PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

BOARD OF TRUSTEES OPERATIONS, GOVERNANCE POLICY and AUDIT COMMITTEE

MEETING

May 22, 2013

MINUTES

Members
Present:
Mr. Greg Ferguson, Chairman, Trustee
Mr. Jeff McHenry, Member, Trustee
Ms. Randie Stein, Member, Trustee

Others Present:
Mr. Jim Hacking, Administrator
Mr. Jared A. Smout, Deputy Administrator
Ms. Ivy Voss, Assistant Attorney General
Mr. Robert Ortega, Local Board Training Coordinator/HR Manager
Mr. Don Mineer, Local Board Training Specialist
Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA
Mr. John Hendricks, Senior Investment/Financial Accountant
Mr. Tom Willard, Systems Development Manager
Mr. Sam Meier, IT Operations Manager
Mr. Patrice Robinson, Web Support
Ms. Michelle Pechan, Paralegal

1. Call to Order, Roll Call, Opening remarks.

Chairman Ferguson called the meeting to order at 11:00 a.m.

2. Review, discussion and possible approval of Operations, Governance Policy and Audit Committee Minutes from April 17, 2013.

MOTION: 1-5/22/13

At 11:19 a.m.
Motion: To approve the Operations, Governance Policy and Audit Committee Minutes as presented.
Moved by: Mr. McHenry
Seconded by: Ms. Stein
Discussion: None
In Favor: Unanimous
Motion: Passes
3. Presentation of the Month-to-Date Budget Report for FY 2013 and possible Recommendations.

   Mr. John Hendricks  
   Manager Finance and Accounting

   Mr. Hendricks reported that expenditures are $150,000 in excess of the budgeted amount for professional services in the Investment Department. But there is a $200,000 savings due to the vacancy for the Risk Manager position in the same Department. He added that employee expenses and expenses for litigation are down by $110,000 for the balance of the fiscal year.

4. Written update on the progress of the Local Board Training Program and discussion and possible Recommendations regarding same.

   Mr. Robert Ortega  
   Local Board Training Coordinator and Human Resources Manager

   Mr. Don Mineer  
   Local Board Training Specialist

   In addition to a written report, Mr. Ortega stated that there has been an increase in the number of Local Boards that have been accessing the PSPRS’ Local Board website portal.

5. Presentation of the "Requests for Local Board Rehearing" Report for the current month.

   Mr. Jim Hacking  
   Administrator

   Mr. Hacking said that the one remaining request for rehearing from last month has been resolved but that an additional request has been added.

6. Review, discussion and possible Action regarding the May 2013 Kutak Rock and other law firms’ billings for legal services performed in April 2013.

   Mr. Jim Hacking

   MOTION: 2-5/22/13  At 11:09 a.m.
   Motion: To approve payment of $49,107.52 for Kutak Rock and other law firms’ billings for legal services performed in April 2013.
   Moved by: Ms. Stein
   Seconded by: Mr. McHenry
   Discussion: None
   In Favor: Unanimous
   Motion: Passes


   Ms. Bridget Feeley  
   Internal Audit and Compliance Officer
Due to additional duties, not much movement has been made this month. Therefore, there is no report at this time regarding the Internal Audit Plan. The problems that were presented last year have been addressed and these corrected items have been incorporated with the Strategic Plan. No assessment items are in the “high risk area”.

8. Discussion and **Recommendation** to set the Fire Fighter and Peace Officer Cancer Insurance Policy Program premium at $50 until further notice.

   *Mr. Jared A. Smout*
   *Deputy Administrator*

Following discussion, a motion was made.

**MOTION: 3- 5/22/13** At 11:18 a.m.
Motion: To refer to the full board to accept the rate of $50 for FY 2014.
Moved by: Mr. McHenry
Seconded by: Ms. Stein
Discussion: None
In Favor: Unanimous
Motion: Passes

9. Discussion and possible **Recommendation** to approve, disapprove or modify the Assumed Earnings Rate for the fiscal year beginning July 1, 2013.

   *Mr. Jared A. Smout*

Mr. Hacking led the discussion with the Committee members and stated that for every \( \frac{1}{4} \) of 1% reduction in the actuarial assumed earnings rate, the employer contribution requirement goes up by 1.5% of payroll. The Assumed Earnings Rate is now 7.85%. There will be no COLA this fiscal year due to the fact the old COLA formula’s reserves are exhausted. The possibility of post-retirement adjustments occurring after June 30, 2014 will depend on the rate of return for the System during FY’14 and on the outcome to the challenges made to the COLA changes by the 2011 pension reform bill. Those challenges are either before the Arizona Supreme Court or will be fairly soon.

