EXHIBIT C11
APPROVED DECEMBER 18, 2019

MINUTES
JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Tuesday, November 5, 2019

The Joint Committee on Public Retirement and Social Security Programs met at 5:00 p.m., Tuesday, November 5, 2019, at the Benton Event Center, 17322 I-30 North, Benton, Arkansas.

Members in attendance: Senators Bill Sample, Chair; Kim Hammer. Representatives Les Warren, Chair; Douglas House, Bruce Coleman, Stu Smith, Lanny Fite (alternate) and Tippi McCullough (alternate)

Other legislators in attendance: Senator Linda Chesterfield and Representative Ken Bragg

Opening Remarks

The meeting was called to order by Senator Sample. He recognized Mr. Chris Villines, Executive Director, Association of Arkansas Counties. Mr. Villines thanked the committee for taking a very measured approach to looking at retirement. He stated retirement is important not just to the retirees, but to county officials and the state of Arkansas.

Welcome and Overview

Tom Farmer, Mayor, Benton, Arkansas, was recognized. He stated he became mayor of Benton on January 1, 2019, after spending 38 years in education. Therefore, he is a member of the Arkansas Teacher Retirement System. He thanked the committee for holing the meeting in Saline County, and at a time that was convenient for prospective retirees. He stated, as far as Benton is concerned, you won't find a better place to live, raise a family, educate your children or grow a business.

Briefing and Review of Rule Changes Being Considered by the Statewide Public Retirement Systems

Representative Warren presented a PowerPoint presentation on the "2017 National State Pension Funding Information" [see handout for more details]. Referencing the graph in the handout, Representative Warren discussed the funding percentages of other state retirement plans. He noted Arkansas falls within the 70-79% funded group and is ranked 21st when compared to states ranking as most funded. The goal is to make Arkansas' retirement plans as stable as possible. Representative Warren discussed briefly the unfunded liability of each retirement plans.

Arkansas Public Employees Retirement System (APERS), Arkansas State Police Retirement Systems (ASPRS), and Arkansas Judicial Retirement Systems (AJRS)

Mr. Duncan Baird, Executive Director, Arkansas Public Employees Retirement System (APERS), was recognized and presented a PowerPoint presentation on the Arkansas Public Employees Retirement System: "Status of the System and Strengthening for the Future" [see APERS handout for more details]. Mr. Baird recognized staff members Ms. Jacobia, Twiggs, Outreach Manager, and Mr. Jon Aucoin, Communications Manager. Mr. Baird provided an overview and history of AJRS, ASPRS, and APERS.

Arkansas Judicial Retirement System (AJRS)

- Created in 1953 and governed by a 5 member board
- Active members – 139
- Retired members – 147
- Funding:
  - Employee contributions of 6% (Tier 1) or 5% (Tier II)
  - Employer contributions of 12%
  - Transfers from the State Central Services and Constitutional Officers Fund to reach the actuarially determined rate necessary to fund the plan
  - Funded level of 89%

Arkansas State Police Retirement System (ASPRS)

- Created in 1951 and governed by a 7 member board.
- Active Tier I members – 43
- Active Tier II members – 424
- Retired members – 724
- Funding:
  - Employer contributions of 22%.
  - Transfers from the Insurance Premium Tax to reach the actuarially determined rate necessary to fund the plan.
- Funded level of 72%

Arkansas Public Employees Retirement System (APERS)

- APERS was established in 1957 as a defined benefit plan for employees of the State of Arkansas, and serves state agencies, counties, municipalities, and other employers.

- Governed by a 9-member Board
  - 3 ex-officio members (State Treasurer, State Auditor, CFO of the State)
  - 3 state agency representatives
  - 3 non-state representatives

- Over 95,000 members
  - Retired, 37,389 (number of retirees growing)
  - Active, 46,205 (stable)
  - Deferred, 46,205

- Summary of Financial Condition
  - APERS Funded Ratio of 79% is above the national median of 72% for other public pension plans
  - Assets and Liabilit8ies (as of June 30, 2018)
    - Liabilities (present value of currently earned benefits) - $10.6 billion
    - Assets (investments) $8.4 billion – 79% funded
    - Unfunded Liability - $2.2 billion (amortized over 26 years)

- Total benefit payments are growing each year. In 200l payments were less than $150 million. In 2018, they were approximately $530 million
- Benefits exceeds contributions. Benefit payments were approximately $530 million in 2018, but employee/employer contributions were approximately $341 million.
- 69.2% of APERS funding is from investment returns
- Liabilities are increasing at a steady pace, while assets are volatile. If assumption are not met, the cost of the plan could increase significantly

