

House Bills 1275, 1277, 1324, 1328, 1340, 1341, and 1344

(As Engrossed February 27, 2017)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 91st General Assembly

Provisions of the Bill

These seven aforementioned bills add the same language to the code for the various state retirement systems (HB1275 to Local police and fire funds, HB1277 to LOPFI, HB1324 to ASHERS, HB1328 to ATRS and the alternate retirement plans for colleges, universities, and technical schools, HB1340 to AJRS, HB1342 to ASPRS, and HB1344 to APERS).

Current law states that the systems abide by the “Prudent Investor Rule” by allowing system to make investment in the best interest of the system’s fund solely for the benefit of state employees and retirees. The language contained in these seven bills would add that an investment shall not be based on the consideration that the investment is directly or indirectly invested in the State of Israel.

Background – Prudent Investor Rule

Arkansas law demands that all of the statewide retirement systems’ boards of trustees to invest its trust funds using their professional and prudent judgment to invest in the best interest of the employees that have served our state. These standards are referred to as the Prudent Investor Rule. Please see ACA §24-2-610 through §24-2-619. These sections of code govern all of the statewide retirement systems. Although these are not the most discussed aspects of the systems, the various boards of trustees take these very seriously. The bottom line is that the trustees are to invest the assets of the plans prudently using professional judgement for the sole benefit of providing for the participants in those plans. Specifically, there are sections on understanding the risks and the rewards of various asset classes, diversifying among many assets and assets classes, and loyalty (no conflicts) to the participants. In fact, ACA §24-2-608 which encourages investment in Arkansas has a subsection (d) that explicitly points to the Prudent Investor Rule as a boundary for this encouragement.

The Prudent Investor Rule forms the basis of all of the contracts that the systems have with their various investment managers. It is our firm’s conclusion that, although Israel is not mentioned in investment contracts, continued compliance with the Prudent Investor Rule would address the concern in these seven bills.

Fiscal Impact

The additional requirement of the seven House Bills would not change the approach to investing of the various funds significantly. Therefore, in our opinion, there would be a small administrative cost, but no measurable fiscal impact to the various systems.

Other Legislation

Although it was not assigned to this committee, Senate Bill 513 has passed the Senate and is headed to the House at this writing. This bill also addresses investment in Israel, but is broader than just retirement systems. The approach is also different in that Senate Bill 513 prohibits investment in companies that boycott Israel. There could be situations where the text of these seven bills could be in conflict with the text of Senate Bill 513 if all of this legislation becomes law.

In conclusion, it is our opinion that if it is the desire of the committee to address the concern expressed in these seven bills, they should strongly consider adding explicit deference to the Prudent Investor Rule similar to that included in §24-2-608(d).

Sincerely,



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Actuary