**EXHIBIT B**

**MINUTES**

**JOINT COMMITTEE ON PUBLIC RETIREMENT**

**& SOCIAL SECURITY PROGRAMS**

September 19, 2012

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The Joint Committee on Public Retirement and Social Security Programs met Wednesday, September 19, 2012, at 10:00 a.m. in Room 130, State Capitol, Little Rock, Arkansas.

**Committee members in attendance**: Senators Johnny Key, Senate Co-Chair; Joyce Elliott, Gene Jeffress, Jimmy Jeffress, Jason Rapert and Bill Sample; Representatives Les Carnine, House Co-Chair; Gary Deffenbaugh, Jody Dickinson, Billy Gaskill, Homer Lenderman, Johnnie Roebuck, and Tim Summers.

**Also attending:** Senators Linda Chesterfield and Jonathan Dismang; Representatives John Burris, Allen Kerr, Buddy Lovell, Walls McCrary, Reginald Murdock, Jim Nickels, Betty Overbey, Mike Patterson, Mary Slinkard, Tommy Thompson**,** and Hank Wilkins.

**Approval of Minutes – April 16-17, 2012** **Exhibit B, B-1]**

Minutes of the April 16 and 17, 2012 meetings were approved by acclimation.

**Consideration of Re-Appointment of Mr. Buddy Ledford to the Pension Review Board (PRB)** **[Exhibit C]**

Mr. David Clark, Executive Director, Arkansas Pension Review Board (PRB) respectfully suggested that the committee submit a recommendation to the governor to reappoint Mr. Buddy Ledford to the PRB. A motion was made and seconded to recommend the reappointment. The motion passed without objection.

**Discussion of ISP 2011-196 by Senator Johnny Key “Requesting the Interim Joint Retirement Committee Study the Effect of Automatically Enrolling New State Employees in a Deferred Compensation Plan Subject to Certain Op-Out Provisions**” **[Exhibit D, D-1]**

Chairman Carnine recognized Senator Key, sponsor of ISP 2011-196, for a PowerPoint presentation. Senator Key discussed the Arkansas Diamond Deferred Compensation Plan, a 457 supplemental retirement plan for state employees offered through the Arkansas Public Retirement System (APERS) and other entities. Benefits to participants in the 457 plan include: increases in retirement savings, increases to the level of savings, and a tax-favored savings tool. Fees are typically low and no penalty is applied for withdrawal upon termination or retirement. Senator Key provided the following statistics pertaining to participants in the Arkansas Diamond Deferred Compensation Plan for the quarter beginning April 1, 2012 and ending June 30, 2012:

* 14,556 participants consist of:
* 10,717 active state employees
* 3,839 retired or terminated state employees
* overall there are 31,886 current state employees
* 330 new enrollments with an average age of 45

Senator Key listed the following reasons for the necessity of auto enrollment:

* retirement income is insufficient for most people. A third source of retirement income is needed in addition to state retirement and social security
* employees tend not to enroll in deferred compensation plans
* employees wait too long to enroll
* decrease in personal savings rate

Typical components of auto enrollment are:

* applies to new employees only
* contributions can be from 1% to 5% of an employees’ salary
* an employee has the ability to increase contribution amounts over time
* an opt-out program is offered during the first 30 days

Senator Key said awareness of auto enrollment was enhanced when Congress passed the Federal Pension Protection Act in 2006, which gave statutory authority to employers to automatically enroll employees. Research found that a number of states have already adopted auto enrollment programs. The most recent state to enact auto enrollment is Missouri. The following information was garnered from the Missouri plan:

* an increase in the number of state employees delaying retirement planning
* a decrease in enrollment in deferred compensation plans
* Missouri passed auto enrollment legislation in 2011
* Missouri legislation took effect during the summer of 2012
* following implementation, plan participation increased from 10% to 91% over a two month period

The state of Missouri determined the program was most effective and easier to enact with new employees only. Examples of benefits to state employees:

* additional accumulation of needed savings
* simple payroll deduction
* provides tax deductions
* helps achieve a secure retirement
* gives employees more control over retirement investments
* allows for contributions to be returned to employees without tax penalties, if the employee opts-out

Senator Key emphasized that implementation of an auto enrollment deferred compensation plan will not replace current state retirement systems plans. The intent is to offer a supplemental retirement plan.