- Consideration when looking to the future
  - Small adjustments sooner can help avoid larger adjustments in the future
  - Work to minimize the impact to members
    - No reduction in previously earned service
    - No reduction to the amount of benefit currently received
  - Make changes that are equitable across generations
  - Study and learn from actions taken by other Arkansas pensions

- Bills discussed in the 2019, Regular Legislative Session
  - Final average salary: extend from 3 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

Mr. Clint Rhoden, Executive Director, Arkansas Teacher Retirement System, (ATRS), was recognized, and presented a PowerPoint presentation on the "Arkansas Teacher Retirement System" [see ATRS handout for more details]. Mr. Rhoden provided a brief overview, and stated the primary mission of ATRS is to recruit, retain, and reward lifetime, quality career educators.

- Governed by 15-member board of trustees
  - 11 elected by the ATRS members, and 4 serve as ex officio by virtue of their elected positions in state government
- Actuarial Status as of June 30, 2018
  - 80% funded
  - 28 year amortization period
  - Actuarial value as of June 30. 2018: $16.7 billion
  - Market value as of June 30, 2019: $17.6 billion
- Membership Data
  - Active members – 77,216
  - Retirees and Survivors – 50,083
  - T-Drop participants – 3,751
  - Working retirees – 4,003
  - Retirees 90-99 years of age – 976
  - Retirees 100 years of age or older – 31
  - Oldest retiree – 108 year old female
- Adjustments needed to keep a healthy system. Adjustments not fully implemented until July 1, 2022.
  - 5 year final average salary
  - 10-year quasi-vesting period

- Early retirement reduction increased to 10% per year
- Benefit stipend removed from base salary for COLA
- Benefit stipend reduced by $25/month
- Noncontributory multiplier reduced to 1.25%
- Outsourcing of school personnel surcharge up to 3%
- Member and employer contribution rates increased by 1%
- T-Drop amortization rate reduced to 3%

Mr. David Clark, Executive Director, Local Police and Fire Retirement System (LOPFI), and Fire and Police Pension Review Board (PRB), was recognized and presented a presentation on "LOPFI Benefit Recipients as of December 1, 2019 Payroll." [see LOPFI handout for more details]. Mr. Clark stated LOPFI is governed by a 7-member board of trustees and the Fire and Police Pension Review Board is governed by nine voting members. He stated LOPFI is in its 37th year of operation, and is still bringing in assets that are greater than what is being paid out. The system pays out approximately $120 million yearly in benefits, of which, 94% of those benefit payments remains in the state's economy. At the end of 2018, LOPFI was 76% funded. Notably, LOPFI has worked with the legislature and the Joint Retirement Committee during past legislative sessions to make adjustments to the benefit structure to ensure that career members have benefits for the remainder of their lifetime. Mr. Clark stated the board has formed a Disability Advisory Committee to discuss future plans of the benefit system.

Ms. Robyn Smith, Arkansas State Highway Employees Retirement System (ASHERS), presented a PowerPoint presentation on "Arkansas Department of Transportation." She stated in January, 2020, she will have 30 years with the Arkansas Department of Transportation (ARDOT), and is therefore, also looking forward to a pension. ASHERS is facing the same challenge as the other retirement systems; we have an ever-growing retiree population. Benefits are not aligning with current reality. People are retiring younger, living longer, and in turn retirement systems are paying out more than they originally planned. Since 1980, the average 65 year old retiree's life span has risen from 16.4 years to 19. 6 years. This means an estimated 38 additional monthly payment per retiree. This means that pension systems are paying out more, and forced to look for ways to cut expenses and increase cash flow so they can fund the lifelong benefits as promised. Ms. Smith gave a brief overview of ASHERS. She stated the following:

- Governed by a 7-member board of trustees
  - 5 are either active employees or retirees of ARDOT
- Approximately 7,353 members
  - Retired, 3,467
  - Active, 3,886
- Contributions and Payout
  - 2019 contributions, $28,531,322
  - 2019 payouts, $119,412,266

Ms. Smith stated ASHERS has taken the following action to cut expenses and increase cash flow so they can fund the lifelong benefits as promised.

