and the PRISA Real Estate Fund down to approximately five (5) percent of the total Fund allocation. Mr. Harrod seconded the motion and it passed unanimously.

The Board discussed at length a process of selecting specific investment managers within the proposed asset allocation groups. Consistent with the Board's consensus, Mr. Harrod made a motion that once the liquidation was completed, to authorize Stephens Capitol Management to immediately begin investing available funds consistent with their proposed allocation and for them (Stephens Capitol Management) to prepare a comprehensive analysis of all proposed investment managers for the Board's consideration at the November meeting. Mr. Furlow seconded the motion and it passed unanimously.

Also discussed were minor changes that Mr. Jordan recommended be made in the Pension Funds existing investment policy objectives and guidelines. Based upon a request from Mr. Adcock, Mr. Jordan told the Board that he will submit the recommended changes to Mr. Adcock for his review prior to the November Board meeting, at which time the Board will consider the changes.

Mr. Adcock offered clarification relating to a specific investment requirement in the Pension Fund's investment policy objectives and guidelines. He said that the investment advisor is required to obtain the Pension Boards prior approval for any investment that would bring the Fund outside of its allocations as set forth in the above referenced investment policy. Mr. Middleton assured the Board that no such action would be taken without first obtaining Board approval.

Mr. Jody Carreiro of Osborn, Carreiro and Associates, Inc., who are actuaries for the Fire and Police Pension Review Board (PRB) submitted a cash flow analysis. The cash flow analysis was initiated as a result of a benefit increase resolution passed by the Police Pension Board on May 13, 2004. The purpose of the analysis was to determine a monthly amount that benefits could be increased to all current retirees, surviving spouses and members on DROP, retroactive to January 1, 2004.

Mr. Carreiro explained that his report first projected out the benefit payments from the Pension Fund for the next fifty (50) years. Next, the contribution income to the Fund was projected. This contribution income includes the six (6) percent member contribution, the six (6) percent City match, local millage contribution, insurance premium taxes, and fine and fee income. Mr. Carreiro concluded that, "In our opinion, the cash flow projections show that the Fund would be actuarially sound based on Arkansas Fire and Police Pension Review Board Rule Four if a \$90.00 per month increase were adopted. This opinion would change if any other benefits other than described in this report were paid."

There was a discussion concerning the previous referenced language pertaining to the Fund being actuarially sound based on Arkansas Fire and Police Pension Review Board Rule Four. The specific question asked of Mr. Carreiro was, "Is the Little Rock Police Pension Fund considered actuarially sound within the meaning of various Arkansas state statutes that requires actuarial soundness?". An example given was Arkansas statute 24-11-425 that deals with benefits for surviving spouses and dependent children. Mr. Carreiro explained that there is a distinction to be made between a pension fund being fully funded or a fund being actuarially sound. He said that in his opinion the Little Rock Police Pension Fund is actuarially sound because the statute basically gives the duty of determining what is actuarially sound to the Pension Review Board, and they have set forth the standards in their board Rule Four.

Mr. Adcock agreed with Mr. Carreiro, but asked the Board for additional time to review the matter.

Mr. Moore told the Board that he had another important meeting to attend and asked that consideration for the ninety dollar (\$90.00) monthly benefit increase be tabled until the November meeting. The matter was tabled.

Mr. Carreiro reported concerning an actuarial analysis for retroactive benefit increases to members who were employed, but not traditionally retired or on DROP at the time past benefits increases were given. He said in his report that the Little Rock Police Pension Board had been asked to review the fact that only current retirees, beneficiaries, and members on DROP have been

included in benefit increases that have been given over the last several years. The Board had asked his firm to provide them a report on the effect of including the other participants in these benefit increases and the actuarial status of the plan as it currently stands. They were also asked to determine the effect this would have on a future benefit increase that is currently being considered.

The Board has applied for and has received various benefit increases over the past ten (10) years. The standard pattern for most of these benefit increases was to give a dollar amount per month to every current retiree, beneficiary and member on DROP. The total amount of monthly benefit increase over the past several years is \$550.00 per month.

