

# EXHIBIT C1

APPROVED DECEMBER 18, 2019

## MEETING MINUTES

### JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Thursday, September 5, 2019

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The Joint Committee on Public Retirement and Social Security Programs met Thursday, September 5, 2019, at 1:30 p.m., at the University of Arkansas Hope-Texarkana, 2500 South Main-Hempstead Hall, Hope, Arkansas.

**Committee members present:** Senators Bill Sample, Co-Chair; Senator Jimmy Hickey, Co-Chair, Lanny Fite (Alternate) Kim Hammer, Representatives Bruce Coleman, Les Warren, Chair; Harlan Breaux (alternate), Bruce Coleman, Brian Evans, (alternate).

**Other legislators present:** Senator Linda Chesterfield. Representatives Carol Dalby, David Fielding, and Danny Watson.

Representative Warren called the meeting to order and recognized Senator Sample for comments. He also recognized legislators, and the public retirement systems directors in attendance to do a brief introduction.

#### **Consideration of Motion to Approve the August 22, 2019, Meeting Meetings** [Exhibit C]

Senator Sample made a motion to approve the meeting minutes of August 22, 2019. The motion was seconded by Representative Coleman, and without objection, the motion carried.

**Mr. Chris Thomason, Chancellor, University of Arkansas Hope-Texarkana (UAHT)**, was recognized, and welcomed the committee and guests to the university. He made brief comments and gave an overview of the UAHT campuses and programs. He concluded by thanking the legislators for their support.

#### **Briefing and Review of Rule Changes Being Considered by the Statewide Public**

**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, Communication 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 Liabilities (as of June 30, 2018)
    - o Liabilities (present value of currently earned benefits) - \$10.6 billion
    - o Assets (investments) \$8.4 billion – 79% funded
    - o Unfunded Liability - \$2.2 billion (amortized over 26 years)
  - Total benefit payments are growing each year. In 2001 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 37<sup>th</sup> 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 ARDOT 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 were asked by Senator Chesterfield:**

1. Are the three APERS non-state representative board members APERS members?

**Mr. Baird replied**, according to the statute, of the three state agency representatives and the three non-state representatives, they have to be a retiree and the other two are active members.

2. What is a deferred member?

**Mr. Baird replied**, a deferred member is a vested member who is no longer active and has not terminated the membership.

3. Has APERS looked at the managers to determine why we did not get a good return on the investment?

**Mr. Baird replied**, APERS looks at the managers. The Board meets quarterly to review the investment results such as total results, results by assets class, and the funds by manager. An asset liability study is completed every 5 years to review the actuarial figures.

4. What happened to make 2016 a down year?

**Mr. Baird replied**, I think that was a tough year for the market, and for everyone.

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

1. There is one major issue regarding the Tier 2 State Police Retirement System. Currently if an individual is a State Trooper in Tier 2, he or she can use their reciprocal time to retire, but not towards the DROP.

**Mr. Baird replied**, he will have to take a look at this issue and offered to visit with the individual about the concern. Ms. Jacobia Twiggs, added there was a recent legislative change for Tier 2. If an individual is eligible, he or she can use their reciprocal service time to enter the DROP.

2. New employees are encouraged to attend retirement seminars, but the APERS websites states you have to be employed by the state for at least five (5) years Can the number of years required be reduced?

**Mr. Baird replied**, educational outreach has been discussed. APERS wants to continue evolving with the things the system is doing. Please provide feedback, advice, and suggestions. APERS wants to engage with employers and employees to determine what their needs are.

3. What is APERS doing internally to reduce the underfunded liability so that it is not on the backs of members?

**Mr. Baird replied**, APERS has investment manager's expenses that are in line with the national average so they are not out of the ordinary. He will investigate this issue further to see if there are other opportunities to possibly use passive investments or indexing to get the benchmark return more efficiently.

4. What are the public proposals?

**Mr. Baird replied**, in late 2018-2019, the actuarial presented several options. During the legislative session, I think there was a COLA bill, which would have been the lower Consumer Price Index (CPI) tied to inflation. There are different variations. Moreover, this was changed in 1999 because inflation was much higher. In the last 10 to 15 years, inflation has been lower. The Board did not make a recommendation on the COLA, but looked at several things.

5. Since the Governor has consolidated a lot of branch governments into smaller administrative sections to limit costs, have you considered consolidating the administration of all plans as a way of saving money?

**Mr. Jody Carreiro replied**, Investment expense is tied to the level of assets. All the systems have worked hard and continue to work to control and hold down investment expenses. All of their investment expenses are well within range of what is normal. So combining the assets would not be an administrative gain, as each system deals with a very different group of people.

6. As an APERS member, the majority of us feel like we have been disenfranchised. We have not had a voice with our board, as the board consist of nine (9) members with only one (1) that represents the working class, employee, and retiree. We have very little or no voice with that board and if we attend their meetings we cannot speak. We can sit and listen to what they do, but we have no opportunity to provide input for any changes or voice our comments on things that we think need to happen. So we would encourage the legislative committee to consider making some drastic changes to the APERS board to give us a voice similar to that of the ATRS board. ATRS have fifteen (15) members with eleven (11) members that are elected by those working and retired teachers. We would encourage APERS to strongly consider revising their board makeup.

Also, what specific changes are being considered or proposed for the 2021 legislative session that will impact our system?

**Mr. Baird replied**, there are no specific changes other than-coming out of the 2019 session we know what ideas were talked about. I see the process that we are going through now as a process of going out talking about every idea, but certainly the ones that have been talked about previously. So there is not a package from the Board. There is not a package that APERS has. We want to have a conversation and listen as a part of due diligence. I have implored a lot of our working employees and officers to come to these meetings, but a lot of the ones I reached out to say because of their work schedule and other demands they were unable to come. I would encourage you to consider part of this process to maybe come up with some type of way we can have after hour meetings or online

comments or polls so those that are unable to come to the meetings would have an opportunity to have a voice.

7. Regarding the 3% COLA, for those of us that are retired or nearing retirement, those on the DROP plan have worked with the promise of that 3% COLA and they depend on these funds. According to APERS own statistics, the average benefit is approximately \$1,200 per employee, per month. Retirees count on the 3%. I need those benefits that have been promised, and I believe the majority of the people here that are represented by APERS would agree with that statement.

**Representative Warren** thanked the guests for their comments, noting the committee is not trying to change things. Referencing the handout attached to the opening letter, Representative Warren stated the first 28% of plans in the nation, and those are plans that are performing better than Arkansas. Arkansas is in the 70-79% funding range. The committee needs help on how to come together to make the plans better. Representative Warren encourage audience members to invite others to future meetings. He added the last Joint Retirement meeting time on November 6, has been rescheduled to 5:00 p.m., to accommodate those that would like to attend.

Senator Sample announced the next meeting will be held tomorrow at 9:30 a.m., at the Hot Springs Convention Center in Hot Springs, Arkansas.

There being no further business, the meeting adjourned at 2:53 p.m.