Jason Lee, Executive Director, EBD, Arkansas Diamond Deferred Compensation Plan

Chairman Carnine recognized Jason Lee, Executive Director, Employee Benefits Division (EBD). EBD acts as the administrator for the Arkansas Diamond 457 Deferred Compensation Plan making it available to state employees as a supplement to the state retirement plan. Mr. Lee was asked what the costs are for management fees for the plan. He said the cost is 18.9 basis points, which covers operations, management fees, and service of the plan. He was then asked who acts as custodian of the assets. The custodian of record is State Street Bank through ING, and financial advisement is provided by Stephens Investments. Stephens Investments is also the Advisor of Record. Mr. Lee was asked what, if any, staffing issues he anticipates would occur if a mandatory auto enrollment plan is established. Mr. Lee stated that the current staff of Stephens Investments and employees of ING would continue to coordinate activities, communicate with new state employees, and process forms. Should additional staffing become necessary, he believes it would occur as an increase in the number of field representatives provided by ING.

Gail Stone, Executive Director, Arkansas Public Employees Retirement System (APERS)

Gail Stone, Executive Director, Arkansas Public Employees Retirement System (APERS) was recognized. Ms. Stone made suggestions and comments regarding ISP 2011-196. Because the Arkansas Public Employees Retirement System (APERS) provides benefits to county and municipal employees in addition to state employees, Ms. Stone recommended the ISP be broadened to include county and municipal employees. She believes the opt-out provisions for an auto enrollment plan should receive careful consideration if it is to be a mandatory requirement. She also feels that education of new employees will be extremely important. Ms. Stone said she is supportive of the ISP study Senator Key’s efforts to broaden future state employees retirement options.

George Hopkins, Director, Arkansas Teacher Retirement System (ATRS)

George Hopkins, Director, Arkansas Teacher Retirement System (ATRS) was recognized. Mr. Hopkins said he supports the auto enrollment plan in ISP 2011-196 and feels it will benefit future state employees. He believes employees are interested in the 457 plan, but lack an understanding of how to participate and set up a plan. The auto enrollment plan in the ISP would eliminate many implementation problems new state employees might encounter.

**Update on Current Condition of Public Retirement Systems**

Mr. Jason Lee, Executive Director, Employees Benefit Division (EBD) described the Arkansas Diamond Deferred 457 Compensation Plan as a self-directed investment vehicle, which is employee-owned with multiple investment models. The 457 plan has an option for a traditional pre-tax contribution, plus a ROTH option that recently became available. Mr. Lee said the ROTH option gives participants the ability to include their taxable liability with their payroll, a tax-free distribution, which includes growth, after a break in service. Mr. Lee reported the fund balance is $460 million as of June 2012 with a net growth of 2½% over the previous 12 months. The net growth includes: distributions from the funds to the participants, payroll contributions added to the plan, plus a net loss or gain of the individual underlying investment vehicle. Mr. Lee stated that a review of activity in 2012 versus the same period in 2009 shows a decrease in contribution amounts with lesser contributions for each age bracket. Examples of contribution rates: 2012 2009

* average contributions by participants between the ages $115.00 $150.00

of 51 and 60

* average contributions by participants between the ages $ 50.00 $102.00

of 30 and 40

Ms. Gail Stone, Executive Director**,** Arkansas Public Employees Retirement System (APERS),

Arkansas State Police Retirement System (ASPRS), and the Arkansas Judicial Retirement System (AJRS) was recognized for updates on all three systems. Her handout contained a statewide map divided by counties and congressional districts with data combined for all three systems for fiscal year 2012. The data shown for each county represents the total number of retirees and benefits paid. Ms. Stone provided the following data:

