

ARPO Minutes

Board minutes from May 27, 2009.

The ARPO board held a meeting on Wednesday, May 27, 2009 at 11:30 AM prior to the PSPRS Fund Manager meeting at 1:30PM. All board members were present along with Tom Jonovich. The purpose of the meeting was to discuss the letter sent by the board to the legislative chairmen of committees over the Public Safety Personnel Retirement System regarding the rate of return for DROP participants, and what if any comments should be made at the PSPRS Board meeting.

Tom Jonovich and Dick Bequette had some detailed conversation about various financial methods that can be used for actuarial determination. We discussed the current rate of return for DROP participants is based on ARS 38-844.05.C.2 that states:

An amount, credited monthly, that represents interest at a rate equal to the assumed rate of return determined by the fund manager.

Tom pointed out that the system is designed for long-term returns over 20-30 years and the impact of DROP over the long term was negligible.

We also discussed our concern that the majority of the PSPRS board members are from the fire service and there no members representing retirees.

Dick Bequette expressed concerns about House Bill 2110 at the state legislature. This bill states its purpose is to make technical changes in order to confirm the statute to the Internal Revenue Code regarding pensions. A major issue is related to wording that limits the amount of pensions that are determined by specific years. Dick is concerned that codifying these IRS rules could impact a retiree's pension if future COLA's resulted in a pension hitting the limit.

John Augustyn stated he has researched this bill and believes it will not have an impact on retirees as PSPRS and the retirees have constitutional protection. John related that this bill is strictly a technical correction to bring the statute into agreement with federal law. The bill has passed in the House but has not been heard in the Senate.

At the PSPRS meeting Marcus Aurelius, and Dick Bequette, President and Treasurer of ARPO spoke during the Call to the Public portion of the meeting. Both expressed their appreciation for PSPRS Administrator Jim Hacking speaking at ARPO meetings. They explained their concerns as retirees and representatives of the largest retiree group about the rate of return for the DROP participants. Tom Jonovich spoke asking for more and better communication from the board on issues like DROP.

Other speakers during the Call to the Public included Patty Gault, Tom Kosen and Barbra Maglich. They all expressed their concerns about DROP. Barbra specifically noted that

DROP is a 5 year investment plan while PSPRS is a 30 year or more investment plan and therefore the return on DROP should be determined with a short term view.

Jim Mann, Executive Director of the state FOP, spoke in opposition to all the comments regarding any change to DROP. He also stated that the FOP would oppose the letter from ARPO to the legislature.

The Chairman of the PSPRS Board responded the comments by directing staff to provide clarification and information to board and members regarding DROP and its impact on the system.

Jim Mann requested a meeting after the meeting with the ARPO board and other retirees. Jim expressed his concern that the letter sent by ARPO provides leverage for some legislators who desire to make some major changes to PSPRS that will negatively impact current and future public safety employees. Jim stated that because of the constitutional protection of PSPRS the FOP and other public safety organizations believe that any legislation reducing or changing PSPRS and DROP for current employees would violate that protection.

Jim stated that there was a study on DROP some time ago in conjunction with PSPRS that showed if DROP was removed after 20 years there would be a 0.25% increase in the overall value of the system.

The FOP has discussed its concerns about any changes to PSPRS with legal counsel and been assured that they would win should a law suit be necessary to uphold the constitutionality of the PSPRS protection. Jim is concerned about the legal costs associated with any lawsuit. Jim stated he would prefer to work together on these kind of issues and concerns however he will be sending out a strongly worded letter against ARPO's position on DROP to the legislature and the PSPRS Board. See the link to FOP Lodge 32 posting:

<http://www.azfop32.com/LodgeNewsDetail.asp?ID=132>

Submitted by _____
Larry Gray

Date _____