

MINUTES
Policemen's Pension and Trust Relief Fund
Thursday, January 10, 2008
9:00 a.m.

On Thursday, January 10, 2008, at 9:00 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 Sister Cities Conference Room at City Hall.

PRESENT:	Bruce Moore	-Chairman
	Farris Hensley	-Secretary
	Sara Lenehan	-Treasurer
	Brad Furlow	-Member
	Lee Harrod	-Member
	Mike Lowery	-Member
	Donald McHughes	-Member

ABSENT: None

Also present was Mr. Larry Middleton, Mr. Alex Jordan and Mr. Bo Brister of Stephens Capitol Management who are Financial Consultants for the Fund, Mr. Dean Overstreet of Dover, Dixon Horne Law Firm who are Legal consultants for the Fund, Mr. Roger Smith who is a Government Relation Lobbyists for the Fund, Mr. Jody Carreiro of Osborn, Carreiro and Associates, Inc. who are Actuaries for the Arkansas Fire and Police Pension Review Board, Mrs. Sara Lenehan who is the Interim City Finance Director filling the position created by the recent resignation of Mr. Bob Biles, and Mrs. Kathy Lindsey who is the Administrative Technician for the Police Pension Fund.

Mr. Moore called the meeting to order at 9:08 a.m., and certified that a quorum of the Board was present.

A letter of December 31, 2007 to the Arkansas Democrat-Gazette that notified them of the meeting was included in the Board members monthly meeting packet.

Copies of the December minutes had previously been submitted to Board members. Following their review Mr. Harrod made a motion to approve them as submitted. Mr. McHughes seconded the motion and it passed unanimously.

Mr. Hensley reported concerning completion of the actuarial analysis study from Benefit Partners Inc. He said that he had recently participated in a conference call with Mr. Jack Bean, Mr. Jessie Cox, Mr. Lee Harrod, Mr. Alex Jordan, and Mr. Larry Middleton. Discussed during the conference call were various matters relating to the study, which is to be completed by the end of January. The matter was tabled until February.

Mr. Hensley told the Board that he and Mr. Harrod had recently attended a meeting at the Arkansas Fire and Police Pension Review Board (PRB) where they had learned that significantly lower annual over-all rates of returns for the Police Pension Fund had been reported to the PRB, than the Fund had actually experienced. As a result, Mr. Jordan had been working with Mr. Jody Carreiro of Osborn, Carreiro and Associates Inc. who are actuaries for the PRB, to resolve the discrepancies. He

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(Mr. Hensley) said that Mr. Carreiro had recently contacted him, and offered to attend the meeting and report concerning the matter.

Mr. Jordan addressed the Board concerning the matter, and said that although they had reviewed over-all rates of returns for the calendar years including 2004, 2005, and 2006, the most significant discrepancy occurred in 2005, when year-end account balances from Prudential Real Estate and Regions checking were apparently not updated through the fourth quarter, resulting in an over-all rate of return for the Fund of a little over five percent (5%), rather than a return in excess of ten percent (10%).

Mr. Carreiro told the Board that he is only able to work with numbers and account balances that are reported to the PRB from the Pension Administrative Office, however realizes that often the Administrative Office does not have completed year-end balances for several months into the new year. He said that even though there was a significant discrepancy for the calendar year of 2005, he is relatively sure that it has not affected DROP interest paid to members, however should be corrected because it could have an adverse affect in future years due to the five (5) year average sometimes used to calculate DROP interest. He said that he would continue to work with Mr. Jordan, and the Pension Administrative Office to resolve the issue.

Mr. Harrod explained that after attending the above referenced PRB meeting he noticed discrepancies on a report for the calendar year of 2004 (8.80% vs. 11.02%) and 2005 (5.73% vs. 10.23%), and said that the matter should be resolved prior to issuing any future annual DROP reports.

Mrs. Lenehan who just recently became involved, said that she has been working with Stephens and other involved parties concerning various reports to resolve the matter, and believes that it will soon be reconciled.

The matter was tabled until February, to allow Mr. Carreiro adequate time to complete his review.

Both Mr. Furlow and Mr. Hensley voiced their concerns in regard to errors in various areas of accounting that have recently come to the attention of the Board, and said that proper procedures need to be established that will ensure accurate accounting in the future, and reestablish an acceptable confidence level with Pension Fund Members. Both said that they would address the entire matter at an appropriate time.

Mr. Jordan, Mr. Middleton, and Mr. Brister of Stephens Capitol Management gave a year-end 2007 financial report, and said that on December 31, 2007 the market value of the total Fund was \$63,494,070. This represents a decrease in the account balance of (\$488,417.03) since November 30, 2007. Components of the change were income of \$251,487, and net contributions/withdrawals of \$3,242. The Funds overall market rate of return for the month of December 2007 was (0.44%), year to date through December 31, 2007 was 9.03%. Of the total Fund value, \$23,968,645.23 was allocated to DROP.

Both Mr. Jordan and Mr. Middleton told the Board that they anticipate a very difficult equity market during 2008. During discussion, when asked, the Board indicated that if a recommendation were made, they would support a future ten percent (10%) reduction in the Funds equity position, which currently is at fifty-six percent (56%).

