EXHIBIT C4
APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Wednesday, September, 25, 2019

The Joint Committee on Public Retirement and Social Security Programs met Wednesday, September 25, 2019, at 9:30 a.m., at the Fort Smith Convention Center, AR Best Performing Arts Center, 55 South Seventh Street, Fort Smith, Arkansas.

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

Other legislators present: Senators Trent Garner, Terry Rice, Matthew Pitsch and Representatives Justin Boyd, Cindy Crawford, and Marcus Richmond.

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

Briefing and Review of Rule Changes Being Considered by the Statewide Public Retirement Systems

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, Communications 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 ASHERS 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. Last year, during the legislative session, we heard a lot about stress tests and we also talked about the COLA. Should we worry about stress tests and should we worry about the future of our cost of living?

   Mr. Rhoden replied, we did a lot of studies about how to test our systems and basically when we do a lot of stress tests it is for protection of the plan. The stress tests were essentially a result of the legislative session, all systems are doing that kind of testing. As far as the COLA, right now ATRS's COLA is set in legislation at 3%. I want to make sure the money that you initially retire with has kept up with inflation. Our commitment is to protect the COLA

2. I just retired the last couple of years and I have 33 years with the city as a police officer and this is my problem. When I walked out the door I was given a benefit and I was expecting to keep that until the day I died. Then something came up in the last session with the COLA and that's a big issue with me because that was something I was counting on and it affects me and my family. I don't know what else is going to happen, but in order for there to be a change it will take the legislators to do it, is

that right?

Representative Warred replied, that's correct. The retirement plans make recommendations to the legislature concerning the changes they want to make. I want to point out one thing we are also part of you. I have a wife with teacher retirement. We want this system working just as much as you do.

Follow-up comment from audience member. Employees in the state, city, county, and school teachers make very little money, and all they've ever counted on was retirement and now it's all of a sudden we're going to change your retirement. I don't know if the teachers even realize it. Their multiplier was changed during the last session. It was reduced for those people who have less than 10 years. That's my whole thing about the benefits. I don't know what's going to happen, but when somebody wants something to work they're given a benefit—cost of living whatever. I have real issues with the changes.

Mr. Baird replied, we are always trying to keep things in balance when we are looking out 10, 20, 30 years. I mentioned in my slide we work to minimize the impact. I will keep your comments in mind and I think we all will think about how we move forward to best minimize the impact to make sure the system is strong and sustainable 5, 10, 20 years down the road.

3. When I first went to work we didn't have the DROP program and my plan was to work to my retirement age which would have been about age 53; retire and get another job. The DROP gives us an incentive to stay and that's why I've been here so long. In our department right now we are having retention problems and you just can't replace police officers overnight. They have to be trained and it takes a long period of time sometimes up to a year to get that person on the streets and rolling. My concern is the Tier 2 reciprocal service for retirement in the DROP. He stated currently Tier 2 troopers are required to have 30 years of service in order to enter the drop, but Tier 1 troopers can enter the drop at 28 years. This creates a challenge when it comes to recruiting and retention. He wants to know what is going to be done to correct this problem.

   Representative Warren replied, I personally carried legislation in the 2019 legislative session, but was unsuccessful. This is an issue we will continue to work on.

   Mr. Baird replied, I think the Tier 2 Drop is an issue that has been going on for a while and I think is on everyone's minds. We're taking a look at the statutory grounds to make sure we are following the law as it stands.

4. I want to thank the legislators for their support of our retirement system and, particularly ATRS. A good element of ATRS is that there is a member-elected board. There are 11 elected board members who are elected by their constituents throughout the system. I think it is vital that the membership feel that their voice is being heard. Also, in 2017, there were 18 bills that were passed by the legislature and those were initiated from the Board, which validated these pinpointed areas, with which we needed to cut costs due membership, etc. With that being said, I encouraged the Board to always recognize that the member-elected members of that board are vital.

Representative Warren replied, we hear you loud and clear.

5. Are we still looking at letting each retirement system police their own system? We're not looking at combining systems?

   Representative Warren replied, there is no way these retirement systems can be combined.

6. The APERS Board should be more diverse. More representation from the members.

   Representative Warren replied, we have received this comment at every meeting thus far, and the legislature is very aware of that issue.

