

EXHIBIT C8

APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Thursday, October 10, 2019

The Joint Committee on Public Retirement and Social Security Programs met Thursday, October 10, 2019, at 9:30 a.m., at the University of Arkansas at Pine Bluff, 1200 North University Drive – Fine Arts Building, in Pine Bluff, Arkansas.

Committee members present: Senators Bill Sample, Chair; and Kim Hammer. Representatives Les Warren, Chair; Douglas House; Bruce Coleman; and Brian S. Evans (alternate).

Other legislators present: Senator Stephanie Flowers. Representatives Austin McCollum, Kenneth Ferguson, and Vivian Flowers.

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

Dr. Lawrence Alexander, Chancellor, University of Arkansas at Pine Bluff (UAPB), was recognized, and welcomed the committee and guests to the University. He made brief comments and gave an overview of UAPB's history, campus, and academic programs. Dr. Alexander thanked the Committee and guests for visiting UAPB and demonstrating support for keeping Arkansas's public employee retirement systems viable.

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, 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
 - 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%

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. **Dr. Jerry Guess, Watson Chapel School District, Superintendent, was recognized for comments.** Dr. Guess expressed appreciation to the Retirement Committee for soliciting statewide input from employees and system stakeholders. He stated that he supports the Arkansas Teacher Retirement System's (ATRS) Board structure, and believes allowing constituent group representatives to serve on the board helps ensure the members' interests are well represented. Dr. Guess thanked the Committee for their work and asked them to continue what they are doing to support the ATRS.
2. **Former State Senator, Steve Faris, was recognized for comments.** Senator Faris stated he served on the Arkansas Public Employees Retirement System (APERS) Board for many years, and commended the committee for hosting informative meetings throughout Arkansas. Senator Faris said, while serving on the APERS Board, he noticed how well other

retirement systems functioned; and credited those systems for supporting member representation. Senator Faris recommended modeling the APERS Board after ATRS and said, “Every retirement board needs members who can come to the table offering well-thought out methods that save money.” Senator Faris closed by recommending that retirement boards follow the legislature’s model and begin live streaming board meetings.

3. Senator Flowers asked Mr. Jody Carreiro, an Actuary for Osborne, Carreiro, and Associates, to explain how public retirement boards determine where to invest assets.

Mr. Carreiro replied, asset investments carry a higher risk than they did twenty to thirty years ago. All of the state retirement systems attempt to diversify asset investments, in an effort to balance their different characteristics. He noted, this process is continual and every public retirement system relies upon investment advisers to assist with making decisions.

4. Senator Flowers asked Mr. Carreiro to explain what he does for state retirement boards.

Mr. Carreiro replied, he and his agency do not provide investment advice, but they do advise members of the legislature about ways to proceed with retirement legislation and determining whether legislation is actuarially sound.

5. Is the \$25 benefits cycle reduction for current retirees or only new members?

Mr. Rhoden replied, the \$25 benefit cycle adjustment was implemented on July 1, 2019. This benefit began in the 1990’s at a rate of \$50, and later increased to \$75. The \$25 increase was costing the system a great deal of money, so they reduced it back to \$50 for all members.

6. Was the benefit cycle payment removed from the base salary when considering the Cost of Living Allowance (COLA)?

Mr. Rhoden replied, “Yes,” there is no longer a COLA on the benefit cycle payment.

7. Please explain why the school personnel outsourcing surcharge increased to three percent.

Mr. Rhoden replied, many school districts are outsourcing more support staff roles rather than hiring full time employees. This practice has a strong impact on ATRS because outsourced employees do not contribute to the system. The ATRS Board agreed it was not logical to require school districts to force outsourced employees to become members of the system, so they began charging districts a three percent surcharge for this particular human resource asset. Mr. Rhoden said ATRS wants to spread the adjustments across, everyone including school districts, employees, and retirees.

8. Did the early-retirement reduction, increase to ten percent per year?

Mr. Rhoden replied, ATRS members with twenty-eight years of service are eligible for full retirement. Previously, employees with fewer than twenty-eight service years were allowed to retire with a five percent reduction for each year of service under twenty-eight. Over time, early retirees began costing the system a great deal of money; so they increased the early-retirement reduction to ten percent.

9. Has the committee recognized any trends or themes from stakeholders across the state?

Rep. Warren stated, retirement systems recognize that the unfunded liability has grown, so they are taking steps to ensure they can take care of their people. He encouraged the audience to speak with their board, because the board listens to members then recommends changes to the legislature. He explained, the Public Retirement Committee is keeping a record of concerns mentioned at these meetings; plans to meet with the heads of each plan; then develop a legislative agenda for 2021 that informs everyone about what the Committee plans to do. Representative Warren said their goal is to avoid any surprises and help public employees understand, “this is what we are doing for you, not what we are doing to you.”

10. Rep. Flowers asked, “At what rate is ASHERS (Arkansas State Highway Employees Retirement System) funded?”

Ms. Robyn Smith, answered “eighty-three percent.”

11. Representative Flowers asked if all retirement systems charge a three percent surcharge for outsourced employees, and do these charges meet the deficit that outsourcing situations create?

Mr. Rhoden replied, the outsourcing issue is not a clear cut issue. ATRS is the only public employee retirement system in Arkansas that implements a three percent surcharge for outsourced workers. Yes, there are fewer human resources paying into the system, but they are not liabilities to the system either. The ATRS Board believes this surcharge encourages district administrators to make sure they consider outsourcing workers with a very measured approach.

Senator Sample thanked the attendees for their participation, and with no further business, the meeting adjourned.