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Mr. Overstreet reported that Mrs. Eddeane Garrett is currently three (3) monthly payments behind, representing a total amount of \$450.00. He said that both he, and Mrs. Lindsey of the Pension Administrative office recently have been in contact with Mrs. Garrett's Probation Officer, Mrs. Annette Gilbert who has been very helpful, and has recently issued a petition for revocation of Mrs. Garrett's probation. Mr. Overstreet told the Board that the revocation would result in a warrant being issued for the arrest of Mrs. Garrett. The matter was then tabled until February.

At the December meeting Board members were presented a report of an internal audit of benefit payments to members. The report identified six (6) members including widows who had been underpaid in a total amount of \$8,099.45, and nine (9) members including widows who had been over paid in a total amount of \$33,118.39, dating as far back as 1985. The nature of errors included matters relating to, the age sixty (60) benefit not being removed upon death of a member when calculating the widows' benefit, not receiving approved benefit increases, receiving an incorrect amount for a benefit increase, posting a benefit increase when one had not been approved, and beginning retirement benefits at an incorrect amount. Board members were asked to review the report, and the matter was then tabled until January.

Mr. Overstreet reminded the Board that he was not in attendance at the December 2007 meeting, however Mr. Peace had asked him to address the above referenced issue regarding an internal audit. He explained that if challenged, the statute-of-limitation period appears to allow only for a three (3) year recovery. He provided the Board with various possible options in regard to addressing the over payment issue, that included approaching it on a case-by-case basis, asking for a full repayment, or asking for payment going back only three (3) years.

During a very lengthy discussion, Board members agreed that all correct adjustments should immediately be made, and that members who were underpaid should receive full payment for the total amount of their under-payments. Three (3) options were discussed in regard to the members who had been overpaid. First, was to require full payment over a period of time, second was to require payment be made over a period of time for only the past three (3) year statute-of-limitation period, and third was not to require repayment. Two (2) issues in regard to the above referenced options were discussed which included what could legally be required of the overpaid members verses what would be fair for not only the overpaid members, but all members of the Fund in general. Concerning the fairness issue, some Board members thought it would be unfair to require repayment from members who they did not believe knew that they were being overpaid, because the underpaid members who allowed their under-payments to continue, obviously did not know. However, other Board members thought it would be unfair to all members of the Fund in general not to require repayment from those who had been over paid. Concerning the legal issue, some Board members thought that the overpaid members should be asked to repay the entire amount, and if they refused, only require them to pay the past three (3) year period, however a concern was that some would agree to repayment of the entire amount, while others would only be repaying the amount for the past three (3) years. Other Board members suggested that only the past three (3) year statute-of-limitation period should be repaid. Another concern in regard to the legal issue was the cost to the Fund if the matter were legally challenged.

Following discussion, Mr. Hensley made a motion that all necessary adjustments be made as quickly as possible, thus forwarding a letter to all involved members detailing the nature of the error, including the monthly and accrued total amounts involved; To repay in total each member who had been underpaid, and not to require repayment from those members who had been overpaid due to

errors previously made by pension administrative personnel. Mr. Furlow seconded the motion and the vote was recorded as, for: Mr. Hensley, Mr. Furlow, Mr. McHughes, Mr. Moore and Mrs. Lenehan. Against: Mr. Harrod and Mr. Lowery.

Following the motion, Mr. Hensley asked Mr. Moore to consider reimbursing the Fund for all losses that resulted from the above referenced errors made in the Pension Administrative Office.

In regard to the above referenced internal audit, Mrs. Lenehan submitted a letter to the Board from Mr. Clifford Smith, Auditing Manager for the City of Little Rock. In the letter Mr. Smith stated that he had reviewed the work that Mrs. Lindsey did to verify/correct pension payment amounts, and stated that in his opinion the methodology was sound and could reasonably be expected to detect any errors that were made in the Pension office. He further stated that his review also included a randomly selected sample of all active pension payments, and no errors were found in Mrs. Lindsey's work.

Mrs. Lenehan submitted copies of the un-audited balance sheet report year-to-date through November 30, 2007. The report indicated that on November 30, 2007, the total account fund balance was approximately \$65,772,694.86, of which \$23,850,487.53 was allocated to DROP. Year-to-date through November 30, 2007 the Fund experienced a net increase of approximately \$1,009,676.37.

Mrs. Lenehan submitted copies of the December 2007 expense and legal fee report. Total expenditures excluding benefit related expenses, were \$2,339.94 for the month of December, and \$104,235.14 calendar year through December 31, 2007. There were no legal fee expenditures paid during the month of December, but totaled \$72,262.94 calendar year through November 30, 2007.

Following review of the November un-audited balance sheet report, and December expense and legal fee report, Mr. Furlow made a motion to approve the reports as submitted. Mr. Hensley seconded the motion and it passed unanimously.

The Board discussed matters relating to proposed legislation for the upcoming Legislative Session with Mr. Roger Smith, however decided to table the matter until February.

Upon request from Mr. Harrod, Mr. Moore agreed to provide Board members with updated copies of the Handbook for Arkansas Municipal Officers. All legislative pension updates are contained in the handbook.

Upon conclusion of Pension Board business, Mr. Harrod made a motion to adjourn the meeting. The motion was seconded by Mr. Hensley and passed unanimously. The meeting adjourned at approximately 10:48 a.m.

Respectfully submitted,

Farris Hensley, Secretary