

# Arkansas Public Employees Retirement System

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STATUS OF THE SYSTEM AND STRENGTHENING FOR THE FUTURE

A presentation of the Arkansas Public Employee Retirement System

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# Agenda

- APERS Overview
- Financial Overview
- Look toward the future
- Questions



# APERS OVERVIEW

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A review of the System



# History

- APERS was established in 1957 as a defined benefit plan for employees of the State of Arkansas.
- A Defined Benefit plan provides benefits to both employees and employers.
  - For employees: Provide a secure income in retirement.
  - For employers: A great benefit for recruiting and retaining employees.

# Board of Trustees

APERS is governed by a 9 member Board of Trustees

- 3 Ex-Officio members (State Treasurer, State Auditor, CFO of the State)
- 3 State Agency representatives
- 3 Non-State representatives

Our Board members are fiduciaries, and have a responsibility to act solely in the interest of the fund and the members of the fund.

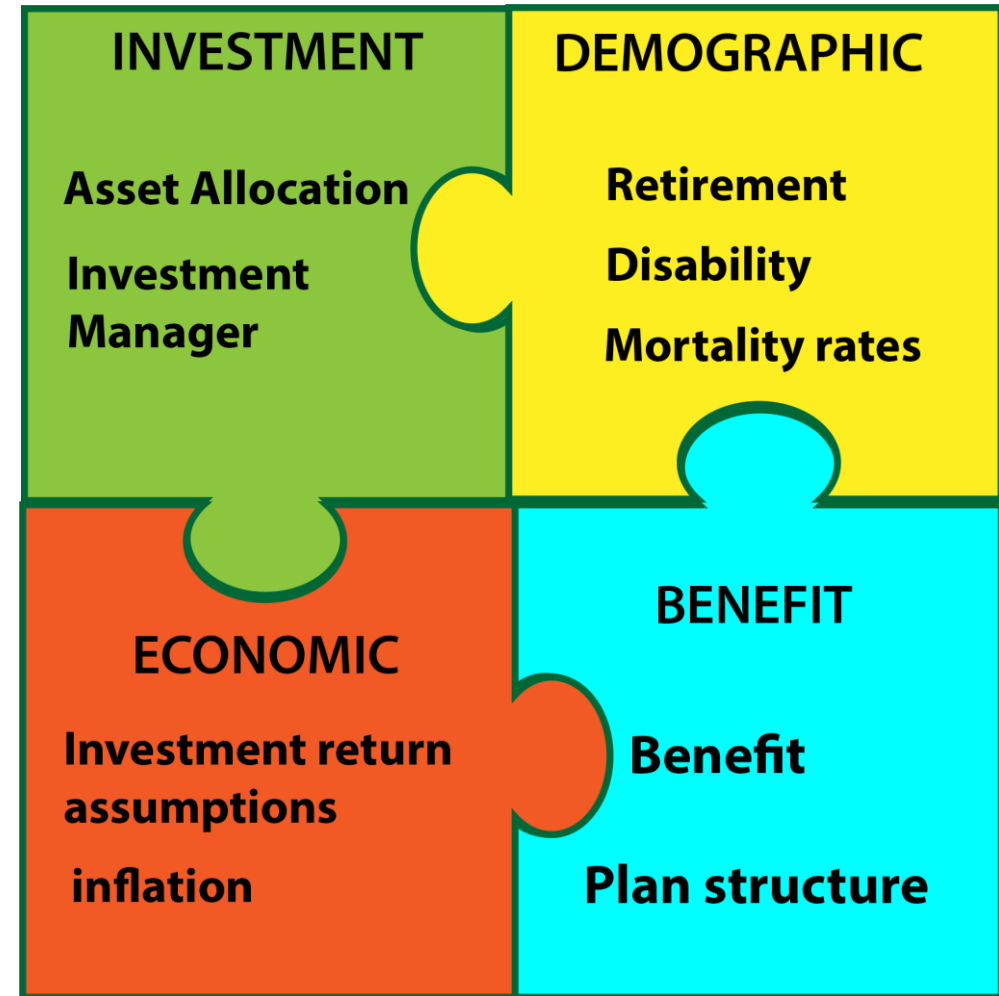
They have a responsibility to make sure the fund is able to meet future obligations to plan members.

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# Board of Trustees

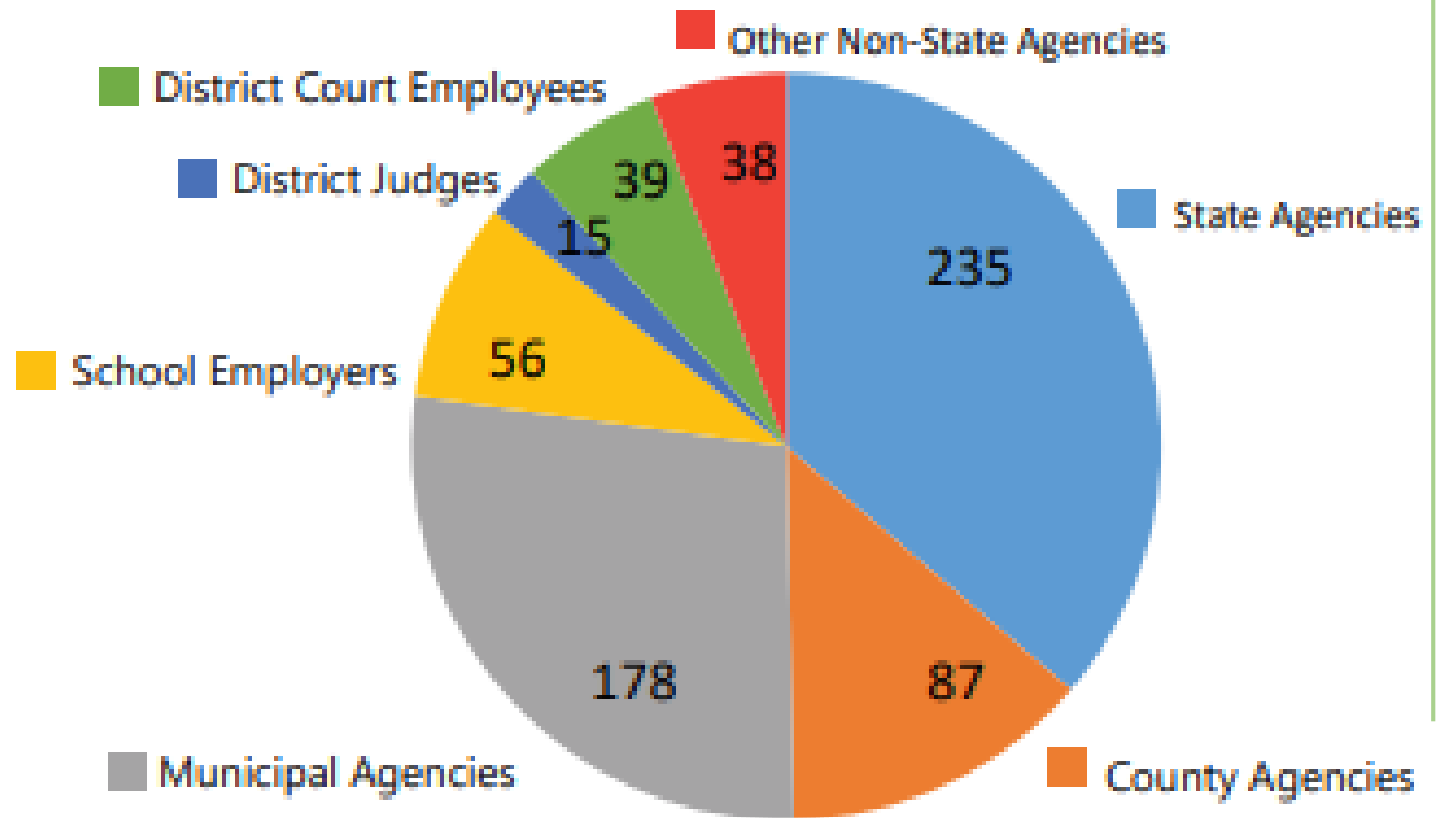
The Board periodically evaluates various aspects of the plan:



