

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SPECIAL BOARD OF TRUSTEES MEETING**

June 5, 2014

MINUTES

Present: Mr. Brian Tobin, Chairman, Trustee
Mr. Gregory Ferguson, Vice Chairman, Trustee
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee - Telephonic attendance
Mr. Richard Petrenka, Trustee
Mr. Lauren Kingry, Trustee
Mr. William Davis, Trustee - Telephonic attendance

Others Present: Mr. Jim Hacking, Administrator
Mr. Jared Smout, Deputy Administrator
Mr. Ryan Parham, Chief Investment Officer
Mr. Marty Anderson, Deputy Chief Investment Officer
Ms. Ivy Voss, Assistant Attorney General
Mr. Marc Lieberman, Fiduciary Counsel, Kutak Rock

1. Call to Order; Roll Call; Opening remarks

Mr. Brian P. Tobin, Chairman

Chairman Tobin called the meeting to order at 11:38 a.m.

2. 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.

Mr. Tim Hill, President of Phoenix Fire Fighters Association (PFFA), responded to the concerns and comments of the Trustees. He said that the fire fighters plan has been well vetted with hundreds of hours of legal and actuarial work. He noted that the pension reform bill (SB1609) had been in conflict with the diminishment and impairment clause of the state constitution. He stressed that the PFFA wants to try to fix this. The Arizona Governor has asked for Board input and a recommendation to call a special session to address this issue. Mr. Hill stressed that time is short if this matter is to be presented to the voters in this November's election. The PFFA plan is intended to be a permanent fix for retirement and security. He indicated that his organization is currently contacting legislators. It is important that the Governor call a special session for consideration of the issue.

Mr. Will Buividas, Treasurer, Phoenix Law Enforcement Association (PLEA), also spoke on this issue. He said that if we continue to fund COLAs using the pre-SB1609 formula, it could bankrupt the System. He said that PLEA is 100% behind the PFFA initiative and he added that it would be helpful for the Board to support a special session. He pledged that PLEA would work with fire fighters to form a consensus.

Mr. Jim Mann, Executive Director, Fraternal Order of Police (FOP) Labor Council told the Trustees that for his organization this is a gut wrenching issue. He said that the FOP recognizes that there is a big problem, now that the Supreme Court, by its decision in the Fields case, has restored the old COLA formula. He said that the FOP understands the problem and the numbers. He praised the fire fighters for including other groups in an attempt to address this issue. He stressed that all the public safety groups are concerned about the financial impact the Fields case decision will have on employers and current public safety personnel. He concluded by saying that the PFFA proposal merits discussion and a great deal of attention.

Mr. Luis Ebratt, representing the Combined Law Enforcement Association (CLEA), said that the initiative is still a work in progress but that his organization is in agreement with the changes that are being discussed. He added that his organization would support a similar initiative with respect to the CORP as well.

3. Discussion and possible **Action** regarding the Board's support for (i) legislation proposed by the Professional Fire Fighters of Arizona to improve the fiscal health of the PSPRS and make other changes to the System, and (ii) legislative proposals by corrections officers and elected officials to improve the fiscal health of the CORP and/or the EORP and make other changes to those plans.

*Mr. Jim Hacking
Administrator*

Mr. Hacking reviewed with the Trustees some of the highlights from the report that the System's actuaries from GRS had presented at the regular Board meeting in May. He focused on the tables that showed what would have happened as of June 30, 2013, had the old COLA formula been in place.

He pointed out that, had the old COLA formula been in place as of June 30, 2013, the employer contribution rate that will go into effect this July 1st would be 36.17%, instead of 31.03%. Thus, the Fields case decision will add 5.14% to the employer contribution requirement. Mr. Hacking added that, if the Arizona Supreme Court overturns the SB1609 provisions that are being challenged in the Hall case, the PSPRS employer contribution rate will rise by an additional 6.32%.

Mr. Hacking said that in the case of the CORP, the trends are the same. The employer contribution rate of 13.23%, that is based on the June 30, 2013 actuarial valuation results, would rise to 15.67% when the results of the Fields case are factored in and would rise to 21.09%, if the plaintiffs in the Hall case prevail in their challenges to SB1609.

In the case of the EORP, which is now a closed plan, Mr. Hacking indicated that the current statutory rate of 23.5% is going to have to be increased significantly to take account of the financial impact of the Fields case decision. By way of illustration, he pointed to the GRS employer contribution rate calculation that was done as of June 30, 2013 on a "level dollar" basis. That rate was calculated to be 55.29%. But after factoring in the effect of the Fields decision, the rate would be 78.32%. He added that, if the plaintiffs prevail in the Hall case, the rate would be 91.78%.

