EXHIBIT C10
APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Wednesday, October 23, 2019

The Joint Committee on Public Retirement and Social Security Programs met Wednesday, October 23, 2019, at 9:30 a.m., at Lyon College, 2300 Highland Road, in Batesville, Arkansas.

Committee members present: Senators Bill Sample, Chair; and Kim Hammer. Representatives Bruce Coleman, and Douglas House.

Other legislators present: Senator Trent Garner; Representatives Fred Allen, Kenneth Ferguson, Stuart Smith, and Dwight Tosh.

Senator Sample called the meeting to order.

Matt Crisman, Executive Vice President, Lyon College, was recognized, and welcomed the committee and guests to the university. He made brief comments and gave an overview of Lyons College campus and programs. He concluded by thanking the legislators for their support.

<u>Briefing and Review of Rule Changes Being Considered by the Statewide Public Retirement Systems</u>

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 Liabilit8ies (as of June 30, 2018)
    - Liabilities (present value of currently earned benefits) - $10.6 billion
    - Assets (investments) $8.4 billion – 79% funded
    - Unfunded Liability - $2.2 billion (amortized over 26 years)

  - Total benefit payments are growing each year. In 200l 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
    - No reduction in previously earned service
    - 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.

<u>Panel Discussion/Public Comments</u>

The following questions, comments, concerns, and requests were made by members of the public:

1. According to APERS rules dual membership is not acceptable except for volunteer firemen. I believe volunteer police officers should be added to the exception list.

   Mr. Clark replied, to make sure everyone understands volunteer police are also covered by LOPFI.

   Mr. Baird replied, I will review APERS rule on dual membership.

2. During the last legislative session there was talk of changing the retirement plans. Will this be discussed again in the 2021 legislative session? Also, how can retirees stay informed and be a part of the decision-making process?

   Senator Sample stated, right now there is no plan to change these plans from defined-benefit to defined-contribution plans.

3. Please address the rumors about combining the plans?

   Senator Sample stated, there is no way that the plans can be combined. By statute the retirement plans are all independent and there is no way that we can take a plan like ARTS and mix it with LOPFI. They all are separate plans and will continue to be separate plans.

4. Is there going to be a cap on fees charged by financial firms for 401(k) and 403(b) accounts?

   Mr. Carreiro stated, the state does not sponsor any 403(b) or 401(k) type plans. They do allow the Arkansas Diamond System which is similar; it is a 457 plan. It is available for state employees and teachers as an additional piece. Fees and everything that controls 403(b) and 401(k) is all federal law not state law.

5. Will the ATRS 2017 non-contributory multiplier reduction affect new retirees or current retirees?

   Mr. Rhoden stated, the non-contributory multiplier was reduced down to a 1.25%. That does not affect any retired members at all. The only thing it will affect is active members who are currently non-contributory. From this year forward they will get a 1.25% multiplier where it was previously a 1.39% multiplier. This was an adjustment for those active non-contributory members.

6. Underperforming investments returns are the largest contributor to the unfunded. What would you recommend to fix this problem?

   Mr. Baird replied, your question is about the investment and the investment returns. I think there have been a lot of changes nationally from an investment prospective. If you go back probably five years or more, most pensions were at 8%. Those numbers have been coming down. They went to 7.5%. At APERS we are now at 7.15%; which is right at the national median. APERS just finished an asset-liability study. We are going to be taking a deep dive on investments at APERS. Our returns have been good and are assumptions have been conservative. I think investments are that uncontrollable risk factor that we all face.

   Mr. Rhoden replied, none of the things that have gone on with any of the systems in general, not just APERS, but none of the underlining has been driven by investment returns. All of the systems have been upper half in national returns very consistent. Two of three systems have been in the top 5% of pension funds nationally in the last few years. In general, they have done a good job and the investment expenses are low compared to many systems. The stresses on these systems are affected by future investment returns, but pass investment returns is not what generated a big part of this liability.

Senator Sample stated, Arkansas is in the top quarter of all the states of their systems being funded.

7. Does APERS have any plans to change the Consumer Price Index (CPI) in the 2021 legislative session?

   Mr. Baird replied, as I mentioned, as part of the discussion last year for the 2019 session there were discussion around that. We are here to have a conversation to get your input and feedback. If you have thoughts on CPI we want to hear those thoughts. We are really trying to formulate what things look like for 2021.

8. I would hate to see you tie the COLA to the CPI. Also, ATRS reduced stipend to $25, will that be reduce every year until the $75 is completely gone?