# Participating employers

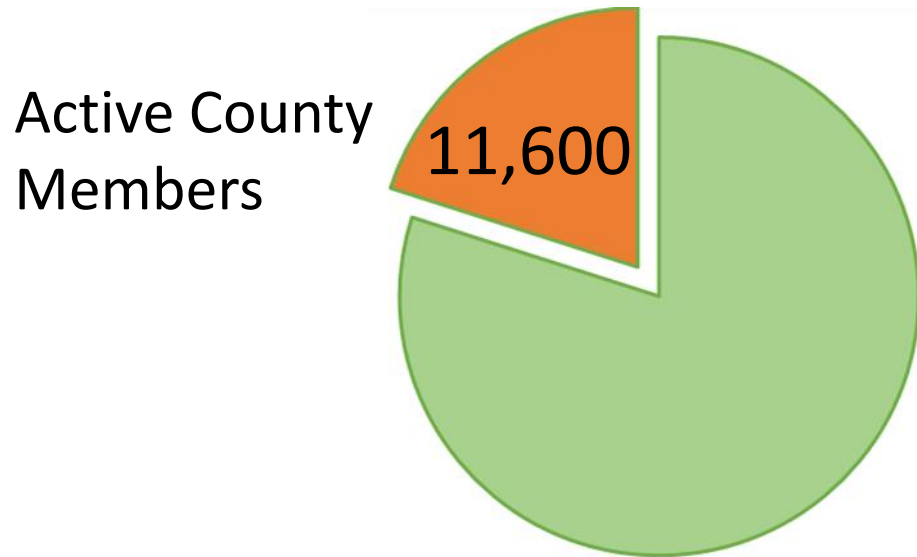
- Act 42 of 1959 introduced Counties into the System.
- In 2018 there were 87 County agencies reporting.

Reporting Entities 2018

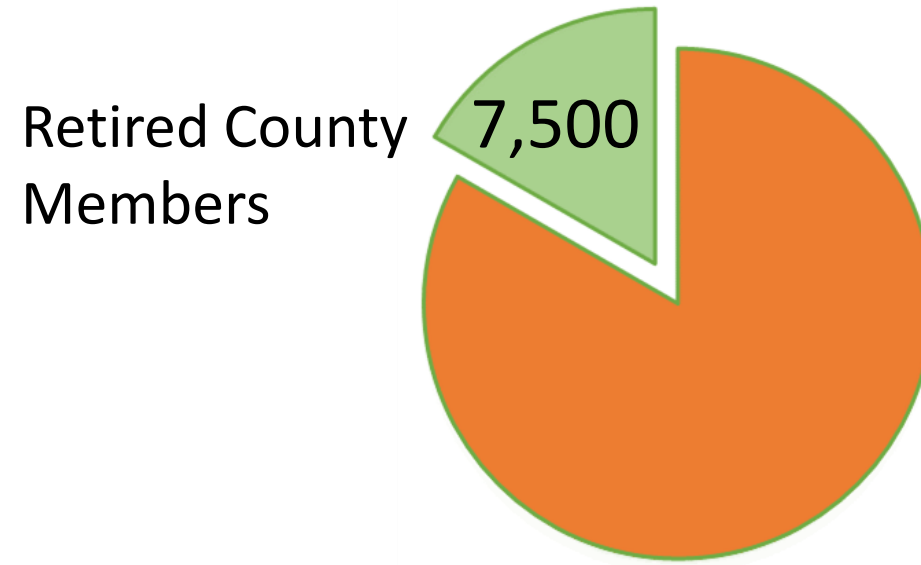


# Membership

## Active Members



## Retired Members



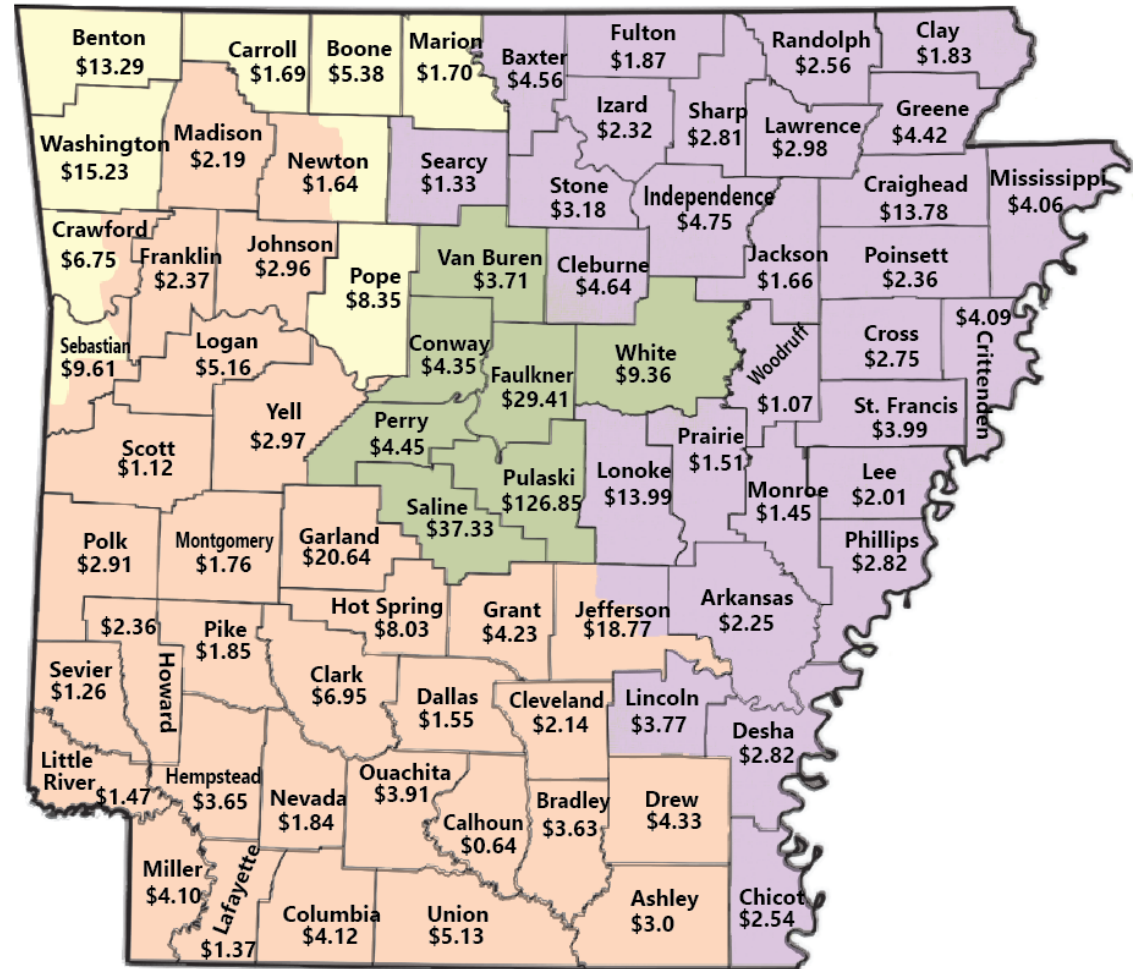
Counties are the 2<sup>nd</sup> largest employee population in APERS.