7. I have taught 42 in the Fort Smith school system**,** and I am 2 years older than the Arkansas Teacher's Retirement System. I want to remind legislators that when they get ready to start "messing with retirement systems" that they don't do anything they wouldn't do to their own legislative retirement system. Don't start paying attention to advocate groups like Americans for Prosperity; they have their own agenda going. They will take you off and give you a big vacation and all of that and pay for you going and coming. They will have you passing laws that will mess up the people who are working for a living in this country.

   Representative Warren replied, thank you for teaching for 42 years. We appreciate our teachers and what you've done to help future generations. Also, I can assure you none of us can go on those trips. We are here to do work for you.

8. **Audience member comments and questions:** I was once a teacher. I'm newly retired. I have almost four decades of investment in the Arkansas Teacher Retirement System. I get livid when I hear about cuts. When you tell me there is going to be 3% I expect 3%.

   I'm hearing from a lot of the new teachers who are saying they don't contribute because they can barely keep up with health insurance. Did you know that teachers pay more in health insurance than any other state employee? Every single one of us take care of the treasures of the future. Then you start to cut $25 off of our benefits. When are you going to start respecting teachers? I trusted this state for nearly 40 years starting with a paycheck that was $11,000 with an advanced degree. You owe us. You owe us respect. You need to remember that when you make cuts.

   My question to you is are non-contributors to ATRS the people that just plan on working ten years or maybe fifteen years. Are we seeing an increase in the non-contributors? Because I contributed for almost 4 decades.

   Mr. Rhoden replied, as far as the non-contributory members, they get a lower multiplier for their retirement time. To a contributory member that multiplier makes a difference when you reach retirement age. Most non-contributory members are likely in their early 20's, and don't even know they have a retirement. If you know non-contributory members, encourage them to become contributory.

Representative Stu Smith commented, that he is a 36-year retired educator, his mother is a retired teacher, his sister is a teacher and her daughter is a teacher and his son is a teacher in the Rogers School District. Therefore, we have a vested interest in the ATRS.

9. I have been a state employee for approximately 16 years, and in that time I have seen a lot of changes happened with the retirement benefits. For instance the DROP started out at 6% and now it is somewhere around 1.6%. What will it be when I am able to participate in the DROP? Also, in the presentation, it showed some states that were 100%funded. How are these states maintaining their funding, and we looking at how this is being done?

   Mr. Baird replied, the employee contributions went from 4% to 2%, and a lot of that is due to the changes in interest rates and is essentially due to the way the world and the markets have changed over time. The second question you asked about the states that were 100% funded and what they are doing. We haven't researched those in depth. They are probably doing a lot things all across the board and there are probably a lot of differences in the benefits of their plans.

   Representative Warren stated there are other states that have gone years without funding. There are states in this country that have borrowed millions of dollars right to fund their retirement system. Arkansas is doing a lot of things right - Are we perfect? "No", but we are trying to get there. We take this very seriously, and we are trying to take great care of each retirement plan.

10. My relative is a retired professional firefighter. He retired in the mid-80s and he signed up for his retirement benefits. After several years of getting direct deposit, he requested a paper check be mailed to him. ATRS refused and stopped sending him retirement checks for approximately two years. He contacted an attorney and ATRS and got a lump sum with interest. However, ATRS still refuses to send him a paper check – why is this?

    Mr. Clark replied, obviously this is a very personal question. However, I will say that the majority of the facts you cited are incorrect. This person is the only one in the benefit system that is currently not in paid status because the bank information has not been provided to the retirement system to do direct deposit. The individual told us he has a bank account but will not supply the information to the retirement system to have the funds paid to him. So the choice is solely up to the individual to provide the information to the retirement system for restructured benefit payment. The interest aspect is not a fiduciary aspect on benefit payments that have been suspended. There was no interest paid on benefit payments that have been suspended.

11. I am in the APERS retirement system and I would like to know if my retirement benefits are as good as legislators, and is as well funded as legislators and elected officials?

Representative Warren replied, legislators are in the same retirement system.

Mr. Baird replied, the legislators are APERS members. If you come into the legislature you will be an APERS member with APERS benefits. One key difference would be 10 years for a legislator to become vested versus 5 years for regular members.

12. Personally, I would rather pay more on the frontend to make sure when I retire benefits are available for me at the expected payment rate.

    Mr. Baird replied, thank you for that comment. To make sure we are clear, it sounds like you are saying you would rather pay more as an employee if that meant maintaining a certain level of benefit or some kind of adjustment to a benefit.

Representative Warren thanked the attendees for their questions, comments and concerns. He stated we will be using this information to develop a legislative agenda for the 2021 legislative session.

There being no further business, the meeting was adjourned.