

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.

MINUTES
JOINT COMMITTEE ON PUBLIC RETIREMENT &
SOCIAL SECURITY PROGRAMS
April 17, 2012

The Joint Committee on Public Retirement and Social Security Programs met Tuesday, April 17, 2012, at 9:30 a.m., at Hampton Inn, Monticello, Arkansas.

Committee members in attendance: Senators Johnny Key, Senate Co-Chair, and Jeremy Hutchinson; Representatives Les Carnine, House Co-Chair, Sheilla Lampkin, and Homer Lenderman.

Also attending: Senators Jerry Taylor and Eddie Joe Williams.

Senator Key called the meeting to order. He thanked university officials for hosting the committee meeting. He introduced Jack Lassiter, Chancellor, U of A at Monticello who gave an overview of his campus to members.

Approval of Minutes December 12 and 13, 2011 (Exhibits B, B-1)

- ✓ **Minutes of the December 12 and 13, 2011 meetings were approved without objection.**

Consideration to adopt Interim Study Proposal (ISP) 2011-196 by Senator Johnny Key (Exhibit C)

Senator Key asked the committee to consider adoption of the ISP, with testimony to be given at a later time.

- ✓ **Without objection, the ISP was adopted unanimously.**

Proposed Rule – Arkansas Public Employees Retirement System (APERS) (Exhibit D)

Ms. Gail Stone, Executive Director, summarized a proposed regulation change, which has been adopted by the APERS Board to conform with laws passed. The proposed change was:

- Regulation 214 – DROP Provisions. This change is to strike through an anomalous statement, in conflict with the law.

- ✓ **Senator Key directed Legislative Staff to advise the ALC-Administrative Rules and Regulations Committee the rule has been reviewed.**

Proposed Rules – Arkansas Teacher Retirement System (ATRS) (Exhibits E-a thru E-l)

Mr. George Hopkins, Executive Director, summarized the proposed changes to several rules, which have been adopted by the ATRS Board to conform with laws passed during the 2011 legislative session. The proposed changes include:

- Rule 0-1 -- Organization & Operation. This amendment clarifies the required steps of the appeal process.

- Rule 7-2 -- Proof of Service Credit. This rule began running concurrently as an emergency rule on April 2, 2012. This rule ensures that if an employee works all

the hours of their regularly scheduled day, they can receive a full day of service credit.

- Rule 7-4 -- Reporting Employee & Employer Contributions. This allows an underpaid balance of an employee or employer contribution of less than \$10 to be written off for accounting purposes. This change saves ATRS time and money since the cost of collection of such a de minimis amount would far exceed the underpayment.
- Rule 8-1-- Purchase of Service Credit/Repayment of Refunds. This sets out the procedure for a member who wants to buy service with ATRS, including the signing of a commitment statement, which, once fulfilled, is irrevocable. It also sets out a time period, in case of death, for the estate to determine how they would like to handle an open service purchase agreement.
- Rule 8-2 -- Refunds of Member Contributions. This rule began running concurrently as an emergency rule on April 2, 2012. This sets the interest rate for refunded contributions for the fiscal 2011-12 year. It also allows the board to change the interest rate going forward by resolution, rather than by rule change. It removes the "hardship" requirement that a member has to prove before receiving a refund of member contributions from ATRS. Thus, ATRS no longer has to make a judgment call on the facts presented by a member claiming to have a hardship that justifies a refund of the member's contribution.
- Rule 8-3 -- Repayment of Refunded Member Contributions. This is a repeal of this rule. The Repayment of Refunds is now addressed/replaced in language that amends Rule 8-1.
- Rule 8-5 -- Purchase Payment Rules. This provides for the service purchase commitments made before the enactment of Act 69 of 2011 to continue, or be modified, in compliance with the law, unless withdrawn or cancelled by the member.
- Rule 8-6 -- Cancellation of Purchase Service Accounts. This removes the "hardship" requirement that a member must prove to ATRS before a purchase service account can be cancelled. It also substitutes the specific department at ATRS, the "Accounting Reporting Department," for the previous cites "ATRS Administration" as the correct department to file a cancellation request.
- Rule 8-8 -- Free Teaching Service Before 1937. This repeals a rule that is obsolete and whose provisions regarding proof of serve credit are covered in ATRS Rule 7-2.
- Rule 9-4 -- Disability Retirement. This sets clearer parameters for the date of the start of payment of disability retirement benefits, if a member is still receiving payments from the employer. It also clarifies that a member can reapply for disability retirement.

- Rule 9-7 -- Annuity Options & Disposition of Residue After Retirement. This provides for an incapacitated child to be removed from the member's account if the incapacitated child is emancipated, marries, dies, or is otherwise found by a court to no longer be incapacitated. This change simultaneously affects the election of options with respect to the spouse as well. There are also corrections of typographical errors.
- Rule 10-3 -- Teacher Deferred Retirement Option Plan (T-Drop). This rule began running concurrently as an emergency rule on April 2, 2012. This sets the rule as outlined in Act 162 of 2011. It defines "T-DROP Cash Balance Account" and "T-DROP Cash Balance Account Interest" consistent with ATRS accounting procedures and prior board action. It also gives a member the choice of receiving all or part of his/her T-DROP Cash Balance Account. It also allows ATRS to maintain any balance of that account for the member. This establishes rules for the election of a partial lump-sum distribution and sets the interest rates thereon. This adds a definition of "Fiscal Year," and "Quarter," consistent with the state fiscal year.
- ✓ **Senator Key directed Legislative Staff to advise the ALC-Administrative Rules and Regulations Committee the rules have been reviewed.**

There being no further business, the meeting adjourned at 10:51 a.m.