# Benefits by County

APERS paid out  
\$530,000,000 in benefits  
last year (FY18).

An average benefit of \$1200  
per month



(The figures shown are benefits paid by county in millions of dollars)

# Expanding Service and Outreach

- **Service:**

- Extended hours (in May) for members seeking a July 1 retirement.
- Enabled members to set up appointments as late as 6:00.

- **Member Educational Outreach:**

- Added 6 seminars at 3 new locations from July through September.
- Arkadelphia, Jonesboro, and Russellville.

- **Employer-based Outreach:**

- Working to increase our educational outreach at employer locations.



# Increasing communication with members

- **Communication:**

- Increasing our communication online and through social media.
- Blog: [apers.org/blog](http://apers.org/blog)
- Twitter: @ArkansasPERS
- Facebook: [Facebook.com/Arkansas.PERS](https://www.facebook.com/Arkansas.PERS)

- **Legislative statewide meetings:**

- Joining the other retirement systems in a series of Joint Retirement Committee meetings around the state.



# APERS FINANCIAL STATUS

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A look at APERS Funding Status



# Summary of Financial Condition

## **APERS is doing the right things:**

- Employers make required contributions to the system each year.
- Sound investment portfolio and solid returns over time.
- Conservative actuarial assumptions.

## **This is reflected in our funded status:**

- Our Funded Ratio is 79%, which is above the national median.
  - 90% and above: South Dakota, Wisconsin, Tennessee, New York, Idaho...
  - 50% and below: Kentucky, New Jersey, Illinois, Connecticut, Colorado...

# APERS is currently 79% Funded

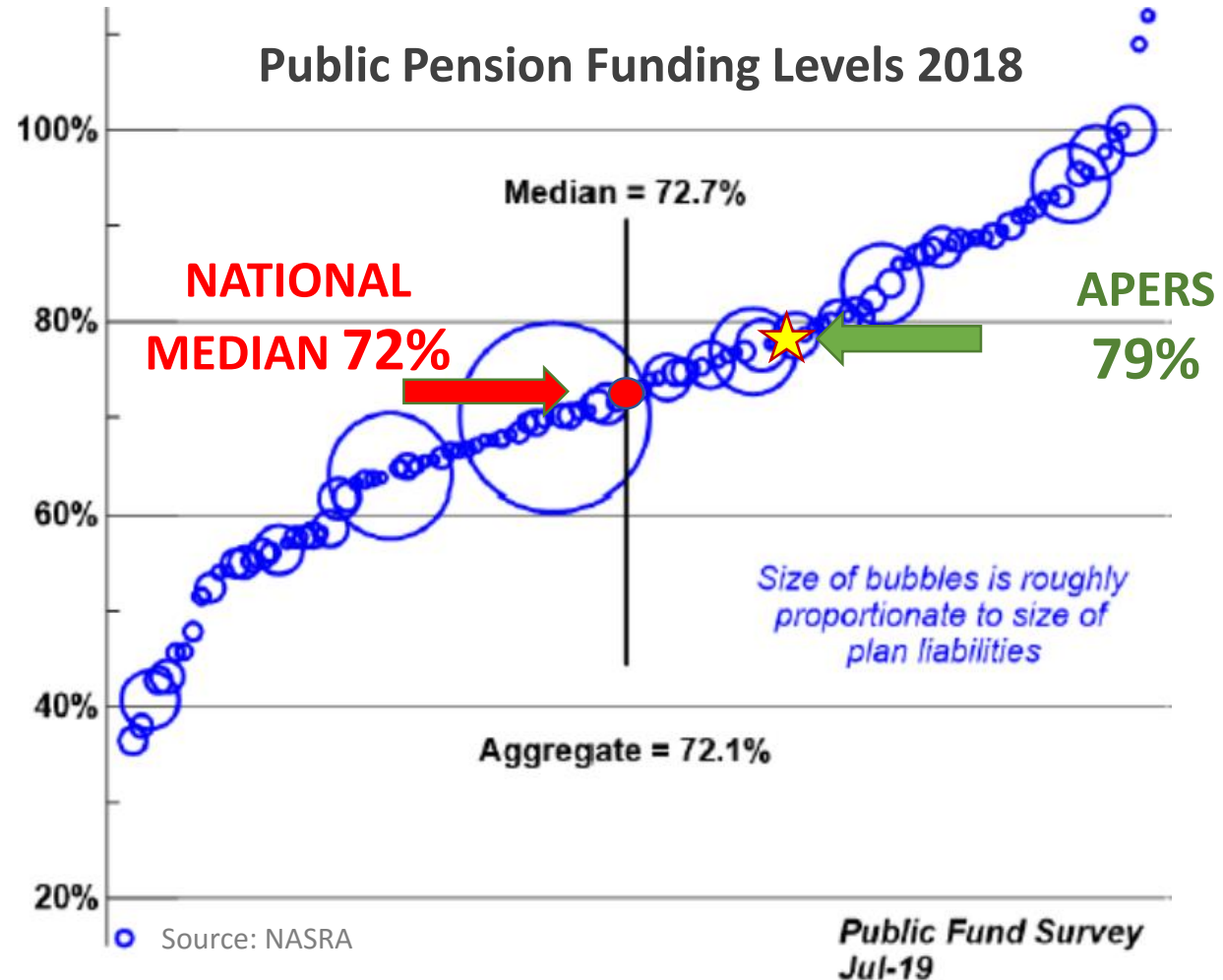
Assets and Liabilities (As of June 30, 2018)	Amount	Funded
Liabilities (Present Value of Currently Earned Benefits)	\$10.6 Billion	
Assets (Investments)	\$ 8.4 Billion	79%
<b>Unfunded Liability</b>	<b>\$ 2.2 Billion</b>	

Source: GRS 2018 Actuarial Valuation

- **Unfunded Liability:** The difference between the assets APERS holds and the present value of currently earned benefits.
- Each employer is assigned their proportional share of this liability, based on governmental accounting standards.

# Funded status

- Our Funded Ratio is **79%**, which is above the national median of **72%**
- APERS was last 100% funded in 2002.
- APERS Actuarial Funding Policy sets a target of 100% funding.



