EXHIBIT C3
APPROVED DECEMBER 16, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Tuesday, September, 24, 2019

The Joint Committee on Public Retirement and Social Security Programs met Tuesday, September 24, 2019, at 1:30 p.m., at the Shewmaker Center for Workforce Technologies – Walmart Auditorium, Room B102, Northwest Arkansas Community College (NWACC), 1000 Southeast Eagle Way, Bentonville, Arkansas.

Committee members present: Senators Cecile Bledsoe, Joyce Elliott, Kim Hammer, and Greg Leding. Representative Les Warren, Chair; Gary Deffenbaugh, Vice-Chair; Bruce Coleman, Andrew Collins (alternate), Lanny Fite (alternate) Grant Hodges, Stu Smith.

Other legislators present: Senator Bart Hester and Representatives Jana Della Rosa, Jim Dotson,

Representative Warren called the meeting to order. He also recognized legislators, and the public retirement systems directors in attendance to do a brief introduction.

<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. Why did we go from a panel of retired teachers to four (4) legislators on the Board? I understand we have 11 that are elected and 4 more that were legislators. I just wondered why that change.

   Mr. Rhoden replied, that has been the board makeup for decades. It has always been a balance between elected official, elected trustees and ex officios. So the ex officios are basically the banking commissioner, the treasurer's office, and the Board of Education. Because of their elected official position they have automatic spots on our Board due to those offices and they always will. The balance of the trustees are made up of those eleven members that are elected by the retirees.

2. Does the ATRS board makeup create a conflict when we change from Democrat to Republican makeup?

   Mr. Rhoden replied, in my honest opinion "no". Pension systems are really non-partisan.

3. **What impact do you believe the Uniform Classification Pay Act that was passed in 2009, in which state employees were not able to receive any increases to their base salary, had on the unfunded liability balance?**

   Mr. Baird replied, there may be a wage component involved. I believe the Uniform Compensation Pay Act was updated in 2018, so now performance pay does go into the base, a least for state employees.

4. **Audience member follow-up:** So from 2009 to 2018, state employees were not receiving any increases to their pay, therefore their salary was low. So what impact did that have on the unfunded balance? A more direct concern would be – I hope you don't ever go back to that because for 10 years employees weren't getting any increases to their base salaries and the funds weren't getting any increases.

   Mr. Baird replied, as far as going back to that, I really can't answer that other than to say I was at the Department of Finance and Administration when that was implemented and I think the Governor felt strongly about that change in the system, having money go into the base.

5. Are the three state employees on the APERS board current or retired employees? It would be good to see more representation especially from retired employees on the board. My other concern is when I go to the APERS meetings I'm one of the youngest people attending the retiree meetings and it concerns me that there are younger employees who are not interested.

   Mr. Baird replied, the three state employees on the Board are Mr. Darryl Bassett and Ms. Candace Franks. We lost one retired member, Steve Farris, and we expect for him to be replaced.

   On your second question concerning younger members being involved in retirement issues. We want members involved and engaged. This is why we are doing social media and newsletters.

6. What cost-saving methods is APERS looking at other than reducing retiree's benefits?

   Mr. Baird replied, there are a couple of things that have come up in previous meetings one has been investment expenses. We had gentleman that was at our board meeting and at the previous meetings that made the case that we should look at our investment expenses and attempt to lower those. That's certainly something we have in mind. In our case we have $9 billion in assets even one basis point can make an impact there. Our board's first duty is to seek prudent investments and get the right investment return. I will note that ours are below the national average.

Also, I think we should review administrative expenses. I don't think we are doing badly in that respect, but as a new director you naturally look at things and you ask questions about those things. I think over time we want to make sure we're being vigilant about investment expenses, but beyond those two things virtually everything we do is paid benefits. So naturally I think any conversation about pensions will naturally come back to the benefits that are paid. On the contribution side, our employer's pay 15.32%. They have paid that for probably the last three years, and it is projected for the next couple of years they will pay that as well. As you know our employees pay 5% so those are really all the components of the equation.

7. **Audience member follow-up:** One of the slides on the budgetary amount was the consultant fees. In 2017, the consultant fee was $380,000 and in 2018, it jumped to $1.5 million for that same consultant. Can you explain why those costs raised so much in just 1 year?

   Mr. Baird replied, "Yes," so there are several things. We have an investment consultant, and we have a chief investment officer, who is the primary investment person within the agency. We have a consultant that we work with who guides us and helps us to go down the right path from an investment standpoint. So that's one consultant that we have. We have our actuarial consultant, we don't have an actuarial staff, so we are relying on GRS to be in essence our actuary to provide us with all of our actuarial advice and guidance. Beyond that, in the past, we had a big technology project in place. Through 2017, and even through 2019, the agency was heavily involved with spending a lot to put in place what we call Compass which is our pension management system. It impacts all aspects of everything that we do in an agency. Part of that we put in place was an online member portal, but there was a lot of expense involved with this. Their contract ended June 30th, but it could be any of those. We did the last clean up update in May, and so it's really a huge implementation over the last 5 to 7 years. I think we are at a point of stability there so we should see those expenditures flatten out but I will be happy to take another look at that. I've been at APERS for six (6) months and it's something that I'm learning.

