

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT
& SOCIAL SECURITY PROGRAMS

December 12, 2011

The Joint Committee on Public Retirement and Social Security Programs met Monday, December 12, 2011 at 4:30 p.m. in the Fowler Center at Arkansas State University (ASU) in Jonesboro, Arkansas.

Committee members in attendance: Senators Johnny Key, Senate Co-Chair, Gene Jeffress, and Jimmy Jeffress; Representatives Les Carnine, House Co-Chair, Nate Bell, Homer Lenderman, Jim Nickels, Tim Summers, and Butch Wilkins.

Also attending: Senator Paul Bookout; and Representatives Hudson Hallum, Jon Hubbard, Reginald Murdock, Mike Patterson, and Charolette Wagner.

Representative Carnine called the meeting to order. Representative Wilkins, host legislator, thanked ASU officials in attendance for hosting the committee meeting on their campus.

Arkansas Local Police and Fire Retirement System (LOPFI) -- Mr. David Clark, Executive Director (Exhibit E-1)

Mr. David Clark, LOPFI Executive Director, presented an overview of LOPFI and the Pension Review Board (PRB). LOPFI covers police officers and firefighters hired January 1, 1983 or later. The PRB, a regulatory board, monitors closed pension plans for police officers and firefighters hired on or before the last day of 1982. Exhibit E-1 provides a summary of legislation passed in the 2011 Legislative Session, plus a statewide map with retirement benefit amounts paid to members in each county, as of December 2011. Mr. Clark highlighted Act 979 of 2011. It contains the following amendments, which will be phased-in over the next five years:

- Beginning January 1, 2012 new locations who adopt LOPFI coverage will no longer have prior service credit added. The service credit will begin to accrue on the first day of the month that LOPFI coverage is adopted.
- LOPFI paid service locations will move to a single employer contribution rate.
- When the phase-in period of Act 979 of 2011 is completed, LOPFI paid service locations will have 40% of their cost funded through the insurance premium tax (volunteer locations will continue with the current funding formula). Local fire and police funds and consolidated funds will have 30% of their costs funded through the premium tax. The cost for local pension funds and consolidated funds are determined on the base benefit, 50% of salary for paid service, and \$100 per month for volunteer service.
- The phase-in period will continue through 2016 with a uniform/simple employer contribution rate for all the paid plans in the state.

Mr. Clark explained that 40% of the contribution costs will be funded by the insurance premium tax, with 60% of the funding being paid from local police officer and firefighter budgets.

Arkansas Public Employees Retirement System (APERS) -- Ms. Gail Stone, Executive Director (Exhibit E-2)

Ms. Gail Stone, APERS Executive Director, gave an overview of the retirement systems she oversees. The combined assets for the Arkansas State Police Retirement System (ASPRS) and APERS totaled \$5.8 billion, with \$2.3 billion in unfunded liabilities, as of June 30, 2011. The rate of return on investments for the past year was 26% and 4.7% over the last five years. APERS paid \$344 million in retirement benefits in 2011. Ms. Stone gave the employer and employee contribution rates as follows:

- ◆ the current employer contribution rate is 13.74%, which will increase to 14.24%, as of July 1, 2013
- ◆ the employee contribution rate will remain at 5%, which was set in 2005

APERS currently has 45,135 active members and 28,000 retirees. Ms. Stone referred to a statewide map in Exhibit E-2 that contains a list of retirement benefit amounts paid to members in each county.

Arkansas Teacher Retirement System (ATRS) -- Mr. George Hopkins, Executive Director (Exhibit E-3)

Mr. George Hopkins, ATRS Executive Director, recognized his Board Trustees in attendance: Ms. Hazel Coleman, Ms. Robin Nichols, Mr. Danny Knight, and Ms. Donna Morey. Mr. Hopkins reviewed Exhibit E-3 which includes:

- a membership overview for fiscal year 2011
- an actuarial update
- four statewide maps listing the total retirement benefit amounts paid in each county for the following members:
 - ◆ active members
 - ◆ retired members
 - ◆ T-DROP members
 - ◆ working members

Mr. Hopkins detailed their survivor benefits. The survivor benefits are paid to the member's minor children (up to three children), if the member has completed five years of service. Mr. Hopkins used the example of a \$50,000 annual salary. Each of the three surviving minor children would receive \$10,000 a year, with a 3% simple COLA, up to age 23. If a child is incapacitated, the benefits will be paid for the remainder of the child's lifetime. Mr. Hopkins believes the ATRS survivor benefits are the best in the U.S.