# A MATURING SYSTEM

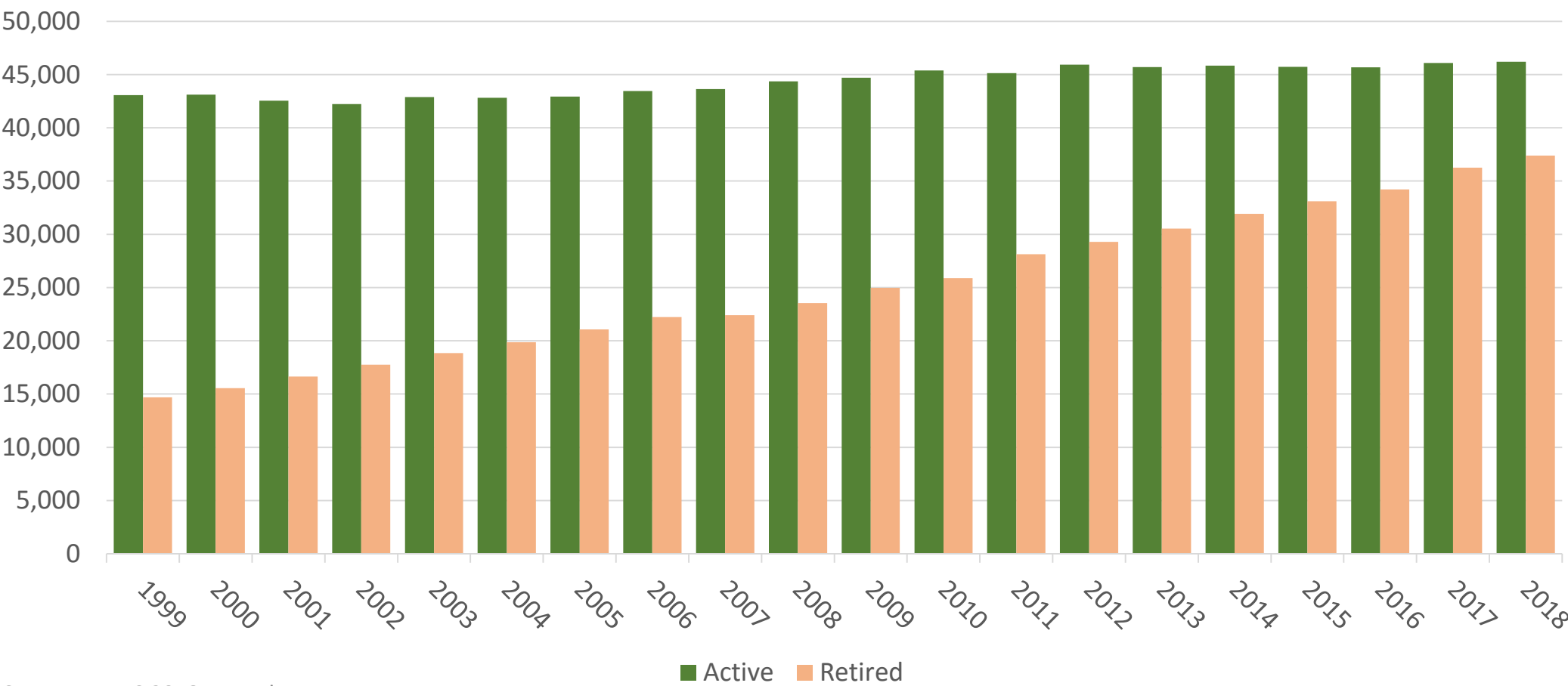
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How APERS is changing over time





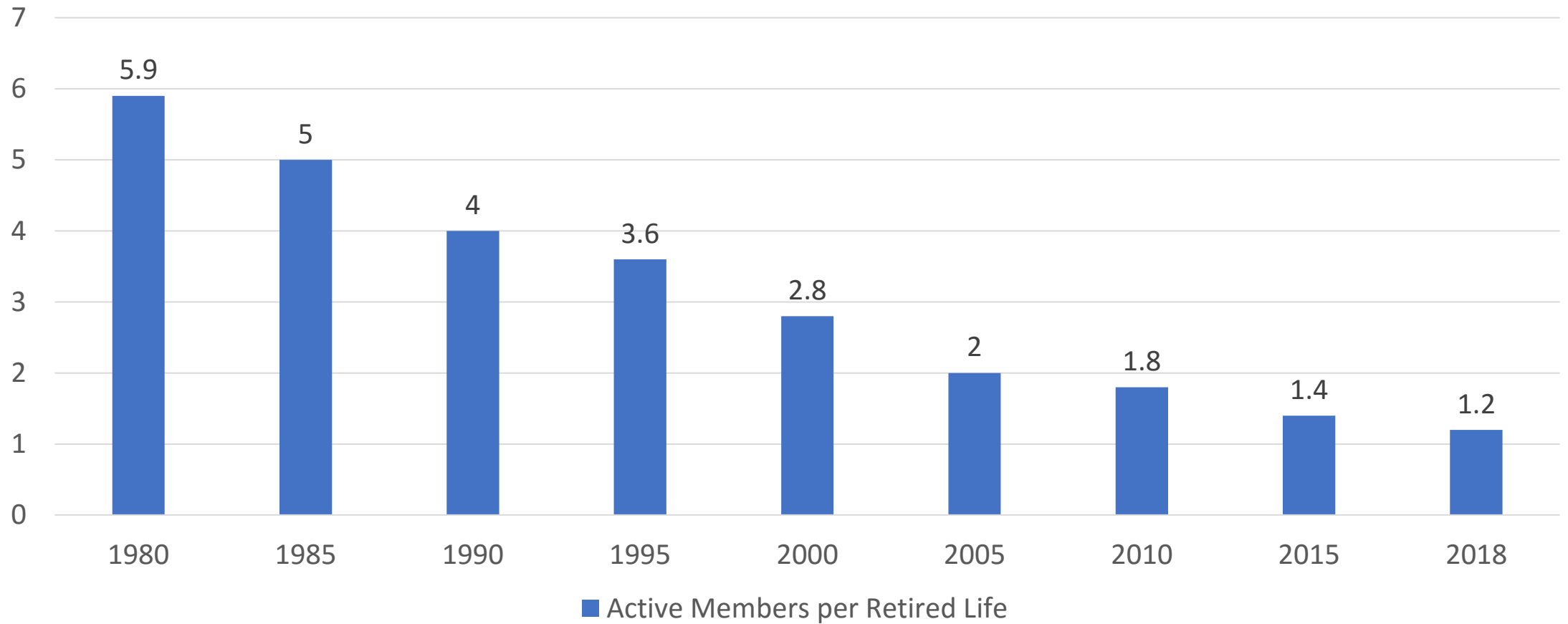
# # of Retirees growing, while Actives are stable



