Call to Order; Roll Call; Opening remarks……………………………………………………………………………………………………………………………Mr. Brian Tobin
Board Chairman

The meeting was called to order by Chairman Tobin at 10:04 A.M. Chairman Tobin gave Mr. Richard Petrenka a welcome to the Board of Trustees.

1. Status report and possible Action on legislation pertaining to PSPRS including SB 1609……………………………………………………………………………………………………………………………Mr. Jim Hacking

Mr. John Kaites of Public Policy Partners (P3) and Ms. Dianne McAllister of P3 stated that three of the PSPRS proposed bills, HB 2198, HB 2199 and HB 2200, have not moved forward through the legislative process. Mr. Doug Cole of HighGround informed the Board that the System’s administrative bills, SB 1316 and SB 1317, are moving forward without any problems. Both Mr. Kaites and Mr. Cole gave an overview of SB1609 which includes provisions adopted from the Board’s proposals, HB 2198, 2199, and 2200. SB1609 has passed the Senate and the House Committee to which it was referred, the Committee on Employment and Regulatory Reform. It is ready for consideration by the House Rules Committee and by the House Majority Caucus. Following a summary of the provisions of SB 1609 as they relate to PSPRS, CORP and EORP, the lobbyists asked the Board to provide them with direction as to how to proceed when working with members of the legislature. Mr. Kaites recommended that the Board endorse SB 1609, since Board support for the measure was specifically requested by the legislative leadership.
Due to time constraints for the representatives of Gabriel, Roeder, Smith & Company (GRS), Agenda Item 1 was tabled until after the GRS presentation and discussion.

2. Discussion with the actuaries from Gabriel, Roeder & Smith (GRS) and possible Action to modify the actuarial assumptions pertaining to the assumed rate of return for fiscal year 2012 and the assumed rate of inflation, salary and payroll growth assumptions, and actuarial methodology for fiscal year 2011………………………………………………..Mr. Jim Hacking

Mr. Tobin thanked the GRS actuaries for their work and flexibility.

Ms. Cathy Nagy stated that the next 5 year experience study will be performed after this fiscal year ends on June 30, 2011. The last 5 year experience study for the three Plans was done for the five year period ending June 30, 2006 and this study was audited by Milliman Consultants and Actuaries. The Board had asked GRS to compare every assumption used by the Systems with the assumptions used by other public and private plans; however, demographic assumptions cannot always be compared between retirement systems because they are based on the demographic make-up of each system. The only assumption that may be similar would be the mortality tables that are based on publications by the Society of Actuaries. For the mortality assumptions for the PSPRS Plans, GRS used the RRP2000 Healthy Annuity Mortality Table for Males and Females. The males remained as stated in the tables and for females, GRS shifted it one year.

For the rate of retirement, GRS looks at the number of people who retire, age, years of service, and any benefit changes. They also look at the termination rate and withdrawal rate before retirement eligibility. Another factor is the incidence of disability. GRS will review the demographic assumptions during the next experience study; they will focus on the differences between actual experience and the current assumptions through gain/loss analysis.

Regarding economic assumptions, GRS consults with the System’s investment advisers, the Board and the staff at PSPRS. The current investment return assumption is 8.25%. The investment return is largely a function of the asset allocation. The salary growth assumption is currently 5.5% for PSPRS and CORP and 5.0% for EORP. This assumption is influenced by wage inflation and by the local economy.

The actuaries noted that the assumptions used by public plans cannot meaningfully be compared to those of private plans because private plans are subject to prescribed assumptions.

GRS will consider the impact of the Cost of Living Adjustment (COLA) mechanism as set forth in SB1609 should it become law. GRS recommends a complete review of all the economic and demographic assumptions during the next experience study and following the enactment of changes to the benefit structures of the Plans. GRS recommends a further reduction in the assumed rate of return which is also the interest rate that is credited to Deferred Retirement Option Plan (DROP) accounts. They restated that the current rate is 8.25%; they recommended a further one quarter of one percent reduction in the rate which would bring it to 8.0%. This new 8% assumption would be used in the June 30, 2012 annual actuarial valuations for the Plans, unless the FY’12 Experience Study indicates that a different assumed rate should be used.

The actuaries also discussed with the Board the current actuarial funding method and other alternatives. The current method is the Projected Unit Credit (PUC) method which is a volatile funding method for a public plan. With PUC, the normal cost increases each year as
a percent of payroll and if the size of the covered group declines, the PUC normal cost as a percent of payroll can increase dramatically. On the other hand, the actuaries told the Board that the Entry Age Normal (EAN) funding method, which is the method used by the majority of public plans, maintains normal cost as a level percent of payroll. With this method, even though the dollar amount of normal cost increases as payroll increases for an entire group, the normal cost payroll percentage remains constant, even if the group size declines.

Regarding the demographic trends, the actuaries pointed out that all three of the PSPRS Plans are maturing. The ratio of active members to retirees for each Plan as of June 30, 2010 was: 1.9 to 1 for PSPRS, 4.9 to 1 for CORP and 0.9 to 1 for EORP. This means that EORP is the most mature of the plans. As public sector plans mature and baby boomers retire the ratio of actives to retirees will decline. This by itself does not indicate a problem because most public plans fund the cost of promised benefits in advance. But for underfunded plans, a declining actives to retirees ratio can complicate the ability of the plan to move toward full funding. Contributions as a percent of payroll become relatively more expensive and when active membership declines and payroll declines, the dollar contribution becomes much more burdensome.

