

EXHIBIT C7

APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Wednesday, October 9, 2019

The Joint Committee on Public Retirement and Social Security Programs met Wednesday, October 9, 2019, at 1:30 p.m., at the UAM Fine Arts Center, 346 University Drive, Monticello, Arkansas.

Committee members present: Senators Bill Sample, Chair; Joyce Elliott, Kim Hammer, and Eddie Cheatham. Representative Les Warren, Chair; LeAnne Burch, Bruce Coleman, Lanny Fite (alternative) and Douglas House

Other legislators present: Senator Linda Chesterfield and Representative Vivian Flowers

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

Welcome and Overview of the University of Arkansas at Monticello (UAM)

Dr. Karla Hughes, Chancellor, UAM. Shane Broadway, Vice President for University Relations, Arkansas State University System, was recognized provided a brief overview of ASU. Remarks were made by Mr. Kelly Damphousse, ASU Chancellor.

Representative Warren presented a PowerPoint presentation on the “2017 National State Pension Funding Information” [see Handout for more details]. Referencing the handout and graph, Representative Warren discussed the funding percentages of other state retirement plans. He noted Arkansas falls within the 70-79% funded group and is ranked #21. The goal is to make Arkansas’ retirement plans better and as stable as possible. Representative Warren discussed briefly the unfunded liability of each retirement plan.

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 plan.

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, Twigg, 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
 - o No reduction in previously earned service
 - o 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 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, comments, concerns, and requests were made by members of the public:

1. Are you considering combining plans of all the retirement systems?

Representative Warren replied, all of these retirement systems are very different, and there will be no combining of these retirement systems.

2. Will the Medicare prescription plan for APERS retirees be removed?

Mr. Baird replied, I think that might be more of a question for the Employees Benefits Division (EBD). APERS administers the retirement benefit.

3. What legislation will be proposed for the 2021 legislative session?

Senator Sample replied, these meetings are informational. We want to hear your suggestions and comments, and use them when putting together a legislative agenda concerning retirement benefits.

4. Are you considering reducing future benefits?

Jody Carreiro replied, his actuary department has worked with the legislature for 20 years and would never consider reducing benefits that has been earned.

Representative Warren concluded by thanking the attendees for their comments, questions, and concerns.

There being no further business, the meeting was adjourned.