



Arkansas Local Government Pension Management Trust

More than 250 local police, fire and non-uniformed pension plans operate in Arkansas.

These independent plans hold millions of dollars in pension money.

The individual local fund accounts, unlike the Arkansas Public Employees Retirement System (APERS) and the Local Police and Fire Retirement System (LOPFI), are typically too small to attract the investment services and volume fee pricing that APERS and LOPFI enjoy.

On their own, most of these plans would not have the advantage of independent professional investment advice, would not receive complete and timely investment return reporting or would be paying unnecessarily high fees. (High fees decrease benefits available to employees and increase the cost of the local pension program to the municipality). In response, the League created a pension management program to serve these needs.

The Arkansas Local Government Pension Management Trust (PMT) has engaged Stephens Inc. as investment advisor and has made arrangements for the required custodial and administrative services. The PMT Board of Trustees is composed of municipal officials, active employees and retirees that report to the League's Executive Committee, which serves as the

plan administrator but does not replace local boards.

The League's goal in developing the PMT program was to consolidate pension plan assets from around the state in order to make available superior investment advice, performance reporting, and administrative services at the lowest cost possible for local plan administration.

The PMT program allows local pension boards to retain primary control of their fund asset and benefit decisions.

Local plans that join the PMT may take advantage of Pension Review Board (PRB) Rule 4 (revised September 2004) that allows pension plans that retain professional management to use a more liberal and reasonable method of valuation (an "alternative cash flow valuation") relative to benefit increase requests.

Plans that join the PMT are not locked in. If they later decide to join APERS or LOPFI, they may take their assets (with no withdrawal penalty) and move them at will.

For further information or to schedule a visit from the PMT investment advisory team, contact Paul Young (501-374-3484, Ext. 125, or pyoung@arml.org) or Lori Sander (501-374-3484, Ext. 238, or lsander@arml.org).



May 2009

Questions & Answers

(1) What is the Pension Management Trust (PMT)?

The PMT is a legally constituted investment program, which is designed to consolidate management of pension assets of local fire, police and non-uniformed pension funds to obtain access to competitively priced investment options and administrative services.

(2) Why did the League decide to implement the PMT service?

Large pension funds like LOPFI and APERS have access to efficient and professional investment services, due in large part to the significant amount of assets and employees/retirees they represent. Individual local plans, on a stand-alone basis, are typically too small to demand and receive *volume* pricing for investment or administrative services. The PMT is the League's attempt to fill the void by providing a program where individual plans can consolidate (while retaining 100 percent LOCAL CONTROL) and thus receive the best pricing for investment and administrative services.

(3) Why should a local pension fund sign up and have the PMT manage its assets and provide administrative services?

There are numerous benefits available for local plans:

a. The local Plan Board receives independent investment advice, educational services and regular reporting that is monitored by the PMT Board and League staff. The actual investment managers are not affiliated with the PMT investment advisor.

b. The Plan's funds are invested in an investment program selected by the local Plan Board that is designed to provide maximum returns with acceptable risks.

c. The funds are kept separately in the local fund's name by your designated custodian, which may be a bank trust department that has an arrangement with the PMT or an institution selected by the local Plan Board.

d. The custodian can prepare and mail monthly benefit checks, annual 1099s and perform year-end reporting.

e. PMT member plans can potentially use the Pension Review Board Rule 4 "alternative cash flow evaluation" method which may enhance the potential for future benefit increases.

(4) If a local police, fire or non-uniformed plan signs up to have the PMT manage its assets, do the local boards and municipalities lose control?

NO! The local Plan Boards stay intact and in full control. The PMT investment team is advisory only. If the local Plan Board wants its funds invested a certain way that desire will be honored. As with all of the League programs, the retention of LOCAL CONTROL is a very important program objective. The PMT Board is composed of elected officials and uniformed and non-uniformed employees that oversee the program, but this board does not diminish the decision-making authority of the local Plan Board.

(5) If a local plan signs up to have the PMT manage its fund assets, is it locked in?

NO! If a local plan joins the PMT and later decides to join one of the larger plans (LOPFI or APERS) or use another investment arrangement, it may do so at will. There will be NO WITHDRAWAL PENALTY for reclaiming its funds.

(6) Just what "services" will a local fund receive if it signs on with the PMT?

First, the local fund will receive a complete review and assessment of its current condition by the PMT investment advisory team. The team will work with the local Plan Board to devise a specific investment strategy to maximize earnings on fund investments and accomplish other fund objectives. The local Plan Board will receive quarterly reporting regarding performance with a comparison of results to specifically designated benchmarks approved by the local Plan Board. In addition to safekeeping plan assets, the custodian can provide a complete basket of services, including preparation and mailing of monthly retiree checks, year-end IRS reporting for each retiree and annual reporting to the PRB actuary.

(7) How much will it cost the local fund for all of the PMT services? How does that cost compare to what a local fund currently pays for services?

It is very likely that the local fund will obtain more service and lower fees from the PMT as compared to any current third party provider. Most local Plan Boards are not fully informed about the cost of their investment services, let alone any cost for administration. One of the first things the PMT investment advisory

team will do is to assist the local Plan Board in determining its current cost structure. Based on AML experience, these current costs are likely to be in the range of 3% to 5 % of assets per year.

The PMT costs will vary from plan to plan because of plan size and individual plan design but will not exceed 1.5% per year. An exact cost will be provided to each plan before it signs on.

(8) How should a local Plan Board or municipality proceed if it wishes to consider membership in the PMT?

The board or municipality should contact the League staff at the phone numbers or emails provided in the introduction to this brochure. The League staff will arrange a visit with the PMT investment advisory team. If the local plan wishes to join the PMT after reviewing information provided, the local Plan Board must give its formal approval. The local plan then signs a simple joinder agreement, "joining" the Master Trust, and an investment advisory agreement with Stephens Inc. The PMT investment advisory team will then work with the designated custodian to coordinate the transfer of plan assets and initiate the process of setting in place an approved plan of investment and administration.