

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB BOARD RULE #13

Adopted: March 5, 2008

MINIMUM ASSET MANAGEMENT STANDARDS

Act 851 of 2007, codified as Arkansas Code Annotated § 24-11-216, establishes minimum asset management standards for local pension and relief funds subject to the jurisdiction of the Arkansas Fire and Police Pension Review Board (“the Board”) and directs the Board to promulgate rules as necessary to implement the statute.

Section 1. Definitions.

A. Rate of Return

The “rate of return earned by the local pension and relief fund” shall mean the market rate of return, which shall be calculated using the following formula and definitions:

$$\text{Market Rate of Return} = (2 \times \text{II}) / (\text{A} + \text{B} - \text{II})$$

A = Beginning of the year Market Value of Assets

B = End of the year Market Value of Assets

Income = Non-Investment Income of the plan (e.g. millage, premium tax, etc.)

Benefits = Benefits and administrative expenses of the plan

II = Market Investment Income

$$= \text{B} - \text{A} - \text{Income} + \text{Benefits}$$

The Rate of Return will be determined by the Board and reported in the valuation reports.

B. Three (3) Year Average Rate of Return

The three (3) year average rate of return and the phrase “over the most recent three (3) year period” is defined as the arithmetic mean of the Rate of Return as defined in Section 1(A) of this rule. For example, if a pension fund had Rates of Return of 4.5%, 6.2%, and 5.2% in 2004, 2005 and 2006 respectively, then the Three Year Average Rate of Return would be 5.3% $((4.5 + 6.2 + 5.2)/3)$.

C. Actuarially Sound

The term Actuarially Sound is defined in Board Rule 4 of the Board. If a fund is considered Actuarially Sound by virtue of a Cash Flow Study or Alternate Cash Flow Study as defined in that rule, then they will be considered to remain Actuarially Sound until the next regular actuarial valuation, cash flow study, or alternate cash flow study is released.

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D. One (1) Year US Treasury Notes

The “rate of return for one (1) year United States Treasury notes over the most recent three-year period” is defined to be the arithmetic mean of the 36 months closing yield on “U.S. Treasury securities at 1-year constant maturity,” as this term is commonly used by the Federal Reserve and investment professionals. The 36 months average will be calculated using the December 31 closing yield of the year of measurement and the 35 preceding months. The Board will determine the 36 months closing yield from Bloomberg or another similarly authoritative standard investment community source.

E. Compliance under 24-11-202

For purposes of this rule, the term “compliance under § 24-11-202” shall have the same meaning as “Eligible Location (In Compliance)” as defined in Board Rule 12. The list compiled in accordance with Board Rule 12 will therefore also serve to determine which plans are not “in compliance” for purposes of this rule.

Section 2. Verification of Legally Constituted Board and Meetings

Along with the annual financial report required to be filed with the Board, the local pension and relief fund must include written verification signed by the chairperson of the local board of trustees that the fund has a legally constituted board of trustees that meets at least twice annually. The Board will make the final determination of compliance with this section.

Section 3. Written Investment Policy

If the Board determines that a local pension and relief fund does not meet the minimum asset management standards as required by law, it will notify the fund and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law. The Board will also require the fund to establish a written investment policy which must address the following areas:

1. Statement of Fiduciary Responsibility
2. Liquidity
3. Volatility
4. Asset Allocation Guidelines
5. Prohibited Investments
6. Performance Goals
7. Responsibilities of the Investment Consultant
8. Responsibilities of the Investment Managers
9. Selection process for Investment Managers
10. Investment Manager Performance Review
11. Annual review of Investment Policy

The Board will provide a sample Written Investment Policy for consideration.

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The local pension and relief fund must file a copy of the written investment policy and any amendments or changes to that policy with the Board within fourteen (14) days of their adoption.

Section 4. Professional Investment Management

If the Board determines that a local pension and relief fund does not meet the minimum asset management standards as required by law, it will notify the fund and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law. The Board will also require the fund to obtain professional investment management which includes, at a minimum, the following services:

1. Investment Advising and Reporting, including, but not limited to
 - a. Pension plan prudent asset allocation advice
 - b. Choosing independent investment managers or funds
 - c. Reporting the results of the investment managers versus their benchmark at least quarterly.
2. Investment Management, including, but not limited to
 - a. Investing plan assets on a plan-specific basis which pertains to the stated asset allocation designated by the local pension board with the assistance of the investment manager
 - b. Regular reporting of results through the recognized investment management and trust arrangement.
3. Clear statement of fee structure within the guidelines of A.C.A. § 24-11-410 and § 24-11-805.

The local pension and relief fund must file a copy of the professional investment management contract and any amendments or changes to that contract, including a description of the services to be provided, with the Board within fourteen (14) days of its execution.

Section 5. Written Plan of Action

If a fund does not meet the minimum asset management standards and then does not create a written investment policy and hire professional investment management within six months of notification, then they must file a Written Plan of Action. The Written Plan of Action must be developed in conjunction with the Board and its staff. The Written Plan of Action will at a minimum address the following items:

1. A measurable plan to attain the four defining points of the minimum asset management standards.
2. A timeline for meeting the standards.
3. Methods for reviewing and updating the Written Plan of Action.

The Board will provide a sample Written Plan of Action for consideration.

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Section 6. Non-Compliance

If the fund does not meet the minimum asset management standards they must create a written investment policy and hire professional investment management. The Board will consider the fund out of compliance if these are not provided to the Board within six months of notification.

A fund will continue to be considered out of compliance with this law until a Written Plan of Action is implemented by the fund and accepted by the Board.

A fund that is out of compliance will risk the loss of all insurance premium tax monies as provided by Arkansas law and Board Rule 12.

Section 7. Appeal Process

A fund that is out of compliance with this law may appeal the findings of staff used to reach that decision to the entire Board at its next regularly scheduled or specially called meeting.

If a fund's insurance premium tax is withheld because of non-compliance, the fund may appeal that decision to the Board under the steps found in Board Rule 12.

Certified By: _____
David B. Clark, Executive Director