   Mr. Rhoden replied, no, there are no more reductions. We did it one time from $75 down to $50. So it's a one-time $25 dollar reduction and you are going to keep the $50 stipend for the foreseeable future.

9. I am a retired circuit judge, and I think all the retirement systems have some form of provision upon death of a retiree that their widow is entitled to certain benefits? Are there any plans to change that? I think you mentioned that you don't have any plans for statutory changes, but that depends on which one of you wants to provide a bill to consider. Do you know of any plans to change widow benefits for retirees?

   Senator Sample replied, no sir, not to my knowledge, there are no foreseeable plans to make any changes.

10. Social Security comes in on a certain day of the month or a certain day of the week, why can't Arkansas Teacher Retirement checks do the same thing? It's usually the last week of the month, but you never know if it's going to be in on Monday, Tuesday, Wednesday or the week before. Why can't it be set on a certain day of the month?

    Mr. Rhoden replied, I have actually heard that comment a few times. I really don't have a good answer for you other than that's the way it's always been done. It's designed to show up basically on the last calendar day of the month. But using Electronic Funds Transfer (EFT) system, the formula was changed. The pay schedule was designed for paper checks. You make a really good point and ATRS should address that schedule and it's on our list for review.

11. This question is for LOPFI. I have heard some rumors about reducing the COLA. Can you elaborate on that?

    Mr. Clark stated, there are no plans to reduce the COLA. The Board of Trustees is focused on making sure that the COLA remains in place. You may have heard that the COLA more

of a gratuity; that is not true. The COLA is part of the normal cost, in other words, it's built into the employee contribution rate each and every year. LOPFI has always had a 3% COLA. It used to be a simple COLA, back in 2001 or 2003 it changed to the compound COLA that we've had now.
The COLA is very important to the Board of Trustees to maintain for the retirees and the people approaching retirement. The reason why is because those are the people less able to accommodate some type of change to their benefit structure. People have made plans, especially those in retirement and those near retirement, they are making plans on the fact that LOPFI told them each July 1 you will have a 3% compound COLA. Our job is to protect that COLA for you.

12. The thing that would hurt most state employees and teachers would be to lose the compounding of the COLA.

    Mr. Baird stated, I would say this is the kind of comment we are looking for. It sounds like the compounding is important to you from a COLA perspective.

13. I think there are a lot of people who do not understand the difference is between the compounding COLA and a simple COLA and what this actually means to their benefits. Can you explain how this calculation takes place?

    Mr. Carreiro stated, what that means is in the Teacher Retirement of these systems has a simple COLA and so let's say you have a $1000 a month monthly benefit to begin. Then your increase next year is 3% of that so 3% of $1000 so the next year it would be $1030. In Teacher's and with a simple COLA that means the next year its $30 more dollars $1060 then the next year its $30 more $1090 and it continues on just $30 every year. The difference is with a compound COLA the first year is the same $30 – 3% of $1000 but the second year is $30 and fifty something cents because its 3% of $1030. The second year it would go to $1061 and the third year in that example it would go to $1091.50 or somewhere in that area. So it doesn't seem like a big difference in the first three years in my example. Where the difference in the COLA comes is when you start looking 10 and 15 years out. Then that compounding really takes **effect** just like any other compounding calculation. Teachers Retirement has a simple COLA it's the same amount increase every year.

14. There wasn't much information on the DROP. I want to know how the DROP affects the systems and are there any anticipated changes to the DROP?

    Mr. Carreiro stated, all the systems have a DROP benefit. DROP programs are not supposed to cost or hurt the system. If you ask three different actuaries their opinion on the DROP you would get three different opinions about the effect. Currently, there are no changes planned for the DROP program. However, this is something that should be monitored because people start entering the DROP program earlier, therefore, start taking funds from the system.

15. Will there be changes to the medical benefits for retirees?

    Mr. Baird replied, as far as the health insurance goes that would be more of a question for the Employee Benefits Division (EBD). APERS works with EBD in that when a person retires, we setup the payment for health insurance.

16. Currently, state police in Tier 2 are required to have 30 years to retire. Those in Tier 2 only need 28 years to retire. There was legislation in the 2019 session to address this issue, but that it was unsuccessful. Are there any plans to introduce legislation in the 2021 session?

    Representative Tosh replied, yes, we have a bill drafted. State police employees that are in the Tier 2 program are the only state employees that actually have to work 30 years before they can participate in the retirement system. All other state employees are at 28 years. So we do have a bill drafted to reduce that to 28 years.

Senator Sample thanked the guest for coming. The reason we are here is to hear from you and thank you for giving your comments and questions.

There being no further business, the meeting was adjourned.