In describing the principal elements of the PFFA initiative, Mr. Hacking said that COLAs would no longer be funded from excess investment returns, but instead would be funded by contributions primarily from members with possibly a small contribution by employers. Pointing to the GRS projections, he said that the initiative would have the effect of nullifying the Fields decision and would render moot any adverse decision in the Hall case. In effect, the PFFA initiative would put the PSPRS Plan in roughly the same financial position it would have been in as a result of the changes made by SB1609.

Regarding CORP, Mr. Hacking indicated that the public safety organizations have said that for their active members to accept an increase in their contribution rates to fund COLAs, rather than having COLAs funded from excess investment return, there would have to be changes made in the CORP benefits that would make them much more like the benefits available in PSPRS.

With respect to EORP, Mr. Hacking indicated that for a COLA funding change similar to what is contained in the PFFA initiative to work, the closed EORP defined benefit plan would likely have to be reopened. He added that, if this were done and employer contribution rates were calculated as a level percent of payroll, the financial status of the EORP would improve dramatically and would look much more like the way it looked when the effects of SB1609 were factored in.

Mr. Tobin stated that we know we have to fix the COLA mechanism to get back to where we were prior to the Fields decision.

MOTION: 1 – 6/5/14	At 1:08 p.m.
Motion:	Mr. McHenry moved that the Board urge the Governor to call a special session to deal with the COLA issue and that the Board officially support adoption of the legislation marked Exhibit A as well as any additional legislation introduced at any special legislative session which the System's Administrator and the System's actuaries believe will improve the Plans' funding levels by placing reasonable limitations on cost of the living adjustments for retirees.
Moved by:	Mr. Mc Henry
Seconded by:	Mr. Ferguson
Discussion regarding an amendment:	Mr. Mc Henry said that one item that has not been discussed today is the situation of survivors who benefit from COLAs. He said that he thinks that this should be part of the conversation. Mr. Davis offered an amendment to the motion to remove the reference to the specific proposal identified in Exhibit A. He said that he thought that the motion should be broad enough so as not to rule out support for other possible initiatives that could also address the COLA issue.
Amendment Motion:	Mr. Davis
Seconded by:	Ms. Stein
In favor of Amendment:	Mr. Davis, Ms. Stein, Mr. McHenry, Mr. Ferguson, Mr. Petrenka, Mr. Kingry
Opposed:	Mr. Tobin
Amendment:	Passes 6 to 1
Discussion of Amended Motion:	Mr. Kingry inquired as to the impact of the amendment on the motion. Mr. Tobin stated that the amendment removed the reference to the specific proposal identified in Exhibit A. While there is no specific proposal being endorsed, there is a willingness to find a solution to the COLA problem. Mr. Ferguson added that our lobbyists and the Administrator are there to work in support of a solution to the problem. Ms. Stein stated that the legislature would have to act quickly to get this matter on the 2014 ballot.
In Favor:	Mr. Davis, Ms. Stein, Mr. McHenry, Mr. Ferguson, Mr. Petrenka, Mr. Tobin
Opposed:	Mr. Kingry
Motion:	Passes 6 to 1

4. Discussion of and possible **Action** on a proposal to mitigate in the short term, the impact of the Fields' case decision on plan employer contribution rates.

Mr. Jim Hacking

Mr. Hacking stated that the GRS actuaries had indicated that the employer contribution rate for PSPRS would have to be increased by 5.14% to take account of the impact of the Fields decision. He pointed out that the actuaries recommended that this increase

be phased in over three years. In effect, in each of the next three years, the employer rate would be increased by 1.71% over what the contribution rate would otherwise be. He indicated that this would mitigate the effect of the Fields case decision in the short term. He added that counsel will review the statutes to be sure that a contribution rate phase-in is consistent with the requirements of the law.

MOTION: 2 – 6/5/14	At 1:17 p.m.
Motion:	To adopt the GRS-recommended three year phase in as presented by Mr. Hacking as long as it legally complies with A.R.S. §38:843(b).
Moved by:	Mr. McHenry
Seconded by:	Mr. Kingry
Discussion:	None.
In Favor:	Unanimous
Motion:	Passes

5. Adjournment.

The meeting was adjourned at 1:17 p.m.

Brian P. Tobin, Chairman

Gregory Ferguson, Trustee,
Vice Chairman

Randie A. Stein, Trustee

Jeff Allen McHenry, Trustee

Richard J. Petrenka, Trustee

Lauren Kingry, Trustee

William C. Davis, Trustee