8. In the past 28 years, how much has the percentage that the school districts pay towards our retirement changed?

   Mr. Rhoden replied, at one point the school districts were paying 12%, it has remained at 14% for the last 10-15 years. ATRS will be increasing the 14% by a quarter percent per year until it reaches 15% in 2022.

9. I am an APERS retiree and I am paid on the 1st of each month. My husband is a State Police retiree, and he is paid on the 15th of the month. My question is a few months ago a survey was sent out that asked what we thought about the direct deposit being on a Friday when the actual deposit day falls on a Saturday or Sunday. We responded but do not know the survey results.

Mr. Baird replied, as far as the pay dates go, those are statutory, but we can certainly look at those and see if they would require a statutory change. I can't promise there would be a change, but we can certainly keep that in mind.

10. I am a retired educator and I do appreciate the fact and think it's beneficial to all systems that are separate and independent. I think combining the systems would not be in the favor of the retirees.

11. State Troopers in the Tier 2 retirement system cannot use reciprocal service to enter the DROP.

    Mr. Baird replied, that is something that we are looking at currently. There's a long history. There's the statute that was the Attorney General's opinion back in 2018. We're looking at it as an agency and our goal is to follow the law, but as a new director, I will take a look and make sure that I fully understand what we are doing there with the law. I want to make sure we haven't done anything wrong in the past. This may be something that is addressed in the next legislative session.

12. I'm here with several of my co-workers and our agency (Arkansas Department of Rehabilitation) – we've been switched to APERS. Do we have the choice to remain in our retirement as it states?

    Mr. Baird replied, the short answer is "yes." I think current employees get to choose to keep their current system or they can swap systems. APERS plan is a completely different plan from ATRS, so it's really probably a personal choice at the end of the day and we want to make sure we get that right, so Ms. Jacobia Twiggs with APERS can visit with you afterwards.

13. I appreciate your comment and I have heard a lot of people comment about how strong our retirement is in Arkansas. What does "outsourcing of school personnel surcharge" mean?

    Mr. Rhoden replied, there's a lot of districts that instead of directly hiring their substitutes, they are outsourcing. Substitutes are not actually employees of the school district and they're technically not members of our system and this is all cost-cutting and balancing. These are all administrative decisions that school districts have to make. We all have a finite budget to work in. It's not good, bad or whatever, but one of the things that is driving down active members is outsourcing of substitutes, bus drivers, and in some cases maybe cafeteria workers. So to help offset that we basically went to the legislature back in 2017 and said "we are not getting the contributions from these members" and we want to create an incentive program to try to encourage the school districts to get those outsourced people back into our system. So we don't want it to be absolutely free for them. So we implemented the surcharge. So it goes into their formula for balancing, their expenses and their costs, etc. It was our best attempt because we don't have any authority to force the school districts.

14. I have a couple of questions about the DROP program. I went into the DROP program July 1, 2018. When I went to file my DROP paperwork I learned that some of the rules for the

program had been changed.

Mr. Baird replied, APERS administers the DROP program, at least from a staff level, and periodically there are changes to the rules and regulations around the DROP program. I think the annuity option was changed in 2018. Instead of a lifetime annuity, it is now a 25-year annuity.

Audience member follow-up: You are talking about making small changes to the system now so they don't affect retirees as much. The change to the annuity benefit made a huge difference for me in my benefits.

Mr. Baird replied, if you think about that last slide I had on Board proposals for the last session there wasn't a DROP related proposal there. Since I've been at APERS, we haven't discussed any further changes to the DROP.

15. I have over my 30 years in law enforcement, other than investments what can we hang on to in any of the retirement systems that we're not going to be the ones to lose again? I understand the plans had problems, but what you are looking at as a whole to help us instead of we're going to lower your DROP percentage rate?

    Representative Warren replied, this is a little bit of what I was referring to back when I talked about in the early 90s when I saw all of these companies going from defined benefit plans to defined contributions plans. It is very difficult with a define benefit plan and you're promising a benefit to everyone. A defined contribution plan—I'm in a defined contribution plan with my employer and when I leave employment with that employer I get whatever is in that account and hope it lasts as long as I live. With defined benefit plans like the state is providing there are three inputs into your plan that happens (1) employer contribution, (2) employee contribution and (3) return on investments.

    Mr. Carreiro added, the way Arkansas is structured and the way all these things have happened over the years, no one's accrued benefit has ever been reduced by any changes that have ever been made in the systems.

Representative Warren, expressed how grateful the legislative body is that the active and retired employees came out today to voice their concerns. We are listening, and we are going to take it to heart and hopefully, get back to you with a legislative plan before the 2021 legislative session.

There being no further business, the meeting adjourned at 3:24 p.m.