

MINUTES
JOINT COMMITTEE ON PUBLIC RETIREMENT
& SOCIAL SECURITY PROGRAMS

April 16, 2012

The Joint Committee on Public Retirement and Social Security Programs met Monday, April 16, 2012, at 4:30 p.m., at the U of A at Monticello, Fine Arts Center, Monticello, Arkansas.

Committee members in attendance: Senators Johnny Key, Senate Co-Chair, Mike Fletcher, Jeremy Hutchinson, Gene Jeffress, and Jimmy Jeffress; Representatives Les Carnine, House Co-Chair, Duncan Baird, Sheilla Lampkin, Homer Lenderman, and Randy Stewart.

Also attending: Senator Eddie Joe Williams, Representatives Eddie Cheatham, Mike Patterson, and Jeff Wardlaw.

Senator Johnny Key called the meeting to order. Senator Jimmy Jeffress and Representative Sheilla Lampkin welcomed committee members and attendees to Monticello.

Arkansas Teacher Retirement System (ATRS) (Exhibit E-1)

Mr. George Hopkins, Executive Director, ATRS, gave an overview of the system. The program pays over \$60 million, per month, in benefits to 64,000 retirees and beneficiaries. The bulk of payout money comes from investments made with the trust fund. At the end of March the fund value was \$11.6 billion. There are close to 85,000 active members, 34,000 retirees, 4,500 in T-DROP, and 3,500 retirees who have gone back to work. T-DROP members now have the ability to keep their payments in a cash fund. The ATRS board has worked to close loopholes and cut special benefits in an effort to save cost. Recently, the board conducted an asset/liability study, to ensure investments are in line with liabilities so as to achieve the right risk level for the investment portfolio.

Arkansas Public Employees Retirement System (APERS) (Exhibit E-2)

Ms. Gail Stone, Executive Director, APERS, gave an overview of the system. She stated APERS ended the fiscal year with \$5.8 billion in assets, and a 26% rate of return on investments. APERS paid \$344 million in retirement benefits in 2011, with 96% of benefit payments remaining in Arkansas. APERS has 45,135 active members and 28,000 retirees. Currently, benefits are 75% funded on a market basis, and 71% funded on a four year smooth basis. The trustees have worked to diversify the portfolio, recently voting to add value added real estate to the portfolio, and are continuing their education in hedge fund to funds, to help dampen the volatility of the market. The employer contribution rate is set to go to 14.25% on July 1, 2012.

Arkansas Local Police and Fire Retirement System (LOPFI) (Exhibit E-3)

Mr. David Clark, Executive Director, LOPFI, presented an overview of LOPFI and the Pension Review Board (PRB). The year ended with a .42% loss, but has since improved, with the account up to \$1.038 billion. There are just under 12,500 active members, which include police officers and firefighters, and just under 4,000 benefit recipients as of April 1, 2012. Mr. Clark advised that nearly two thirds of the paid members do not participate in Social Security, meaning they rely on their benefits to sustain their retirement. LOPFI has a

3% compound COLA, that is added to the retirement benefit on July 1 each year. The system is on track to pay out \$50 million this year, and should pay out \$100 million by 2020. There has been a 10% increase in the rate of retirement from the beginning of the 2011 session through April 1, 2012. LOPFI has leveraged electronic communications, with 494 reporting locations, that enroll members and report electronically. Members now have access to a member portal that allows them to access their records, get an estimate, and make address, tax, and direct deposit changes. The PRB, is a regulatory board for closed police officers and firefighters pension. There are still 144 plans that are locally administered.

Act 979 of 2011 changed the formula to create a uniform distribution of the insurance premium tax. During the first year of local distribution, each will receive 30% of actuarial costs, determined by the pension plans' base benefits, in the form of premium tax monies, to defray a portion of the employer contribution costs. By 2016, LOPFI will have all paid locations under one rate, 40% of which would be funded by insurance tax money, and 60% from local budgets.

Arkansas State Highway Employees Retirement System (ASHERS) (Exhibit E-4)

Mr. Larry Dickerson, Executive Secretary, ASHERS, gave a presentation. The fund balance, as of June 30, 2011, is \$1.3 billion. There are 6,762 members, made up of active members in DROP, inactive vested members, retirees and beneficiaries. The unfunded liability, using the smoothing method, is \$115 million. The actuarial percent of funding for 2011 is 91.4%. This fiscal year the rate of return has been around 4%. Last year, liabilities increased by \$37.7 million.

Arkansas State Police Retirement System (ASPRS) (Exhibit E-5)

Ms. Gail Stone, Executive Director, ASPRS, gave an overview of the system. The value at the end of the 2011 fiscal year was \$227.5 million. Act 1242 of 2009 merged the assets of ASPRS in with APERS, which allows for efficiencies of size, and allows ASPRS to enjoy a higher rate of return. ASPRS is still at 63% funding and going down, as it has to draw heavily on the investment plan to pay benefits as there are more retirees than active members in the system. The required contribution rate is 45.85%, the employer contribution rate is 22%, and the remainder comes from court fines, drivers license reinstatement fees, and the insurance premium tax. At this time ASPRS is the only system that is noncontributory. The fundamental problem is with the system, which is payments to tier one participants.

Jody Carriero, Committee Actuary, stated tier one participants will continue to require more system funds until all participants have retired. The system will then peak and be able to improve. The system is expected to take 15 to 17 years to peak.

Arkansas Judicial Retirement System (AJRS) (Exhibit E-6)

Ms. Gail Stone, Executive Director, AJRS, stated the program serves circuit judges, appeals judges, and supreme court judges. The total value of AJRS at the end of June 30, 2011, was \$171 million. The employer contribution rate is set at 12%, the cost is 30%, and the difference is covered by court fees and an annual transfer to the system. AJRS has 35 tier one members and 106 tier two members. Last fiscal year, \$9.1 million was paid out in benefits. In answer to Senator Hutchinson questions, Ms. Stone stated there are loop holes between the circuit and district judge retirement plans, as district judges are in APERS, this allows individuals who serve in both positions, to retire and earn approximately \$10,000 more

in retirement than they did while serving as a judge. It would make greater actuarial sense to move district judges into AJRS.

Arkansas Diamond Deferred Compensation Plan (Exhibit F)

Mr. Jason Lee, Executive Director, Employee Benefits Division (EBD), Department of Finance and Administration, reviewed the 457 Deferred Compensation Plan available to state, county, and municipal employees. He stated the 457 Plan is similar to 401k programs offered in the private sector. The 457 Plan is a supplemental retirement program which allows participants to deposit a portion of their pay into a pre-tax account. There are 14,500 participants, with the majority being state employees. The plan has \$450 million in total assets. The average account balance is at \$31,000, with the employee choosing their investment options, which include fixed income, mutual funds, and bonds. At the end of month, the plan will add a ROTH 457 option, which allows for a post-tax contribution.

There being no further business the meeting adjourned at 6:15 p.m.

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