The actuaries also told the Board that mature plans tend to have negative cash flow (more is paid out in benefits than is collected in contributions). However, they pointed out that this is a normal development in the maturing of a pension plan. Of the systems included in the latest survey conducted by NASRA (National Association of State Retirement Administrators), 94% are in a negative cash flow position. They also added that negative cash flow can have an impact on a plan’s asset allocation since more liquid assets are needed to pay for the benefits. CORP is the only System Plan that is not in a negative cash flow position.

Mr. Tobin said the assumed earnings rate applicable to DROP needs to be determined by June 30, 2011 along with the rate of inflation and the salary, payroll growth assumption.

3. Status report and possible **Action** on legislation pertaining to PSPRS including SB 1609………………………………………………………………………………………………………Mr. Jim Hacking

This discussion was continued from before the GRS portion of this agenda.

In order to provide direction to the lobbyists for PSPRS pertaining to SB1609 with the goal in mind of becoming 80% funded within 20 years for the System’s Plans, the following motions were made and discussions were held.
<table>
<thead>
<tr>
<th>MOTION: 3-108-11</th>
<th>At 12:47 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>To move support of SB1609 subject to any subsequent caveats.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Maguire</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Ms. Stein</td>
</tr>
<tr>
<td>Discussion:</td>
<td>Mr. McHenry voiced concern about things in the bill that have no actuarial value to improve funding. He is concerned about a public relations issue versus funding issues. Mr. Maguire stated that, even recognizing all of the frailties of the bill; he still is supportive of it. Mr. Ferguson added that he is concerned about the EORP portion of the bill, especially the provision that would make everyone who is re-elected or retained for public office a “new hire.” Ms. McAllister informed Mr. Ferguson that the lobbyists will work to get that objectionable provision removed from the Elected Officials’ portion of the bill.</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Mr. Petrenka, Ms. Stein, Mr. Ferguson, Mr. Maguire, Mr. Tobin</td>
</tr>
<tr>
<td>Not in Favor:</td>
<td>Mr. McHenry</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

Discussion was then held regarding the EORP new member classification and retention provision and the direction to be given to the System’s lobbyists to get this provision corrected.

<table>
<thead>
<tr>
<th>MOTION: 3-109-11</th>
<th>At 1:03 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion:</td>
<td>Move that the System’s lobbyists pursue clarification of the bill's language or if possible get the definition of a “new hire” revised to cover only persons who first become members of the Plan on or after January 1, 2012. This would involve getting any reference to “recently elected official” deleted (referenced in SB1609 §38-801 definition #28).</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Ferguson</td>
</tr>
<tr>
<td>Seconded by:</td>
<td>Mr. Petrenka</td>
</tr>
<tr>
<td>Discussion:</td>
<td>Mr. Maguire stated that at a minimum there is a need to clarify that “retain” refers to judicial retention elections and clarify what constitutes a substantive change of employment.</td>
</tr>
<tr>
<td>In Favor:</td>
<td>Unanimous</td>
</tr>
<tr>
<td>Motion:</td>
<td>Passes</td>
</tr>
</tbody>
</table>

Discussion was held regarding the sections of SB1609 that refer to the ability to purchase prior military time. Ms. Peterson stated that USSERA applies to active members of the Systems who are called to active duty while in public safety positions. Federal law protects their ability to make contributions and active duty counts as credited service. The second part of SB1609 removes the purchasing of prior military service before they worked in a public safety position.
A discussion of the revision to the COLA in SB1609 was discussed. Also discussed was Rep. Fillmore’s amendment, which was defeated in the House Employment and Regulatory Reform Committee. In describing this amendment, Mr. Hacking stated that it appears to raise the threshold that governs new in-flows of assets to the COLA Reserves from the current 9% to 10.5%. Under the COLA provisions in SB1609 as they relate to the PSPRS-administered Plans, the annual average return (rather than the annual return) would have to exceed 9% for a new inflow of funds to the COLA Reserves to occur. In addition, even if this requirement were met, there would still be no new in-flow if the funding ratio of the Plan were below 70% and if the ratio were between 70% and 80%, only one-quarter of the excess annual average return over 9% would go to the Reserve.

The Board of Trustees tabled this discussion until the March 30, 2011 Board meeting.

Mr. Tobin asked that the members of the Board consider the PSPRS initial proposal for phasing in an increased member contribution rate over four years as a substitute for SB1609’s proposed PSPRS contribution rate increase which would occur over three years with a 2% increase in the first year.

Mr. McHenry added that he has a concern regarding THE DROP component in SB1609, specifically the provision that would deny the opportunity to participate in DORP for any current member who does not have five years of service as of January 1, 2012. Penalizing members with less than five years of service has very little actuarially benefit for the PSPRS Plan. Moreover, it creates a division among current PSPRS participants that does not need to be there.
4. Call to the Public:

This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

No members of the public wished to be heard.

5. Set the next meeting date.

The next meeting date is Wednesday, March 30, 2011 beginning at 1:00 P.M.

6. Adjournment

MOTION: 3-113-11  At 1:33 p.m.
Motion: To adjourn the meeting.
Moved by: Mr. Maguire
Seconded by: Mr. Ferguson
Discussion: None
In Favor: Unanimous
Motion: Passes