Source: APERS 2018 Annual Report

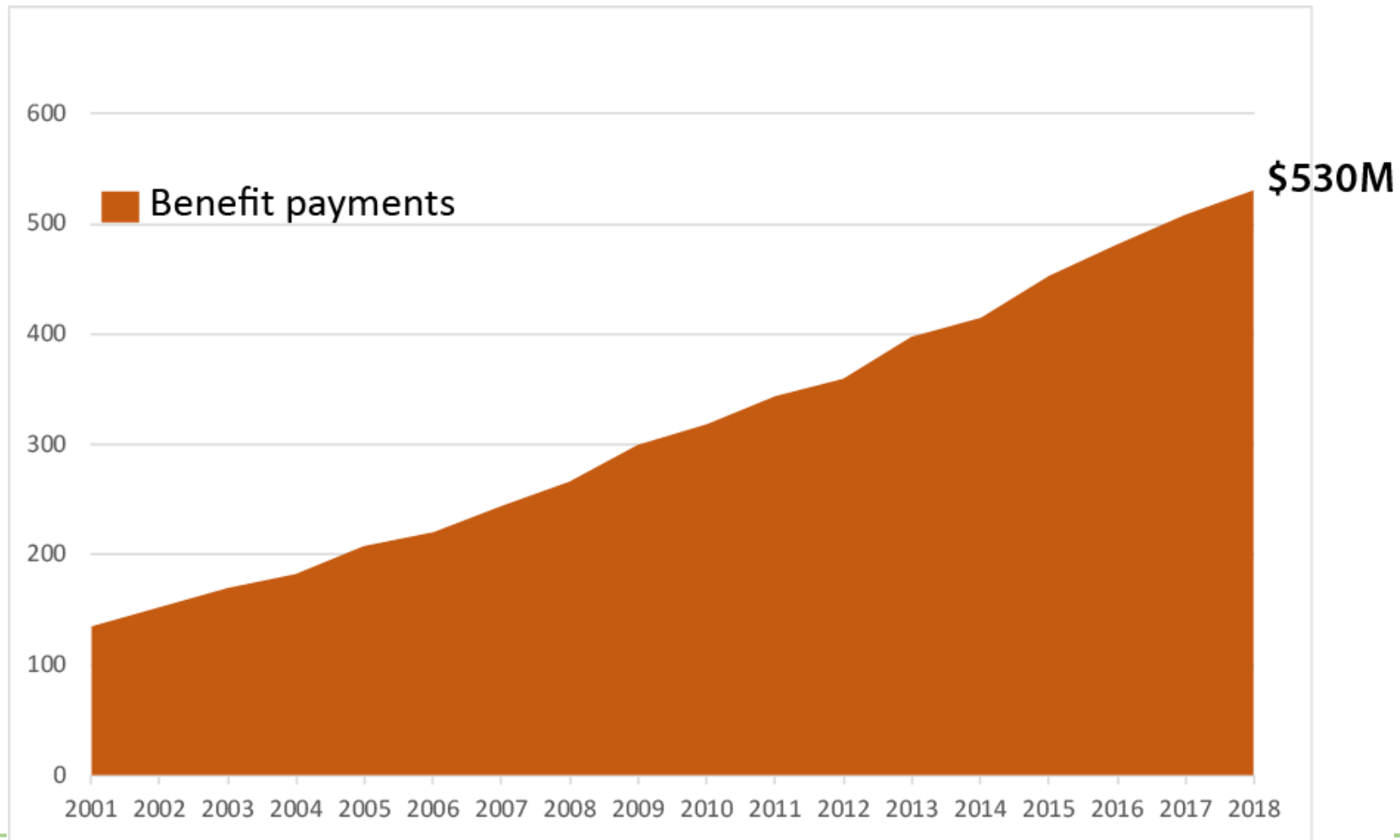


# Ratio of Active members per Retired



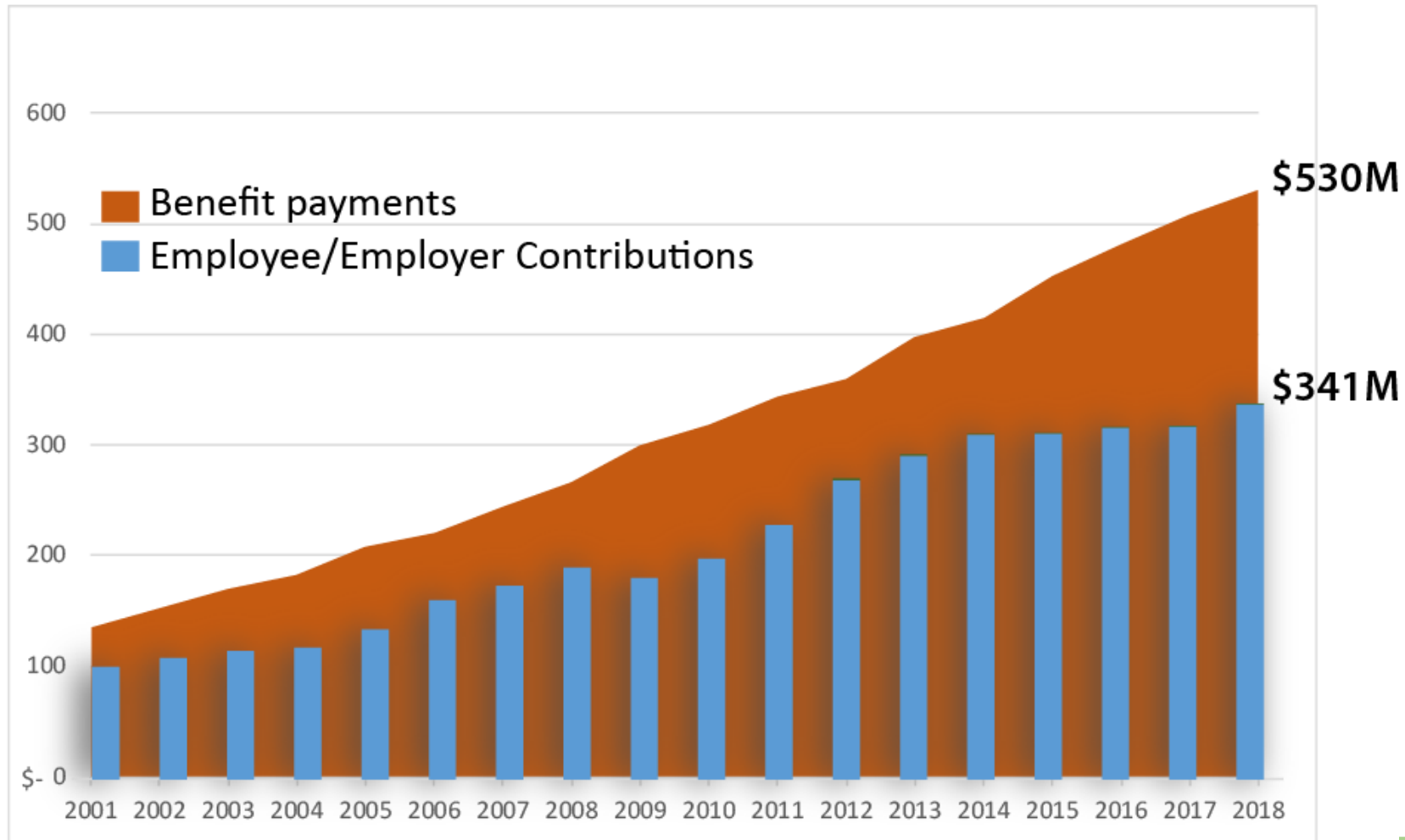
# Total Benefit Payments are growing each year

APERS paid out over \$530 Million in benefits in FY18 and the amount will continue to grow.



