

**JOINT PERFORMANCE REVIEW COMMITTEE
JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS
MEETING JOINTLY**

SEPTEMBER 11, 2018

MINUTES

The Joint Committee on Public Retirement and Social Security Programs met Tuesday, September 11, 2018 at 9:00 a.m. in Room A, MAC, Little Rock, Arkansas.

Committee members present were: Senators Bart Hester, Senate Co-Chair, Public Retirement and Social Security Programs, Missy Irvin, Co-Chair, Joint Performance Review Committee, Linda Chesterfield, Jonathan Dismang, Lance Eads, Joyce Elliott, Jane English, Jim Hendren, Jimmy Hickey, Jason Rapert, Terry Rice, and Larry Teague. Representatives Douglas House, House Co-Chair, Public Retirement and Social Security Programs, Mark Lowery, Co-Chair, Joint Performance Review Committee, Fred Allen, Scott Baltz, Kenneth Ferguson, David Fielding, Ron McNair, David Meeks, Johnny Rye, Brandt Smith, Nelda Speaks, Dan Sullivan, and Les Warren

Other members present were: Representatives Mary Bentley, Carol Dalby, Jana Della Rosa, Jim Dotson, Charlotte Douglas, Lanny Fite, Vivian Flowers, Justin Gonzales, Donald Ragland, James Sorvillo, Dwight Tosh, and Jeff Wardlaw.

Call to Order

Representative House called the meeting to order.

Consideration for Approval of Minutes – July 17, 2018 [Exhibit C]

A motion to approve the minutes of the July 17, 2018 joint meeting of the Joint Performance Review Committee and Joint Committee on Public Retirement and Social Security Programs was made by Representative David Meeks and seconded by Representative Rye. The motion carried.

Presentation by the National Association of State Retirement Administrators (NASRA) Exhibit D]

Representative House recognized Gail Stone, Executive Director, Arkansas Public Employees Retirement System (APERS). Ms. Stone introduced Mr. Keith Brainard, Research Director, NASRA, who gave a PowerPoint presentation describing his review of the APERS system:

- Based on traditional metrics for measuring the funding levels of public pension plans, the APERS funding level is well above the national average
- Key actuarial assumptions are more conservative than national averages
- APERS FY 17 funding level of 80% is above the national average of 73%
- Arkansas is among the 20 top performing states as measured by Pension Liabilities as a percentage of own-source revenue

Mr. Brainard addressed the subject of stress testing by public pension plans and said this type of study has been performed for many years. APERS conducts experiences studies, a form of stress testing, which measures the overall actuarial economic and demographic experience of the plan, including projections.

Ms. Stone referenced the map she provided which divides the state by congressional districts and lists the benefit amounts APERS members receive. She discussed investment assumptions and returns. Ms. Stone responded to questions regarding APERS' investment return assumption. She gave the following data information:

- APERS investment return assumption is 7.15%
- The wage inflation amount is 3.9%, absent inflation

Ms. Stone told legislators the APERS Board of Trustees voted to keep the employer contribution rate at 15.32%, which means the unfunded liabilities will amortize more quickly and will mitigate demands on state revenue.

Review of the Arkansas Teacher Retirement System (ATRS) [Exhibit F]

Representative House recognized George Hopkins, Executive Director, ATRS, who gave a PowerPoint presentation. Mr. Hopkins cited information for the ATRS pension plan:

- ATRS pension plan is in the top tier of plans for the U.S.
- ATRS has averaged an 8.6% annual return since 1986
- In 2017, ATRS had the top return in the U.S.
- In the last three years, ATRS return was in the top 1% in the U.S.
- ATRS employer contribution rates is 14%

Mr. Hopkins described experience studies ATRS conducts on a regular basis that provide a review of actuarial assumptions for member behavior and financial results to ensure assumptions are adjusted for accuracy. ATRS also performs a regular asset liability study.

Discussion of Teacher Pension Plan Benefit Design [Exhibit G]

Representative House recognized Mr. Chad Aldeman, Principal, Bellwether Education Partners and Editor, TeacherPensions.org. Mr. Aldeman told legislators he represents a non-profit organization and also manages a website, teacherpensions.org. He gave his analysis of APERS and ATRS pension plans. Mr. Aldeman focused on how ATRS teacher benefits are designed, which he believes does not provide adequate retirement benefits for all of Arkansas's teachers. He gave an overview of his findings of Arkansas's teacher benefits:

- Teachers should strive to replace 60% to 80% of their pre-retirement income, including social security
- Teachers contribute 6% and employers contribute 6.44% toward retirement benefits

Mr. Aldeman reviewed other public pension plan models he thinks could provide a higher share of benefits for all of Arkansas's teachers. Mr. Aldeman believes there are multiple options Arkansas could use to provide a simple, low-cost, financially sustainable retirement plan.

Discussion of Risk Sharing, Teacher Pension Costs [Exhibit H]

Representative House recognized Dr. Robert M. Costrell, Professor of Education Reform and Economics, Department of Education, University of Arkansas-Fayetteville. Dr. Costrell gave a PowerPoint presentation and explained that his review of the ATRS pension plan is based on per pupil expenditures and a school finance background. Dr. Costrell gave an overview of employer and member contribution rates for ATRS:

- Fiscal year 2018-2019 the member contribution rate was 6% and the employer contribution rate was 14%

Dr. Costrell projects the following rates in his analysis:

- Fiscal year 2019-2020-member contribution rate of 6.25% and employer contribution rate was 14.25%
- Fiscal year 2020-2021-member contribution rate of 6.50% and employer contribution rate of 14.50%
- Fiscal year 2021-2022-member contribution rate of 6.75% and employer contribution rate of 14.75%

Dr. Costrell suggests that ATRS consider enhancing the risk-sharing measures it has adopted and consider hybrid pension plans as an alternative.

Discussion of Implementing Public Sector Pension Reforms [Exhibit I – APERS & ATRS]

Representative House recognized Mr. Leonard Gilroy, Senior Managing Director, and Mr. Anthony Randazzo, Senior Fellow, Pension Integrity Project, Reason Foundation. Mr. Gilroy described the Reason Foundation as a national think tank that studies public policy issues, government operations, public finance, and fiscal issues. He said the organization has a pension integrity project that provides research and technical assistance to state and local officials. He gave a PowerPoint presentation and an overview of their analysis, along with their perspective on pension plan solvency. Mr. Gilroy focused his comments on unfunded liabilities in both the APERS and ATRS pension plans and described in detail graphs his organization prepared. Mr. Randazzo said his review of the ATRS and APERS pension plans focused on the similarities between the systems. In a detailed review of his graphs, Mr. Randazzo discussed investments relative to assumptions. He gave his opinion of setting a fixed contribution rate by statute. He believes setting the rates by statute makes it difficult to make corrections. Mr. Randazzo said the Reason Foundation's opinion is that actuaries should determine rates and state legislatures provide oversight.

Representative House announced that the Joint Public Retirement Committee will meet jointly with the JPR Committee on September 12, 2018 at 9:00 a.m. in Room A, MAC.

There being no further business, the meeting adjourned at 3:30 p.m.