

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES OPERATIONS, GOVERNANCE POLICY and AUDIT
COMMITTEE MEETING**

February 20, 2013

MINUTES

Present: Mr. Gregory Ferguson, Chairman
Mr. Jeff McHenry, Trustee
Ms. Randie Stein, Trustee

Others Present: Mr. Jim Hacking, Administrator
Mr. Jared Smout, Deputy Administrator
Ms. Ivy Voss, Assistant Attorney General
Ms. Bridget Feeley, Internal Audit and Compliance Officer
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. Paul Hemmes, Systems Programmer
Mr. Robert Ortega, Local Board Training Coordinator/HR Manager
Mr. Sam Meier, IT Operations Manager
Ms. Michelle Pechan, Paralegal

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

*Mr. Gregory Ferguson
Committee Chairman*

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 January 16, 2013.

Mr. Gregory Ferguson

MOTION: 1-2/20/13	At 11:01 a.m.
Motion:	To approve the Operations, Governance Policy and Audit Committee Minutes from January 16, 2013.
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 for the seven months of the fiscal year, we are projected to be over budget by \$109,000 due to expenses for investment-related legal services, building construction and repair issues and the new devices for some of the Trustees so that they can access Board related materials electronically. There has been a reduction in the professional services account, however, because investment expenses are less than expected and the in-house legal staff is beginning to take over more of the investment legal work.

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*

Mr. Ortega reported that nothing unusual or unexpected has occurred. Mr. Mineer is conducting webinars to supplement training and will soon begin the Train-the-Trainer program.

5. Presentation of the "Requests for Local Board Rehearing" Report for the current month and possible discussion regarding the same.

*Mr. Jim Hacking
Administrator*

Mr. Hacking reported that there are five cases cited in the report. One has been resolved; two cases are pending; and the last two are nearing completion as we are waiting for final documentation to review.

6. Review, discussion and possible Recommendations regarding the February 2013 Kutak Rock and other law firms' billings for legal services performed in January 2013.

Mr. Jim Hacking

Mr. Hacking reported that the total February legal billings for services performed in January 2013 was \$51,806.19. He indicated that, on a month-to-month basis, the amount of the bills are coming down. That is attributable to the work of our in-house investment counsel.

MOTION: 1-2/20/13	At 11:01 a.m.
Motion:	To approve the Operations, Governance Policy and Audit Committee Minutes from January 16, 2013.
Moved by:	Mr. McHenry
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

7. Report and Recommendations on the FY 2013 Compliance and Internal Audit Plan.

*Ms. Bridget Feeley
Internal Audit and Compliance Officer*

Ms. Feeley reported that one of the biggest projects on her audit agenda is the documentation of retirement processing, which is 65% complete. EPIC documentation of processes will be completed by March 31, 2013. The Iran/Sudan letters have been worked on and completed by in-house investment staff and by Compliance and Internal Audit. Work continues on the Travel Expense Report and the Investment Due Diligence Report. The Internal Audit Plan has been updated and following this, Ms. Feeley described the process of writing the Iran/Sudan letters.

8. Status report and discussion of the PSPRS, EORP and CORP Administrative Bills (HB2056, SB1173 and SB1174) and Amendments

*Mr. Jim Hacking
Mr. Jared Smout
Deputy Administrator*

Mr. Hacking reported that all three bills have been heard in committee and amendments have been approved. When the PSPRS bill comes to the floor, a further amendment will be added. This amendment relates to the I.R.C. section 401(h) account for health insurance premium subsidy money; the amendment is needed for financial reporting. This amendment is administrative in nature. There are other bills which were not initiated by PSPRS that are being tracked in our Legislative Tracking Report; these are minor in nature with no financial impact on PSPRS as an agency.

9. Report, discussion and possible Recommendations with respect to the "EORP Closure/Defined Contribution" Bill.

Mr. Jim Hacking

Mr. Hacking reported that HB 2608 is the outgrowth of an attempt made last session to close the EORP. We had concerns about that effort at the time, since that initiative had not been vetted and there had been no discussion of where the new hires were to go. Moreover, this initiative was undertaken on the next to the last day of the session, even though it was clear that a major policy decision like that should not be rushed forward. Our efforts at that time were successful.

Thereafter, during the summer, legislative staff worked on this bill and we were asked for, and supplied actuarial projections and suggestions for design. The current proposal, embodied in HB2608, would close the EORP to new hires as of June 30, 2013; new hires will be covered under a defined contribution plan where each member can contribute up to 8% of salary. If this is the case, there would be an employer 5% contribution that would go into the accounts of the DC plan. Each member would have a menu of investment options from which to choose and could decide how to take out funds for a retirement benefit.

In order to set this up, the decision was made to fund both the closed DB plan and the new DC plan on a combined payroll basis over a 30 year time frame. The question for the actuaries was what contribution rate, fixed for thirty years, would be necessary to completely cover the normal cost and amortize the unfunded liability for the closed DB plan, plus provide money for the employer matching contribution to the DC accounts, assuming the System would get \$10 million per year in judicial filing fee revenue and revenue of \$3.5 million per year from the State General Fund. The actuaries estimated that the rate should be set at 23.5% of payroll.

Following preliminary review of the first draft of the legislative proposal in which PSPRS was designated as the administering agency for both the closed EORP DB and the new DC, a decision was made to switch administrative responsibility for the new DC to ASRS. This was done because ASRS already has authority to manage DC plans. However, the legislative staff was told that PSPRS also has existing authority to manage DC plans and that it makes no sense to bifurcate administrative responsibility for the two plans. Mr. Hacking said that during the committee hearing held yesterday in the legislature, he objected to the bill since it is silent on how employer contribution money is to flow between PSPRS and ASRS and raised other issues which he briefly described for the members of the Committee. The bill passed out of committee on a 5 to 3 party line vote. As of now, the bill has an Emergency Clause that needs a 2/3 majority vote in both House and Senate. Mr. Hacking noted that, in the House Committee, an amendment was added to provide for an annual State payment of \$3.5 million from the State General Fund; this had been omitted from the bill. Mr. Hacking concluded by noting that the bill, as it now stands, still has problems because of the bifurcation of administrative responsibility and the inflexibility of the employer contribution rate. He reminded the House Committee members that if any of the current challenges to the changes made by the Pension Reform bill (HB1609) are successful, the fixed 23.5% employer contribution rate will be totally inadequate to fund the closed EORP and the new DC.

10. 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.

A member of the public asked whether the new hires in the EORP DC will be covered by social security. Mr. Hacking replied that some of them, primarily the judges and court commissioners, will not. The member of the public stated that he sees a problem due to the government pension offset. He noted that even if you get the necessary quarters of coverage for social security, you get penalized a percentage if you have a pension from a public plan that is not integrated with social security. Mr. Hacking agreed that this would be a problem for the judges and commissioners but probably not for elected officials.

11. Schedule next meeting (*Currently scheduled for Wednesday, March 20, 2013*).

The next meeting is scheduled for Wednesday, March 20, 2013.

12. Adjournment.

The meeting was adjourned at 12:08 p.m.

Mr. Greg Ferguson, Committee Chairman