**MOTION: 4- 5/22/13** At 11:37 a.m.
Motion: To recommend discussion with the full Board of Trustees.
Moved by: Ms. Stein
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

10. Presentation, discussion and possible **Recommendations** regarding the FY 2013/2014 PSPRS Strategic Initiatives.

   *Mr. Jared A. Smout*

Mr. Smout presented highlights which included updating investment policies and the asset allocation, development of a risk dashboard, moving to paperless 1099s and several customer service projects. Examples of such projects include creation of auditing and monitoring processes for local board training, HIPPA training for Staff, and development of an Employee Engagement Committee to educate Staff as to the role of
11. Presentation, discussion and possible **Recommendations** regarding renewal contracts between PSPRS and the actuary, outside counsel and the AG’s office.

Mr. Jared A. Smout

**MOTION: 5- 5/22/13** At 11:53 a.m.

Motion: To recommend to the full Board approval of a change in business configuration for P3, a one year extension of the GRS contract, a one year extension for the AG’s office contract and continuation of the availability of legal services of Ice Miller, Kutak Rock, Steptoe & Johnson, Strasburger and Charles Whetstine.

Moved by: Ms. Stein
Seconded by: Mr. McHenry
Discussion: None
In Favor: Unanimous
Motion: Passes

12. Presentation, discussion and possible **Recommendations** regarding changes to the Investment Department's Incentive Compensation Plan for FY 2014.

Mr. Jim Hacking

Mr. Hacking informed the committee that he and Mr. Parham discussed the recommendations made by Buck Consulting Group and agreed to recommend to this Committee that we modify the Investment Incentive Compensation Program, effective for System FY 2014, as follows: first, to pay out the maximum award when performance is 100 basis points (bps) above the fund benchmark rather than the current 50 bps maximum which is at the low end of market practice; and second, to equally weight the one year period, the three year average and the five year average. Additionally, Mr. Hacking indicated that during FY’14, we will test a third recommendation that the Buck Consulting Group made. That recommendation is to weight the quantitative component of the program such that 50% would be based on relative performance and 50% based on a risk adjusted measurement. The reasons for testing this recommendation are to see if we can actually do this and determine whether it produces any statistically significant difference in result. If after the FY’14 test, it appears that this is something that should be added to the program, a recommendation to that effect will be made in advance of the start of System’s FY’15.

**MOTION: 6- 5/22/13** At 12:01 p.m.

Motion: To recommend that the Board adopt the first two changes recommended by Mr. Hacking and Mr. Parham, test during System FY’14 the third Buck recommendation, and create a plan document that reflects the program and all its details and calculations.

Moved by: Mr. McHenry
Seconded by: Ms. Stein
Discussion: None
In Favor: Unanimous
Motion: Passes
13. Presentation, discussion and possible **Recommendations** regarding FY 2013/2014 PSPRS Administrative Budget.  

**Mr. Jim Hacking**  
**Ms. Leslie Clark**  
**Senior Financial Accountant/Great Plains DBA**

A description of the budget process was given by Mr. Hacking. The projected Administrative Budget for FY 2014 reflects an increase of 3.64% over the FY budget of 2013. The FY 2014 budget has funds for an Audit and Compliance Position to assist Ms. Feeley and includes Buck Consulting's recommended salary changes for Staff. These recommendations include an equity adjustment to bring outliers closer to the midpoint of their salary ranges, an annual increase in base pay to offset the inflation rate this year (December over December) effective January 1, 2014 of 1.7%, and a 1% increase in base pay for each staff member who performs their duties in at least a satisfactory manner. The final budget depends upon the final Compensation Incentive Program for the Investment Department and the outcome of the current legislative session. The salary ranges recommended by Buck Consulting for PSPRS have been accepted by the Board and by ADOA.

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**MOTION: 7-5/22/13**  
**At 12:36 p.m.**  
**Motion:**  
To recommend acceptance of the proposed budget for FY’14, including the new employee position, the equity increases, and the base pay inflation and merit adjustments except that, in the case of the Investment Department staff, they would get the inflation adjustment but not the 1% merit adjustment, because a merit adjustment is factored into the calculation of the Investment Department staff bonuses.

**Moved by:** Mr. Ferguson  
**Seconded by:** Ms. Stein  
**Discussion:** Ms. Stein in favor except for the inflation adjustment for the Investment staff.  
**In Favor:** Mr. McHenry, Mr. Ferguson  
**Motion:** Passes

14. Discussion regarding regional disability boards.  

**Mr. Jared A. Smout**

Mr. Smout stated that, after looking into the concept of regional disability boards, as directed by the SB1609 Study Committee, it is not reasonable or cost effective on a county basis to set up regional boards. There are simply too few claims. In addition, he pointed out that we are providing more and more outreach and assistance to the local board personnel to enable them to do properly what is required of them by statute.

15. Call to the Public.

This is the time for the public to comment. Members of the Committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01 (H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.
There was no response to the Call to the Public.

16. Schedule next meeting. (*Currently scheduled for Wednesday, June 19, 2013.*)

The next meeting will be held on Wednesday, June 19, 2013.

17. Adjournment.

The meeting was adjourned at 12:45 p.m.

Mr. Greg Ferguson, Committee Chairman