A number of teachers from Jonesboro and surrounding areas were recognized for questions. Attendees urged legislators to make no changes to the retirement system. There was additional discussion specifically addressing the T-DROP.

Arkansas State Highway Employees Retirement System (ASHERS) -- Mr. Larry Dickerson, Executive Secretary (Exhibit E-4)

Mr. Larry Dickerson, ASHERS Chief Fiscal Officer and Executive Secretary, reviewed an Executive Summary from the Actuarial Report listed in Exhibit E-4. The Actuarial Report shows a chart containing a two-year comparison. The market value of the ASHERS retirement system was \$1,298 billion, as of June 30, 2011, an increase of \$246 million from 2010. Mr. Dickerson explained that there has been some debate as to whether or not actuarial or market value should be used. He is an advocate of "smoothing". He defined actuarial value as averaging excess gains or losses, known as "smoothing", over a five-year period. Mr. Dickerson stated the ASHERS unfunded liability on actuarial value was \$115 million, as of June 30, 2011. The number of ASHERS members increased in 2010, with 50 new active members and 53 additional retirees. Mr. Dickerson explained that the ASHERS system has always been a contributory plan. The percentage rate of 13.68% is paid to a new employee's retirement benefits as follows:

- ◆ the employee contribution rate is 6%
- ◆ the state contribution rate is 12.90%.

The unfunded liability for ASHERS through the end of 2011 was \$115 million. Mr. Dickerson believes the correct method to measure unfunded liabilities is through percent funding, not by the years of unfunded liabilities.

Arkansas State Police Retirement System (ASPRS) -- Ms. Gail Stone, Executive Secretary (Exhibit E-5)

Ms. Gail Stone, ASPRS Executive Secretary, gave an overview of the system. She explained that ASPRS assets for fiscal year 2011 were \$223.5 million, which covers 530 active members, 630 retired members, and 76 DROP participants. Total benefits paid by the system were \$21.8 million for fiscal year 2011. Ms. Stone stated the average benefit paid is \$2,782 a month for each retiree. She explained that the system is experiencing difficulties due to budget constraints. The state police are unable to hire many new troopers, unlike APERS which has new members continually replenishing their ranks. When a retirement system is small, with an ever increasing number of retirees, it becomes difficult to keep the system funded. The ASPRS unfunded liability is \$208 million. There has been an increase in the percentage of payroll costs for the retirement system going from 45% in 2010 to 47.65% in 2011. She explained the increase is due to the closed pension plans. Tier 1 is currently 74% of the payroll. The Tier 2 plan was put into place in 1997 to address spiraling costs.

Arkansas Judicial Retirement System (AJRS) -- Ms. Gail Stone, Executive Director (Exhibit E-6)

Ms. Gail Stone, AJRS Executive Director, gave the total value for the AJRS system as \$171 million, as of June 30, 2011, with \$165 million in unfunded liabilities. The program serves circuit judges, appeals judges, and supreme court judges. There are 141 active members and 120 retirees. She described the following tiers in the program:

- Tier 1 plan members contribute 6%
- Tier 2 plan members contribute 5%
- the state contribution is approximately 30% of the total payroll

Arkansas Diamond Deferred Compensation Plan -- Mr. Jason Lee, Executive Director, Employees Benefits Division, Department of Finance and Administration (Exhibit F)

Mr. Jason Lee, Executive Director, Employee Benefits Division (EBD), Department of Finance and Administration, reviewed the 457 Deferred Compensation Plan available to state, county, and municipal employees. Plan information was provided in Exhibit F. The 457 Plan is similar to 401k programs offered in the private sector. The supplemental retirement program allows participants to deposit a portion of their salary into a pre-tax account. Mr. Lee said the plan has a total of \$450 million in assets with 14,500 participants, the majority of which are state employees. Plan investment options include fixed income, mutual funds, and bonds. A participant can withdraw money for additional income after retirement. Contribution limits are set by the Internal Revenue Service. A change in the plan will occur in the first quarter of 2012. EBD will add a ROTH 457 option, which allows for a post-tax contribution. Mr. Lee described the real benefit of the 457 plan is as a long-term investment strategy. The plan allows for a multiple investment strategies with fixed assets and mutual funds. It is a self-directed investment vehicle designed to supplement and provide additional retirement income.