- Annual COLA – Reduced from a compound 3% to a compound percentage based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) and capped at 3%
- Health Care Offset – Removed from inclusion in benefit total used to calculate the COLA
- Contributions – Increased
  - Employer rate increased from 12.9% to 14.9%
  - Employee rate increased from 6% to 6.5% in fiscal year 2020, and 7.0% in fiscal year 2021
- Interest Paid – Refund of contributions for non-vested members reduced from 5% to 3%

Financial Impact of Action Taken

- Reducing the annual COLA – Resulting in $70 million estimated reduction of unfunded liability
- Removing the Health Care Offset – Resulting in $5.5 million estimated reduction of unfunded liability
- Increasing the employer contribution rate – Resulting in $4.6 million increase in annual cash flow
- Increasing the employee rate – Resulting in $68 million projected reduction of unfunded liability over 10 years
- Reducing the interest paid for non-vested members – Resulting in estimated savings of $60,000 per year

Ms. Smith stated ASHERS is currently not pursuing any additional changes, they are waiting on an actuarial evaluation to see if additional changes are needed.

Panel Discussion/Public Comments

The following questions, comments, concerns, and requests were made by members of the public:

1. **Kevin "Bart" Simpson, State President of the AR Fraternal Order of Police, and retired from the Little Rock Police Department,** stated he has attended 8 of the 11 statewide retirement meetings. Mr. Simpson had the following comment:

   - LOPFI, ATRS, and ARDOT all have elected members of the board that are members of the retirement system. He would like to see the APERS board with the same makeup.

   Representative Warren replied, this subject has been brought up in many of the other meetings. He stated they are taking notice, and that ATRS has a lot of member involvement which makes it easy to talk to their board members and feel like they are being heard.

   Representative Warren also stated that after all information is compiled, the legislative members and the agency directors will put together a legislative agenda for 2021, and then revisit the same cities they visited for the statewide meeting to present the proposed legislative agenda. The whole purpose of this process is to make the plans stronger.

2. **Mr. Matt Faulkner, retired APERS employee**, would like APERS to visit with Vanguard to see if they can help them maintain or increase their revenue.

   Mr. Baird thanked Mr. Faulkner for the information, and stated he will be meeting with Vanguard. APERS is always willing to look at ways of improving.

3. **An Arkansas State Trooper** questioned the Tier 2 reciprocal service for retirement in the DROP. He stated currently Tier 2 troopers are required to have 30 years of service in order to enter the drop, but Tier 1 troopers can enter the drop at 28 years. This creates a challenge when it comes to recruiting and retention. He wants to know what is going to be done to correct this problem.

   Mr. Baird replied this question has come up in previous meetings. He stated the plan design for each of the retirement systems is written into state law. Therefore, the provision for Tier 2 are actually statutory revisions. The Tier 2 provision may be revisited in the future.

Rep Warren stated the legislature has discussed this issue, and will continue to do so.

Ms. Robyn Smith, ASHERS, stated employees of the Arkansas Highway and Transportation Department can retire with 28 years of service, but must have 30 years to join the drop. Their board has discussed this issue and voted to continue this policy.

4. **Linda Montalvo of Benton, who retired from the Saline County clerk's office after 32 years,** pressed state lawmakers Tuesday night about whether they are considering recommending changes to the annual cost-of-living adjustment (COLA) to benefits paid to APERS's more than 30,000 retired members. She stated she and other employees retired based on the 3% cost of living increase. She believes some of APERS problem stem from when they went from requiring an employee to work ten years to be vested in the retirement system, to now only five years. She also suggested that any changes to the system not affect the current retirees, just future retirees. Her final statement was "please don't take away the 3%."

   Mr. Baird thanked Ms. Montalvo for her comments and suggestions. He stated the purpose of these meetings are to get feedback from current and future participants. He stated the 3% COLA is also important to APERS.

5. **Mr. Jimmy Hart, County Judge, Conway County**, stated according to the actuarial information in the presentations from APERS and ATRS, APERS is 79% funded with a 24 year actuarial, while ATRS is 80% funded with a 28-year actuarial. He stated, "are we really comparing apples to apples" Is a 79% funded with a 24-year actuarial in better shape than an 80% funded system on a 28 year actuarial?

   Mr. Jody Carreiro, Actuary, Osborne, Carreiro, and Associates, stated that Mr. Hart made an excellent point. However, we use funded percentages because it is a nice easy snapshot, but there are many factors that go into the calculations. Each system has a slightly different investment assumptions. The interest rate and the number of years play a part, it is a combination of a lot of factors.

The committee chairmen thanked the participants for their attendance and their valuable input.

There being no further business, the meeting was adjourned.