

# EXHIBIT C6

## APPROVED DECEMBER 18, 2019

### MINUTES

#### JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Wednesday, October 2, 2019

The Joint Committee on Public Retirement and Social Security Programs met Wednesday, October 2, 2019, at 9:30 a.m. at Arkansas State University Mid-South, Magruder Hall, 2000 West Broadway, in West Memphis, Arkansas.

**Committee members present:** Senator Keith Ingram, Representatives Les Warren, Chair, Bruce Coleman, Douglas House, and Mark Perry

**Other legislators present:** Senator Linda Chesterfield, Representatives Jim Dotson, Jack Ladyman, Austin McCollum, Reginald Murdock, Dwight Tosh, and Milton Nicks

Senator Keith Ingram called the meeting to order.

#### Welcome and Overview of Arkansas State University (ASU-Mid-South)

**Ms. Debra West, Chancellor, Arkansas State University Mid-South (ASU)**, was recognized and welcomed everyone for coming to the meeting.

#### 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 21<sup>st</sup> 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)
    - o Liabilities (present value of currently earned benefits) - \$10.6 billion
    - o Assets (investments) \$8.4 billion – 79% funded
    - o 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
    - o No reduction in previously earned service
    - o 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 37<sup>th</sup> 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 am a retired educator. I spent thirty-three (33) years in the education system. My question for the panel is what does the future look like as it relates to retirement benefits.

**Clint Rhoden replied,** I hear these concerns a lot of times when I go out and talk to retirees, and it's basically fear of what the future holds. ATRS's intent is not to cut any checks, as far as the amounts that go out. ATRS has been around 82 years paying quality benefits out to retired teachers, and in fact, all the defined benefit systems have been around for many, many, years. The fact is we don't know what the next 15 years brings, that is why we're trying to make really hard choices today to stay viable for the foreseeable future.

2. How much does ATRS receive from employee and employer contributions?

**Clint Rhoden replied,** ATRS receives approximately half a billion dollars a year. That is the combined 14.25% of employer matching and the member contributions. There is also approximately seven hundred billion a year in investment returns.

3. It is my understanding that ATRS is planning on increasing the employee contribution to 7% and the employer contribution to 15% in the future.

**Clint Rhoden replied,** that is correct.

4. How is the ATRS monthly benefit calculated?

**Clint Rhoden replied,** It is a formula that uses other factors, however, one of the factors the formula uses is your highest three salaries.

5. Do you have to have ten years in the school district to be vested?

**Clint Rhoden replied,** basically the 10-year is what I consider a quasi-investing. You are fully invested in the ATRS at 5 years, but until you work your 10 years, you have reduced multipliers. So while you technically could draw a benefit after 5 years of service, it is in everybody's best interest to work for 10 years in order to get the best multiplier into their formula.

6. 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.

7. I'm a 10-year retired educator from Marion, Arkansas, and I think ATRS has worked well. In listening to the commentary, and I hear we have an obligation to \$7.27 billion dollars in unfunded liability for all the programs, not just teacher retirement but all the programs. Then I see the State of Arkansas and the legislature turn around and give a tax cut totaling 1.29% of the top 1% in the State. This is not improving the productivity of the people that are working the jobs in public education. We have contributed a lot. I am paying in my contributions, my employer is paying their contributions, therefore, I should not have to worry about losing my COLA, or losing my benefits. It is more than a few wealthy people in the State, it's about doing the right things for all the people.

**Senator Chesterfield stated** she was a teacher in the Pulaski County school district for 33 years. She stated that outsourcing of substitute teachers, bus drivers, and cafeteria workers take away the funds that would go into ATRS. She urged retirees and potential retirees to attend school board meetings to voice their opposition to this practice.

**Senator Ingram** thanked everyone for their participation. We have heard information here today that will assist in making decisions in the 2020 legislative session.

There being no further business, the meeting was adjourned.