There being no further business, the meeting adjourned at 6:45 p.m.

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT
& SOCIAL SECURITY PROGRAMSDecember 13, 2011

The Joint Committee on Public Retirement and Social Security Programs met Tuesday, December 13, 2011 at 9:30 a.m. in the Hilton Garden Inn Conference Room in Jonesboro, Arkansas.

Committee members in attendance: Senator Johnny Key, Senate Co-Chair; Representatives Les Carnine, House Co-Chair, Nate Bell, Homer Lenderman, Jim Nickels, Tim Summers, and Butch Wilkins.

Also attending: Representatives Jon Hubbard, Reginald Murdock, and Mike Patterson.

Representative Carnine called the meeting to order.

Approval of Minutes -- October 17 and 18, 2011 [Exhibit B, B-1]

Minutes of the October 17 and 18, 2011 meetings were approved without objection.

Welcome and Overview of the ASU System Programs by Dr. G. Daniel "Dan" Howard, Interim Chancellor, Arkansas State University

Dr. Howard gave a PowerPoint presentation and explained that ASU is a master's level comprehensive university offering a wide array of degree programs including: associate, baccalaureate, and master degrees, plus education specialists, and doctoral programs. The university has been recognized as a first-rate doctoral and research institution. At present, the five-member board of trustees appointed by the governor are all alumnae of the institution. Dr. Howard explained that the university has a \$150 million operating budget, which includes \$25 million in auxiliary enterprises such as residence halls, food service, a bookstore, and vending operations. There are 1,500 full-time employees, including 500 full-time faculty members. Dr. Howard is pleased that student enrollment has increased from 10,400 over a 15 year period, to the current enrollment of 14,000. The largest increase has occurred during the past four years. He attributes the growth in enrollment to the development of distance learning, plus the fastest growing population of international students in the state. In 2007, there were only 157 international students compared to the current 1,088. Dr. Howard then discussed the economic impact the university has had on the community. He described an on-going program between the university and the Chinese government to expand exporting Arkansas rice to China, which has huge economic potential for the state. In other areas, ASU has already contributed \$175 million to the local economy.

Notification of Openings and Description of Board Duties for the Arkansas Local Police and Fire Retirement System (LOPFI) [Exhibit E]

Mr. David Clark, LOPFI Executive Director, described the seven-member Board of Trustees whose positions are chosen from the following organizations:

- ◆ two employer representatives from the Arkansas Municipal League
- ◆ one active police officer
- ◆ one active firefighter
- ◆ one retired police officer
- ◆ one retired firefighter
- ◆ one public representative

The retired firefighter and the retired police officer board positions will be open as of January 1, 2012. Mr. Clark referenced the recommendation letter in Handout 1, which was submitted by the Arkansas Professional Fire Fighters Association (APFFA), recommending Harrison Fire Chief John Neal (Ret.) for the retired firefighter trustee position. The letter requests that the committee submit Chief Neal as a candidate to the governor for consideration for the appointment. Mr. Bill Lundy representing the APFFA was recognized. Mr. Lundy said the APFFA is very much in favor of Fire Chief John Neal for the retired firefighter trustee position.

