

EXHIBIT C5

APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Tuesday, October 1, 2019

The Joint Committee on Public Retirement and Social Security Programs met Tuesday, October 1, 2019, at 1:30 p.m., at the Cooper Alumni Center, 2626 Alumni Blvd., State University, Arkansas, Arkansas State University (ASU), Jonesboro, Arkansas.

Committee members present: Senators Keith Ingram, Vice-Chair; Hammer Joyce Elliott, Kim Hammer, Representative Les Warren, Chair; Bruce Coleman, Monte Hodges, Douglas House, and Stu Smith

Other legislators present: Senator Linda Chesterfield. Steve Hollowell, Jack Ladyman, Austin McCollum, Dan Sullivan, Dwight Tosh, Brandt Smith, Jamie Scott, Johnny Rye, and John Cooper

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

Welcome and Overview of Arkansas State University (ASU) Jonesboro

Mr. Shane Broadway, Vice President for University Relations, Arkansas State University System, was recognized provided a brief overview of ASU. Remarks were made by Mr. Kelly Dampousse, ASU Chancellor.

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, 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 Liabilities (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 2001 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.

Panel Discussion/Public Comments

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

1. I've been with the Arkansas State Police for a little over three years. Prior to that, I have 12 years with LOPFI. Are there any discussions about maybe allowing prior time with LOPFI as reciprocal towards the DROP?

Representative Warren replied, I actually drafted legislation that I thought would address this issue, but it did not. This is our fifth meeting and I think we have heard this in at least three other meetings, and this is something that is definitely on our list for discussion.

Mr. Baird replied, I think there have been a couple of legislative proposals, but there hadn't been any change to the actual law, but ultimately we are following the law for the plan. Back in 2018, the system asked the Attorney General for an opinion on this section of the law and her opinion aligned with where we are right now. So it is something we are hearing a lot about.

- Audience member follow-up:** I understand the way the law is written now legislation has to occur to change it.

Mr. Baird replied, that is correct. Based on everything I've seen and based on the Attorney General's opinion, we're following the law as it stands right now. Every system is different. APERS and Tier I and Tier II they are all different. They're all based on what's in the law, so it's really a constraint in the law.

Representative Warren stated he would like for state troopers to contact their representatives and senators concerning this issue. He and Representative Tosh has visited on this issue, and they plan to keep working on legislation.

- I'm retired but the question is about my wife. If she retires and starts drawing her Social Security at age 62 there's wage limitations in order for her Social Security to be fully funded. Does Teacher Retirement count towards that wage limitation?

Mr. Rhoden replied, "No."

Mr. Carreiro replied, I would encourage everyone, especially those that are close to retirement go to Social Security.gov or SSA.gov/mySSA. You can setup an account there and verify what your benefits are on social security.

- Audience member comments:** I am a state employee in the APERS program. I've got 33 years with the state. I plan to retire in about 5 years, which is before I turn 62. Is it true that you're going to cut out prescription coverage for retirees?

Mr. Baird replied, I think that might be more of a question for the Employees Benefits Division (EBD). APERS administers the retirement benefit.

Ms. Robyn Smith replied EBD has considered cutting prescription coverage for retirees. It is always on the table. They have not selected to do that and they are looking at ways to cut costs, but that is not one of the changes they are making with this new fiscal year.

- Is there any consideration being given to retirees who were contributory members their entire state career until they entered the DROP when it comes to reducing the COLA and other retirement benefits. Can older retirees be grandfathered in when it comes to changes in retirement benefits?

Mr. Baird replied, as I mentioned earlier, there was discussion about the COLA because that's a big post-retirement item. I will definitely keep that in mind. You would like to see the COLA maintained. Thank you for that comment, we are open to any feedback on this issue you may have.

- I am concerned that the retirement plans will be combined.

Representative Warren replied, all of these retirement systems are very different, and there will be no combining of these retirement systems.

7. There were some changes discussed concerning LOPFI. Is there a list of the pending changes for 2021?

Mr. Clark replied, as far as the pending changes for 2021, they have not yet been formulated. That is the responsibility of the Disability Advisory Committee, the Board of Trustees have assembled. Reading the meeting minutes from the board meeting that are posted on LOPFI's website will keep you abreast of certain issues.

8. What are some of the various proposals to the COLA?

Mr. Baird replied, the Board looked at various proposals, and they had the actuary run different scenarios. One of those was a 3% simple COLA. I think they looked at a couple of variations of something similar to what ASHERS did, which was the lower of 3% or Consumer Price Index (CPI). I think they looked at the lower 2% or CPI as well. We did have one bill that ran in the Joint Retirement Committee that I believe was a combination of those. I think it was a simple lower of 3% or CPI so it's kind of a combination of all those. There were various proposals looked at but the majority of them tied back to the CPI, and the cost of living in some way. We are open to any feedback on this issue you may have.

9. Please explain the \$25 per month stipend reduction by ATRS.

Mr. Rhoden replied, this last July everybody got a 100% COLA, but at the same time you also got your benefit stipend reduced from \$75 to \$50; that's a \$25 reduction. This was a one-time reduction, and in July 2020, you will receive your full COLA. It might have been a little less harmful or a little less impactful if we had spread that out over four years, but all of the cuts were done in one year.

10. Was the employee contribution rate raised to 6% for all employees or just for contributing members?

Mr. Baird replied, the employee contribution rate was increased from 5% to 6% for contributory and all active members.

11. I want to ask about the T-Drop amortization rate which is 3%. Is that going to be something that affects the teachers that are enrolled in the T-DROP? What does that actually mean?

Mr. Rhoden replied, the T-DROP amortization rate has been changed from 3% to 5%. That is your T-DROP balance. When you do come out of T-DROP, you will do what we called final retirement. If you chose to amortize that – that amortization schedule is slightly lower than it was in the past.

The way to avoid that little cut is to roll it into a Cash Balance Account (CBA) because that is not an amortization. Get with us and let's get a counselor and we can get you some better answers for your

case. Mr. Rhoden explained the CBA is a fixed income guaranteed account that we actually hold the money. It's a fixed interest rate that goes from 2.5% all the way up to 4% over the course of 6 years. The longer you hold inside that account the higher your interest rate goes and the best thing about that is it's not a lifetime benefit, so if you actually do pull all that money out, that is actual money you can inherit down to your children or ancestor or descendants. So it's something to look at and it is one of the ways to avoid that amortization. You are going to get a normal amortization for your retirement lifetime, but your T-DROP balance is extra on top. You get a choice of how you allocate that.

Representative Warren concluded by thanking the attendees for their comments, questions, and concerns.

There being no further business, the meeting was adjourned.