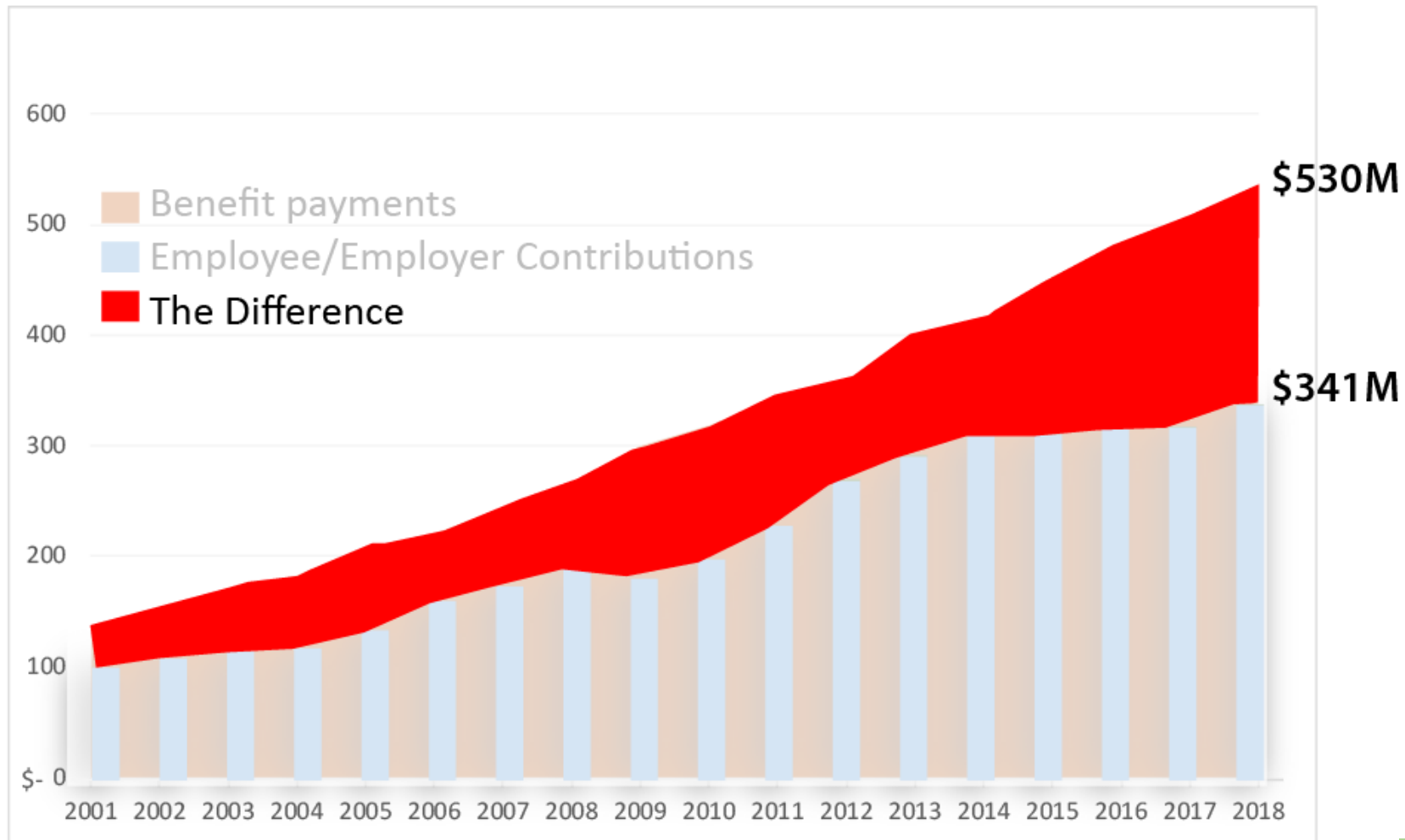
# Benefit payments exceed contributions

Approaching a \$200 Million difference in benefit payments and contributions FY18.



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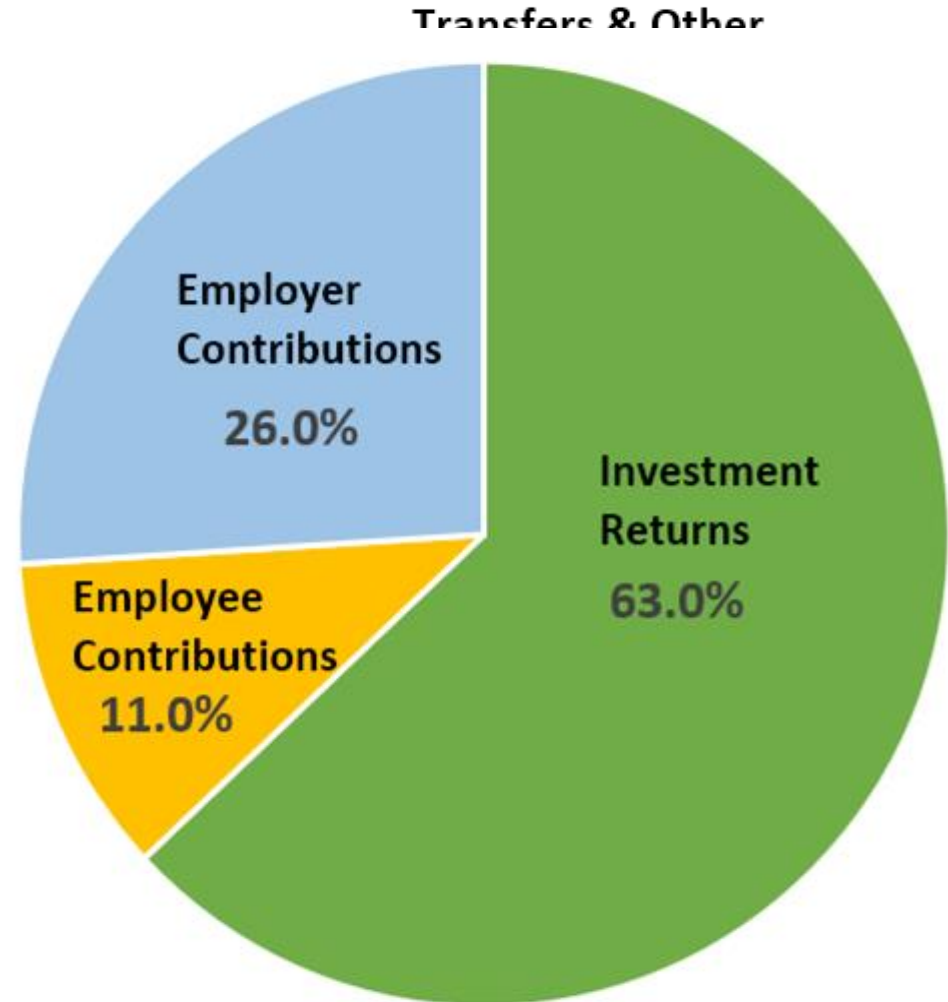