There were one-hundred-three (103) active members (not participating in the DROP) as of December 31, 1994. Each of these one-hundred-three (103) participants received only a portion of the \$550.00 per month increases that have been given depending on their date of retirement or DROP. Some of these participants have not received any of the increases. Based on the actuaries records and the information provided by the pension office, they calculated how many months and the amounts of this \$550.00 that was not paid for each individual.

Mr. Carreiro had been asked to report the estimated total amount that would have been paid through the valuation date (January 1, 2004). He was also asked to determine the value of these benefits if they were to begin on the valuation date.

There were one-hundred-six (106) participants that were tracked, the one-hundred-three (103) mentioned above and three (3) rehires. The actuaries found that the benefits payable as of January 1, 2004 would be about \$35,000 per month more than currently paid, if these participants were included. The accumulated amount of the retroactive payments (from the various dates of DROP and retirement) without interest as of January 1, 2004 is \$1,430,000.

They also calculated the present value of future benefits if these increases were paid to these participants beginning January 1, 2004. The present value of these benefits is \$6,340,000.

If no changes are made, the Pension Fund is projected to be fully funded between twenty (20) and twenty-five (25) years from now. This means the Pension Fund is not expected to deplete its assets and is considered actuarially sound under Pension Review Board Rule Four. Based on the same criteria that was used in the full cash flow study as of January 1, 2004, report dated October 12, 2004, the Pension Fund would not be considered actuarially sound if future payments to these participants were made. Therefore, paying both retroactive and future payments to these participants would cause the Pension Fund to be unsound. Since the current status of the Fund would not be actuarially sound if future payments were made to these participants, there would be no benefit increase available.

It is the opinion of Mr. Carreiro that the cash flow projections show that the Fund would not be actuarially sound based on Arkansas Fire and Police Pension Review Board Rule Four if the future payments were made to the participants in question.

In summary, Mr. Carreiro told the Board that no funding for the previously mentioned ninety dollars (\$90.00) per month benefit increase would be available if past benefit increases were given to the members in question who were not vested, traditionally retired or on DROP at the time.

Following discussion, the matter was tabled until November to allow Mr. Moore to be present for a vote.

Mr. Kevin Tindle addressed the Board and asked that a letter from him on behalf of the above referenced group of members to the Police Pension Board be printed in the October minutes. Mr. Hensley said that he did not oppose including the letter in its entirety, but wanted to reserve the right to respond to it at the upcoming November meeting because it had just been distributed and he had not had an opportunity to review it.

Letter from Kevin Tindle

"I would like to first thank the Pension Board, on the behalf of a group of approximately sixty- two (62) fund members I represent, for the opportunity to address this Board at today's meeting. I hope to successfully relay and express some of the concerns of our group, who as a direct result of past financial practices of this Board, have been negatively impacted. This condition of disparity has been brought about by the extension of benefit increases to certain groups of members, and the exclusion of others, within the same closed retirement plan.

I don't think there is a single member of this pension plan who should not take this opportunity to thank the members of this Board for their dedication, diligence, and the sacrifice of time and personal resources in the oversight of our fund. You should be commended for your leadership, stewardship, and direction in extending benefit increases to members, who without your efforts would [now] be living at a substantially lower standard of living.

In addressing this Board I would like to ask each and every board member two questions:

- 1) Is it an unreasonable expectation that every single member of this fund be treated equally?
- 2) Is it unreasonable to ask for or expect the same benefit increases to be extended to all members [of] our pension fund in a fair and impartial manner?

I would hope and pray that each of your responses to these questions be, no these are not unreasonable expectations.

There are approximately sixty-two (62) fund members who are asking to receive the exact same benefits that have been awarded to every other member of the fund.

In the recent past rumor and propaganda has spread the false facts that these sixty- two (62) fund members seeking equity, are on a campaign to cut existing pensions or take money from one group in the system to fund their benefit increases. These rumors, charges, and counter charges have resulted in the emotionally charged personal attack on the character of certain members of our fund and a very distinct division amongst our membership.

Let me assure you that nothing could be farther from the truth. Not one person in the group of members I represent wants to adversely affect our pension fund in such a manner that it precludes or prevents any member from receiving a benefit increase. A point was made at an earlier meeting that if all members across the board were brought up to the same level of benefit increases (having received the total of \$550.00 in benefit increases), that likelihood of any future benefit increases would be affected. This statement by the board clearly shows that the concerns or benefits for **all members** are not being considered.