Mr. Roger Smith was recognized. Mr. Smith referenced the recommendation letter in Handout 2, which was submitted by the Arkansas State Lodge Fraternal Order of Police (FOP). Mr. Smith said the FOP recommends Sergeant James Davis of Fort Smith (Ret.) for the retired police officer trustee position on behalf of the FOP. The letter from the FOP requests that the committee submit Sergeant Davis as a candidate to the governor for consideration for the appointment. Mr. Smith was asked where the current trustees live. He provided the following board members' names and towns:

- ◆ Mayor JoAnne Bush, Lake Village
- ◆ Mayor Mike Gaskill, Paragould
- ◆ Dan Curtner, Forrest City
- ◆ Donna Atkins, Hot Springs
- ◆ Tim Webb, Searcy
- ◆ Terry Henson, Little Rock
- ◆ Beverly Lambert, Little Rock

Notification of Openings and Description of Board Duties for the Arkansas Fire and Pension Review Board (PRB) [Exhibit F]

Mr. David Clark, PRB Executive Director, described the nine-member Board of Trustees and which categories they are chosen from:

- ◆ two police officers
- ◆ two firefighters
- ◆ three employer representatives
- ◆ one representative from the Department of Finance and Administration
- ◆ one public position

Mr. Clark explained that Mr. Buddy Ledford of Fayetteville currently serves in the public trustee position. This position will be open as of January 1, 2012. The PRB recommends that Mr. Ledford be reappointed. Mr. Clark was asked to discuss the requirements for both LOPFI and PRB board positions. He clarified that two candidates must be submitted to the governor for each board position when those recommendations are submitted by the Retirement Committee.

Representative Carnine suggested the committee consider a motion to submit the recommended candidates to the governor. No action was taken on the motion. He asked staff to find a future meeting date to allow the committee time to obtain additional names from LOPFI and the PRB to fulfill state law requirements.

Notification of Openings and Description of Board Duties for the Arkansas Teacher Retirement System (ATRS)

Mr. Hopkins said the ATRS Board oversees the largest retirement system in Arkansas, and has the following 15 trustee positions:

- ❖ Ex-Officio Trustees:
 - ◆ two elected officials -- Auditor of State and Treasurer of State
 - ◆ two gubernatorial appointments -- Commissioner of Education and Bank Commissioner

- ❖ Elected Trustees:
 - ◆ four certified teacher positions -- elected from each congressional district
 - ◆ two administrator positions
 - one elected school superintendent, and one additional elected school superintendent or administrator
 - ◆ one elected classified employee
 - ◆ three elected retired teachers
 - ◆ one elected minority designee

Mr. Hopkins explained that election ballots for board openings will be mailed to the ARTS membership for the open administrator trustee position, currently held by Dr. Richard Abernathy, and the open retired trustee position, currently held by Mr. Danny Knight. Mr. Hopkins indicated that both Dr. Abernathy and Mr. Knight are candidates for the respective trustee positions. Election ballots will be mailed to all administrators for the administrator trustee position and ballots for the retired position will be mailed to all retirees as follows:

- ballots mailed out March 15, 2012
- ballots must be returned by April 16, 2012
- elections are certified on April 20, 2012
- trustees begin serving on the ATRS Board on July 1, 2012

Discussion of the ATRS Actuarial Report for June 30, 2011

Mr. Jody Carriero, Actuary, discussed assumptions in the actuarial report as to valuation as follows:

- ◆ number of employees leaving service
- ◆ number of employees who became disabled
- ◆ number of employees who die before leaving service
- ◆ salary increases

Mr. Carreiro stated that legislation passed in the 2011 Legislative Session created a savings component and dealt with items not explicit in the valuation assumptions. Mr. Carreiro believes using the "smoothing method" and a balanced approach are best when calculating unfunded liabilities. Mr. Carreiro was asked to discuss the upcoming release of new accounting standards by the Governmental Accounting Standards Board (GASB) and if he

thinks the changes will make a significant difference. Mr. Carreiro explained that GASB opened a comment period on the new standards, which is scheduled to end in March or April 2012. He thinks the release of the new standards could potentially be an issue for ATRS, because the discount rate in the new standards is based on a projection. The use of a projected discount rate is important because it is the same rate used for valuation. The projection issue will be reviewed during the comment period. Mr. Carreiro believes the release of the new GASB standards will create a considerable amount of press and raise some questions. However, it does not mean the retirement systems should automatically increase projected liabilities to meet the new standards. It will not change long-term funding for ATRS, or any retirement system. Mr. Carreiro stated the funds in Arkansas's retirement systems are in better funded positions than others throughout the U.S.

There being no further business, the meeting adjourned at 11:50 a.m.

DRAFT