# Where does our funding come from?

- Employer Contributions
- Employee Contributions
- Investment Returns

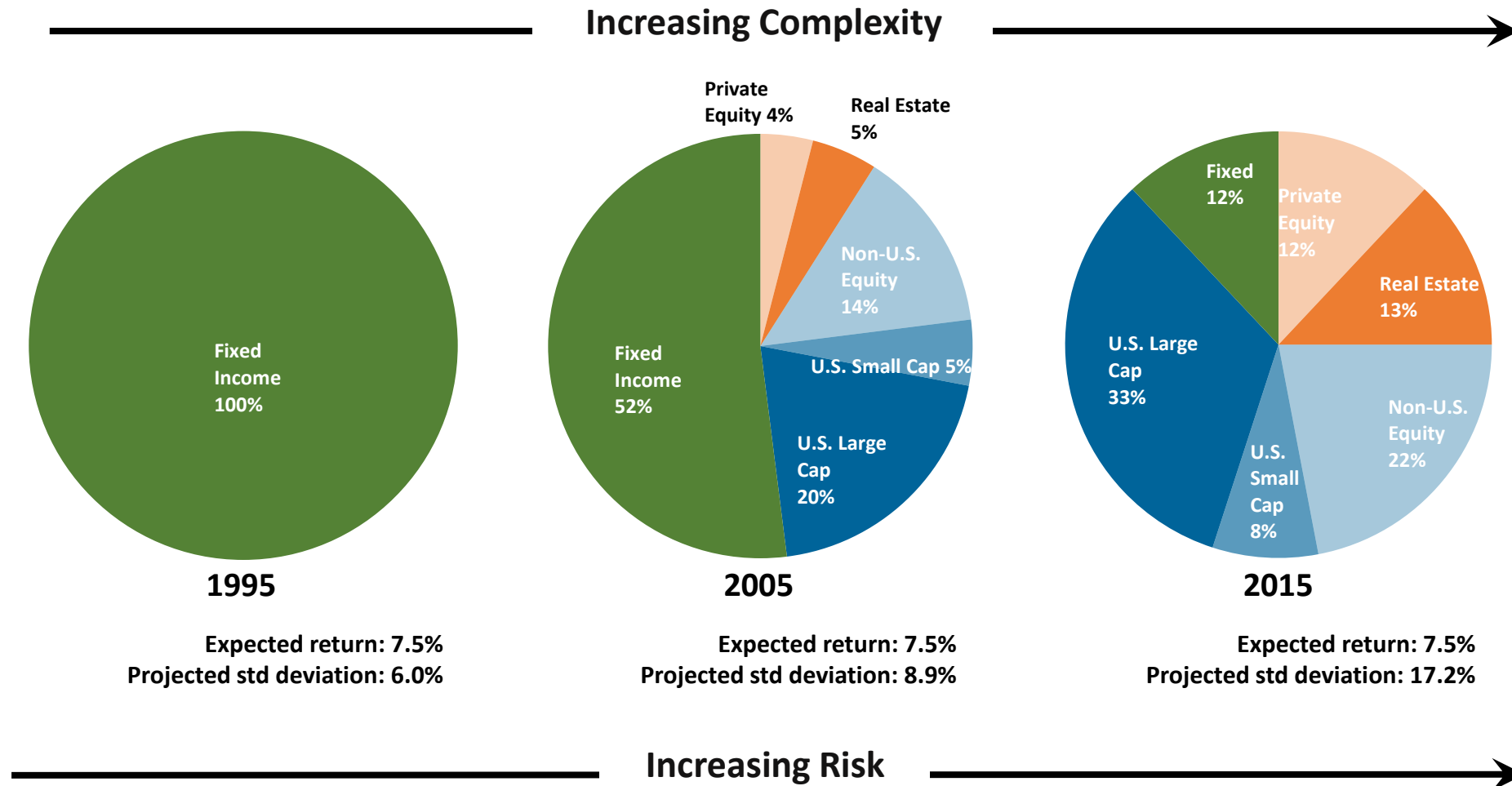
## APERS AVERAGES

Source: NASRA, APERS



# Investments have become complex, volatile

Pension investments have become more complex and volatile as funds seek returns.