I would like to ask the members of the pension board that if the roles were reversed and I was sitting in your position, you were standing before me, and the disparity in pension was not in your favor would you be seeking at least parity?

The Pension Board has an obligation to fairly decide benefits for all members. The Pension Board in 1996 granted the first of several benefit increases to some of its members, while excluding a group that were by their definition not "vested" or had not elected DROP. The Board excluded these members, even though the fund was closed, to bolster the amount of benefit increase it could afford to give members already traditionally retired or on DROP. These benefit increases were also extended to alternate payees, surviving widows, etc. The rationale at the time utilized by the Pension Board was, as I understand it, was that members who were still active officers would have their pensions increased by virtue of their continued employment with the City of Little Rock through cost of living raises. The concept is admirable, and the Board is to be commended for their creative thinking in raising the standard of living for the majority of the funds participants, however, time has shown that this rationale is flawed. The documents provided by the Board in response to our interrogatories clearly show a disparity has arisen between the amount of the pension benefit increases awarded and the actual amount of offset made up by the City of Little Rock's cost of living increases. There are fundamental problems with a pension plan that allows a person to retire at a greater percentage or DROP amount per month than another person of equal rank that applies for DROP or retires as much as eight to ten years later. This is a direct result of the benefit increases afforded to some while segregating others.

You can clearly see on the document I am submitting for your inspection, the details of this disparity as reflected in the differences in monthly DROP or pension amounts. This is the current active members list and DROP amounts submitted to the group by Lt. Hensley. I ask you to reference an Officer or Sergeant's DROP amount, and then notice the date when either entered DROP and you can see the discrepancy. The actual percentages of original retirement amounts for each officer have also been determined where there was sufficient data to make the calculations.

Some members of this Board have known about these discrepancies for several years, but have elected to continue to approve benefit increases rather than seek a solution to rectify the disparity issue. A solution to this issue should be reached before the disparity is further widened."

Signed by Kevin Tindle

Mr. Adcock reported concerning criminal and civil charges against Mrs. Adienne Garrett. He said that Mrs. Garrett had entered a plea of no contest in the criminal charges against her and is now required to begin making monthly restitution payments to the Pension Fund beginning November 1, 2004 in the amount of \$150.00. He said that he will now begin pursuing civil charges pending against her.

Mr. Adcock told the Board that he had received a Qualified Domestic Relation Order (QDRO) from the attorney representing Mr. Ralph Simon. Based upon a recommendation from Mr. Adcock, Mr. Hensley made a motion to approve the order. Mr. Furlow seconded the motion and it passed unanimously.

Due to time constraints the matter concerning legislative proposals for the upcoming session was tabled until November. Mr. Hensley told the Board that he will recommend a legislative solution to allow surviving spouses of officers who marry after retirement to be eligible after five (5) years of marriage.

The matter concerning information from LOPFI relating to a merger was tabled indefinitely upon request from Mr. Hensley.

Mr. Adcock told the Board that in his opinion it would not be improper for the Pension Board to fund a Christmas party for its members if they decided to do so. Mr. Daral Casteel who is a member of the Fund addressed the Board and asked, "If we can't afford to give us our benefit increase, how can we afford to fund a Christmas party? That is asinine."

Mr. Hensley said that he supports the idea of having a Christmas party, but prefers funding it with donations. Mr. Harrod said that he also supported funding it with donations. Mr. Best said that since the matter was causing controversy, he would prefer not to be involved. No formal action was taken.

Mr. Hensley made a motion to approve the pension application of Mr. Roy Howard effective November 1, 2004 in the monthly amount of \$1906.04, and to remove Mr. Matthew Howell who passed away on October 1, 2004 from the pension rolls and to extend the Board's condolences to the family of Mr. Howell.

Mr. Hensley presented a letter from Mrs. Mary Gachot to the Board. In the letter she thanked members of the Board for the recent police supplement check and their concern for the widows in the Pension Fund. Members of the Board extended their appreciation for Mrs. Gachot's words of encouragement.

Upon conclusion of Pension Board business, Mr. Harrod made a motion to adjourn the meeting. Mr. Hensley seconded the motion and the meeting was adjourned at 11:00 p.m.

Respectfully submitted,

Farris Hensley, Secretary