

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

OCTOBER 12, 2017

The Joint Committee on Public Retirement and Social Security Programs met Thursday, October 12, 2017 at 10:30 a.m. in Room B, MAC Building, Little Rock, Arkansas.

Committee members present were: Senators Blake Johnson, Vice Co-Chair, and Linda Chesterfield. Representatives Douglas House, Co-Chair, Fred Allen, Bruce Coleman, Gary Deffenbaugh, Charlene Fite, Bob Johnson, Ron McNair, David Meeks, and Johnny Rye.

Other members present were: Senator Jonathan Dismang. Representatives Trevor Drown, Aaron Pilkington, Matthew Shepherd, Dwight Tosh, Jeff Wardlaw, and Danny Watson.

Call to Order

Representative House called the meeting to order.

Comments by Committee Co-Chairs

Representative House told committee members that Senator Hester, Co-Chair, was unable to attend the meeting.

Consideration of a Motion to Authorize Co-Chairs to Approve Special Expenses Incurred by the Joint Committee on Retirement and Social Security Programs [Exhibit C]

A motion to authorize the Co-Chairs of the Committee to approve special expenses incurred was made by Representative McNair and seconded by Representative Johnson. The motion passed unanimously.

Review of the Pension Review Board (PRB) December 31, 2016 Summary of Valuations [Exhibit D]

Representative House recognized Jody Carreiro, Pension Review Board (PRB) Actuary, Osborn, Carreiro, and Associates, and David Clark, Executive Director, Local Police and Fire Retirement System (LOPFI) and PRB. Mr. Carreiro referenced a summary report of actuary evaluations for LOPFI (Exhibit D), which is required by statute to be presented to the Committee. Mr. Carreiro gave highlights of the report, including:

- LOPFI retirement plans cover people hired before 1983 with the majority being retirees
- The majority of the local retirement plans have consolidated with and are administered by LOPFI
- There are 150 underfunded retirement plans with 110 of the plans administered locally
- Approximately 2,000 individuals are covered by the 110 locally administered retirement plans
- As a whole, the 110 retirement plans are 65% funded

Mr. Carreiro discussed recommendations Osborn, Carreiro, and Associates has provided to the locally administered retirement plans who don't have professional administrators, including:

- Individual reports are sent to each local plan and include risk analysis and risk indicators, plus the funded percentages based on a ten-year average rate of return

- Comparison of actual contribution amounts to the recommended contribution amounts are also sent

Mr. Carreiro explained that state statutes do not require retirement plans to contribute at the actuarially recommended contribution amounts. For local plans that are putting in lesser contribution amounts than what is recommended, a color coded graph is included in their report that reflects the long-term risks to their plan. State statutes also authorizes the PRB to provide additional information to local plans who are projected to become insolvent within ten years. Mr. Carreiro referenced a list of local plans, found on page fifteen of the summary report, who have a high risk of insolvency. He gave the example of Batesville as how additional information is given to the high risk local plans. Staff with Osborn, Carreiro and Associates met with the Batesville local board members and city council members to make suggestions and provide options to be used by their plan to avoid insolvency.

Committee members discussed which high-risk plans have been contacted to ensure that the local plan administrators fully understand the risk to their plans. David Clark told committee members that the PRB has verbally contacted the highest-risk local plans to offer additional information and recommendations. Mr. Clark was asked to provide a list of all local plans the PRB has contacted individually. Committee members also discussed whether a city or the state would be responsible for payments to retirees if a local plan becomes insolvent. Mr. Carreiro responded to the question and said that when a local plan consolidates with LOPFI, an agreement is signed between a city and LOPFI with the city and/or local plan being responsible for benefit payments. Mr. Clark said the position of the PRB, in the event a plan has no remaining assets, is that the city would be responsible for the full value of benefit payments. Jack Critcher, Legislative Liaison, Arkansas Municipal League (ARML), responded to a question concerning communication and/or training offered by the ARML to municipalities with high-risk retirement plans. Mr. Critcher told committee members the ARML has been in discussion on how best to communicate with the municipalities.

Status Report Regarding Special Project “Review of the Arkansas Public Retirement Systems” Being Performed by Osborn, Carreiro, and Associates [Exhibit E]

Jody Carreiro, Committee Actuary, Osborn, Carreiro, and Associates, was recognized to provide an update on the project being conducted at the request of Representative House. Mr. Carreiro gave an overview and current status of the project:

- Researching the best metric to use when an analysis is performed on all of the state's retirement systems
- Information is being obtained from other states for analysis examples
- All state retirement systems are being contacted to obtain pertinent data to be reviewed

Mr. Carreiro explained the goal of the project is to provide the Committee with a graph of unfunded assets and liabilities for every retirement system in a method that will allow for direct comparisons between the systems. He believes the first phase of the project will be completed and available for presentation at the December 2017, Public Retirement Committee meeting that is tentatively scheduled.

Mr. Carreiro gave a brief overview of the Interim Study requested by the Senate and House Interim Committees on City, County, and Local Affairs. The Committees requested a study of all municipal retirement systems available to municipal employees. This particular study will focus

on retirement benefits of municipal employees. All studies pertaining to retirement issues will be presented to the Joint Public Retirement Committee.

Consideration to Adopt for Interim Study ISP 2017-022 [Exhibit F]

Representative Dwight Tosh was recognized. He explained why he was requesting Interim Study Proposal (ISP 2017-022). The study requests that a financial analysis be conducted by Osborn, Carreiro, and Associates of the State Police Retirement System, focusing on the Tier-Two program. The motion was made by Representative David Meeks and seconded by Representative Rye to adopt the study. The motion carried unanimously.

Review of Proposed Rule Changes by the Arkansas Employees Retirement System (APERS) [Exhibit G]

Gail Stone, Executive Director, Arkansas Public Employees Retirement System (APERS), was recognized. Ms. Stone presented their proposed regulation amendments for review by the Committee. A number of the amendments are necessary to conform to a new pension administration system being used by APERS. Other amendments being considered are relatively minor housekeeping issues that have been inadvertently overlooked in past years to clarify wording and/or make corrections. Representative Rye made a motion to approve the review of the rule changes. Representative House seconded the motion. The motion carried.

Representative House referenced handouts for committee members. One of the documents is a legal analysis Representative House requested Bureau of Legislative Research legal staff to provide. The document contains the statutes governing the vesting requirements in the state's retirement systems. The other document is an update on retirement seminars Representative House recently attended.

Representative House announced the Committee will tentatively meet Thursday, December 7, 2017 at 10:00 a.m. in Room B, MAC.

There being no further business, the meeting adjourned at 11:30 a.m.