

**JOINT PERFORMANCE REVIEW COMMITTEE
JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS
MEETING JOINTLY**

SEPTEMBER 12, 2018

MINUTES

The Joint Committee on Public Retirement and Social Security Programs met Wednesday, September 12, 2018 at 9:00 a.m. in Room A, MAC, Little Rock, Arkansas.

Committee members present were: Senators Hester, Senate Co-Chair, Public Retirement and Social Security Programs, Eddie Cheatham, Linda Chesterfield, Jonathan Dismang, Lance Eads, Joyce Elliott, Missy Irvin, Co-Chair, Joint Performance Review Committee, Bill Sample, and Larry Teague. Representatives Douglas House, House Co-Chair, Public Retirement and Social Security Programs, Fred Allen, LeAnne Burch, Bruce Coleman, Les Eaves, Kenneth Ferguson, Charlene Fite, Jack Fortner, David Hillman, Mark Lowery, Co-Chair, Joint Performance Review Committee, Ron McNair, David Meeks, Reginald Murdock, Johnny Rye, Brandt Smith, Dan Sullivan, and Les Warren.

Other members present were: Representatives Andy Davis, Lanny Fite, Jana Della Rosa, Charlotte Douglas, Jimmy Gazaway, Ken Henderson, Austin McCollum, and Danny Watson.

Call to Order

Representative House called the meeting to order.

Opening Comments by Co-Chairs

Representative House told legislators the meeting will consist of a review of issues that affect the state's retirement systems, with the focus on the Arkansas Public Employees (APERS) and the Arkansas Teacher Retirement System (ATRS) unfunded liabilities

Review of the Stress Test Model Developed by the Pew Charitable Trusts, Also Stress Testing, Stress Test Implementation, and Results of Pew's Stress Tests on Arkansas's Public Pensions Systems [Exhibit C]

Representative House recognized Tim Dawson and Michael Lowenthal, Officers, State Policy, Public Sector Retirement Systems Project, the Pew Charitable Trust. Mr. Dawson gave a PowerPoint presentation with an emphasis on public pension stress testing. Mr. Dawson and Mr. Lowenthal reviewed the concepts and components of stress testing, explained the benefits to the budgeting process and outlined the implementation of stress testing. Mr. Dawson described the data they collected from across the country for comparison purposes, which they used for their analysis. He defined stress testing as a simulation technique used to assess the economic conditions of public pension plans and government budgets. He then discussed their simulation model of actuarial projections, capital market and asset allocation assumptions, state revenue forecasts, balance sheet metrics, cash flow and contribution metrics, and their budget impacts. Mr. Dawson said stress testing of public pension plans is a helpful tool states can use to examine budget issues and evaluate policy proposals.

Mr. Lowenthal discussed the methodology they used in their analysis and projections for Arkansas. Based on Pew's interpretation of existing state policies, their model included APERS and ATRS pension plans based on Fiscal Year 2017. They applied the following assumptions for finance objectives:

- ATRS – fixed rate funding after escalating to 15% in FY2023
- APERS – fixed rate funding with a maximum 30 year amortization and non-decreasing contributions
- Result highlights – both plans are on track to reach or surpass full funding in 30 years at the assumed rate of return

Representative House recognized Cheryl Defenbaugh who gave an overview of the Arkansas Diamond Deferred Compensation Plan. Ms. Defenbaugh described the Diamond Plan, which is a 457 voluntary plan available to Arkansas state employees with the exception of teachers. The plan is meant to compliment the state's pension plans and provide an additional option for employees to use to save additional monies through a payroll deduction. Employees choose the amount of money they want to contribute to the plan. The plan is 100% funded by participant contributions. When an employee separates from service with the state they have the option to choose how they receive their funds. Legislators discussed details of the plan with Ms. Defenbaugh.

There being no further business, the meeting adjourned at 11:00 a.m.