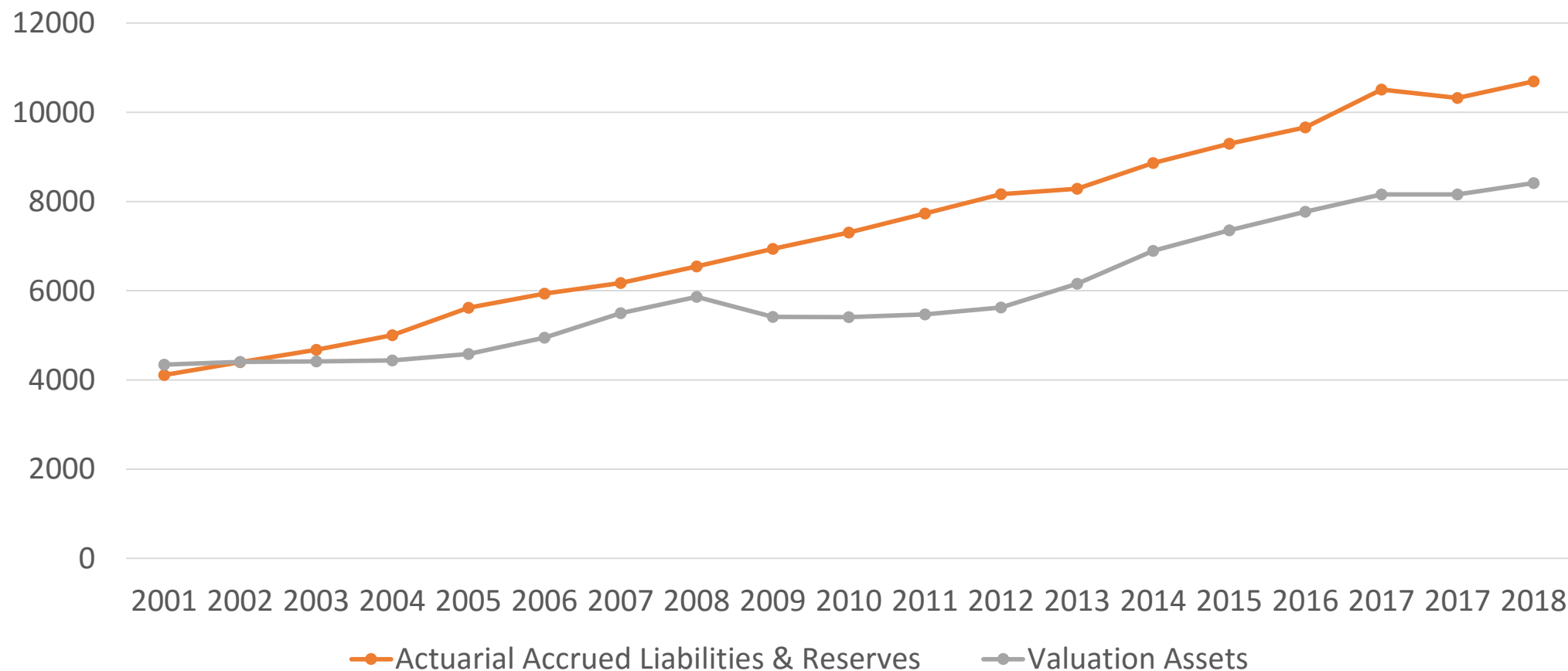
# Investment returns are volatile



Source: APERS

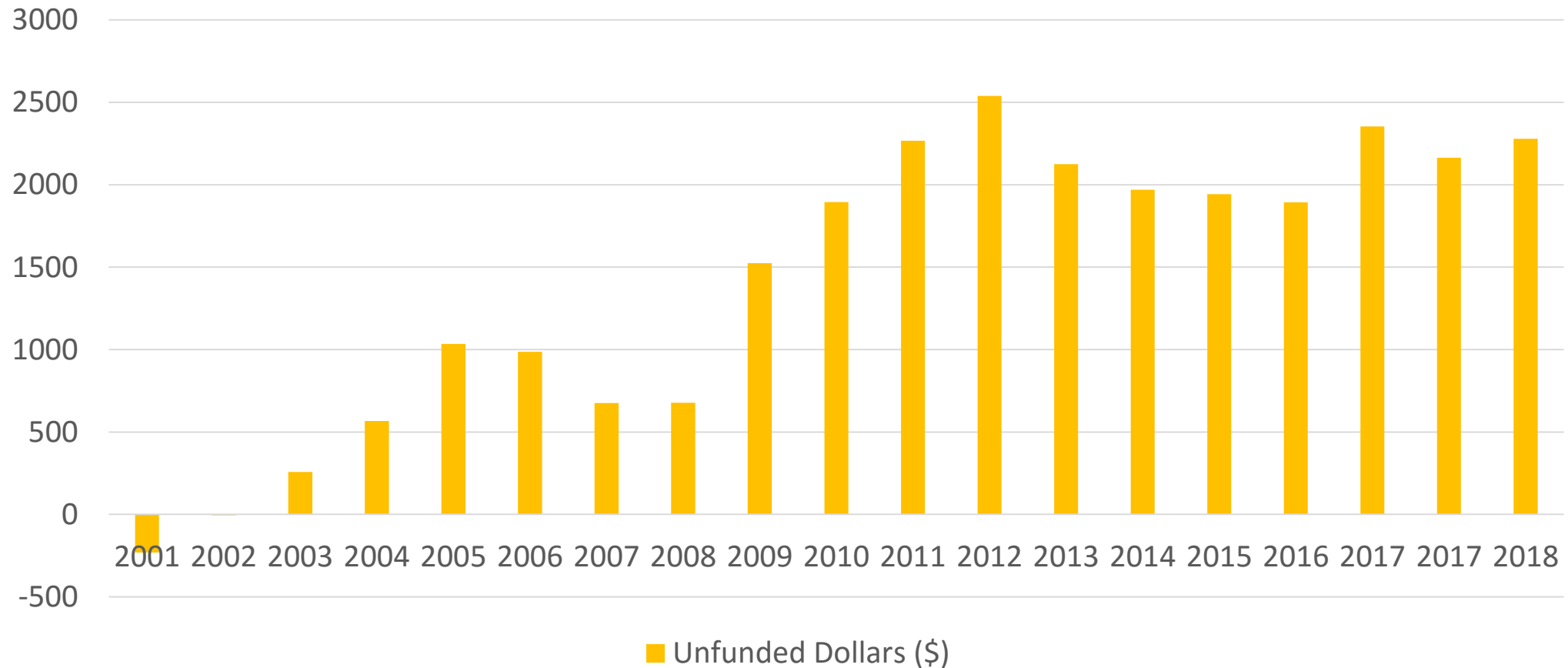


# Liabilities have grown faster than assets



Source: GRS 2018 Actuarial Valuation

# Unfunded liability has developed over time



Source: GRS 2018 Actuarial Valuation

DRAFT

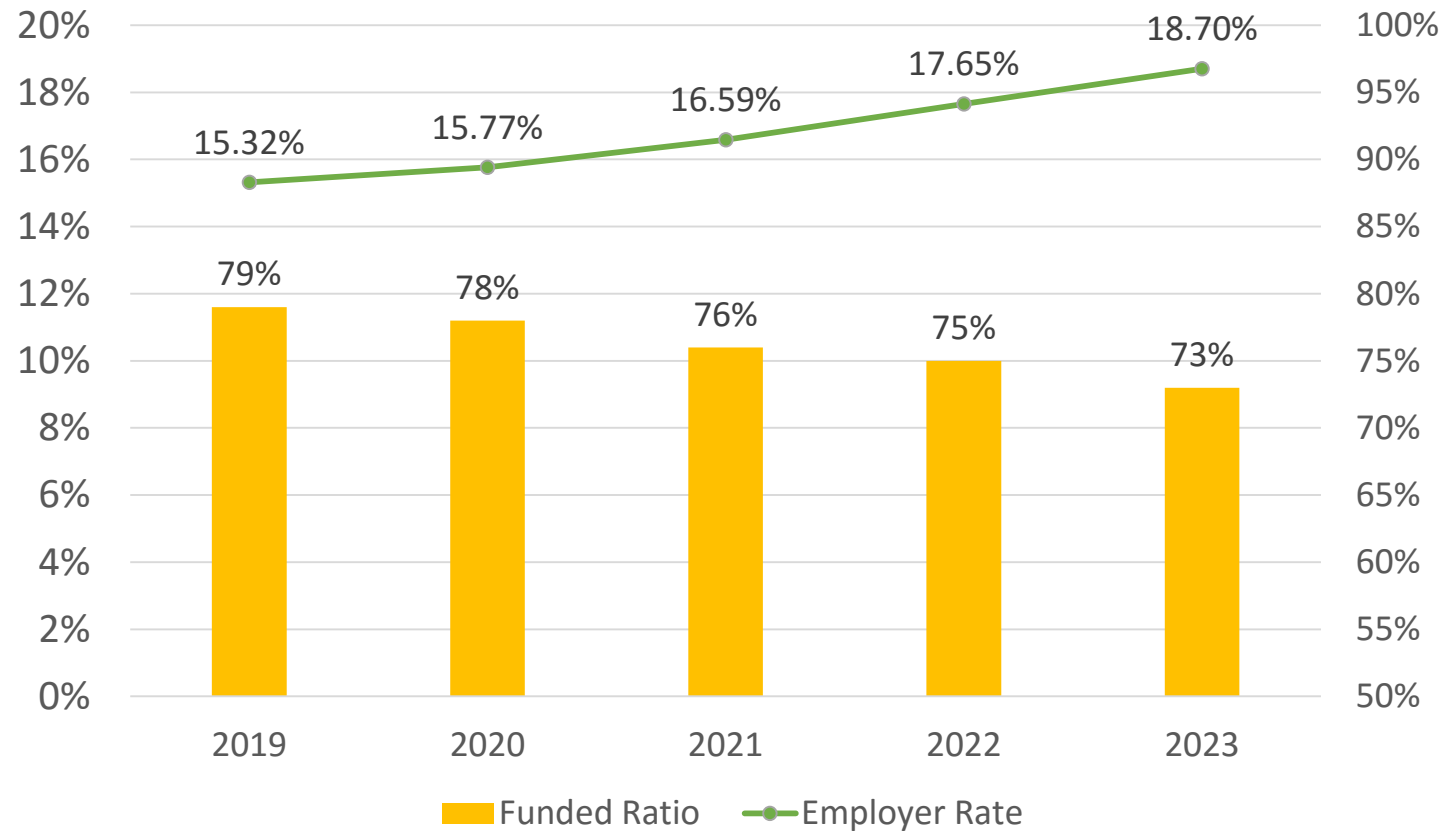
# Scenario (Slide 1 of 2): Negative market return

Year	Market Return
2019	5.32%
2020	(4.00)%
2021	7.15%
2022	7.15%
2023	7.15%

Closed 24-year amortization period  
Source: GRS 2019 Preliminary Valuation Results

# Scenario (Slide 2 of 2): Costs could increase

This scenario is one of many possible outcomes, holding everything else constant.



Closed 24-year amortization period

Source: GRS 2019 Preliminary Valuation Results

# Summary of challenges and risks

## **The system is maturing over time:**

- Growing number of retirees for every active member.
- Paying out more in benefits than receiving in contributions.
- Our liabilities are increasing at a steady pace, while assets are volatile.

## **That means:**

- If assumptions are not met, the cost of the plan could increase significantly.



# LOOK TOWARD THE FUTURE

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Discussion of considerations for the future



# Previous discussion of APERS

## **2018:**

- The Joint Retirement Committee heard testimony from various policy groups on pensions.

## **2018 – 2019:**

- The APERS Board proposed a package of benefit legislation.
- The Board worked with GRS, the system's actuary, to develop the proposals.

## **2019 Legislative Session:**

- The Joint Retirement Committee looked at the APERS proposals, and decided to study them in the interim.



# Many States have adjusted benefits recently

40 states have adjusted benefits lower between 2009 and 2018 according to NASRA.



Source: NASRA



# Considerations when looking to the future

## **Financial considerations:**

- Financial challenges compound in size over time.
- Small adjustments sooner can help avoid larger adjustments in the future.

## **Policy considerations:**

- Work to minimize the impact to members:
    - No reduction in previously earned service.
    - No reduction to the amount of a benefit currently received.
  - Make changes that are equitable across the generations.
  - Study and learn from the actions taken by other Arkansas pensions.
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# Bills discussed in the 2019 Regular Session

- **Final average salary:**
  - Extend from 3 years to 5 years for new employees.
- **Multiplier:**
  - Set at 1.8% for new employees.
- **Employee contribution rate:**
  - Raise to 6% for all employees.
- **COLA:**
  - Various proposals discussed.

# QUESTIONS?

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THE END