* retirees average $12,000 per year in annual benefits
* total benefits of $390 million paid to all retirees for fiscal year 2012
* total benefits of $345 million paid to APERS retirees for fiscal year 2012
* number of active APERS members for fiscal year 2012 was 45,922
* number of APERS retirees for fiscal year 2012 was 27,000
* number of employees in DROP for fiscal year 2012 was 1,476

Ms. Stone said the current employer contribution rate of 14.24% will increase to 14.88% effective July 1, 2013. A percentage of payroll cost to the employer for the program is 6.67%.

Ms. Stone presented an update for the ASPRS system, which merged with the APERS system in July 2009. ASPRS is a fully mature plan with more retirees than active members. The ASPRS system currently has 534 active members and 644 retirees. 63 members participate in the DROP program. All participants in the DROP program are in the Tier I component. No Tier II members are eligible yet for the DROP program at this time. Ms. Stone gave the total retiree payroll, including DROP, as $21.4 million paid to 607 retirees. The Tier I program, which is a closed plan, is about 74% of payroll. Ms. Stone said the combined rate merging Tier 1 and Tier II is an estimated 47.66% of payroll. The Tier II component continues to perform at 22% of payroll, as set by statute. Ms. Stone asked the legislators to consider setting a higher statutory rate, which would sunset once all Tier I members have retired. The unfunded liability for the State Police Retirement System is currently $137 million, which makes them 69% funded.

She was asked to describe the different DROP benefits for members in Tier I and Tier II. She explained that a Tier I member is eligible for the DROP program when the member is eligible for reduced benefits. 100% of their calculated benefits are put into the system. Members in Tier II will be eligible to enter the DROP program when they accrue a minimum of 30 years of actual service. 75% of a member’s benefits goes into the system and makes 3¼% interest on the DROP balance. Ms. Stone said it will be several years before any Tier II troopers will be eligible to enter the DROP.

Ms. Stone was recognized for an update on the AJRS system. She told legislators that preliminary data for the AJRS system has not been finalized. A system report will be available following the upcoming November board meeting. Ms. Stone said the AJRS system was the highest performing fund of the three retirement systems for fiscal year 2012 with a 1.77% rate of return. The current number of active judges is 141 and the current number of retired judges is 128. Ms. Stone said the average annual benefit for a retired judge is $70,000.

She was asked to give the number of actual retirees compared to the number of survivors of retirees receiving benefits. She told legislators she would gather the data and report back to the committee.

Mr.George Hopkins, Director, ATRS was recognized to give a ATRS system update. Mr. Hopkins introduced ATRS board members Mr. Lloyd Black and Ms. Donna Morey who were in attendance. Currently, there are 86,000 active members and 36,000 retirees in the ATRS system. He reported employee contributions of $116 million with $512 million in total contributions. Unlike other retirement systems, the ATRS system has achieved growth by moving toward more liquid investments. Following are some investment examples:

* real estate
* private equity, which is not publicly traded
* alternative assets
* 100 square miles of timberland
* $40 million dollar investment in farmland throughout the U.S.

Mr. Hopkins was asked to discuss the T-DROP program. He explained that non-contributory members in the T-DROP program with 30 years of service have had an 18% reduction. Whereas, contributory members with 30 years of service have had a 30% reduction. Mr. Hopkins believes this should be equalized. The ATRS system and Board of Trustees are working on proposed legislation for the 2013 legislative session with over 23 bills, 14 of which will focus on cost cutting measures.

**Consideration of a Request for an Actuarial Cost Study Eliminating the Mandatory Retirement Age for Judges**

Chairman Carnine recognized Judge Vann Smith, Circuit Judge, Sixth Judicial Circuit. Judge Smith said interest has been by the Judicial Council to eliminate the mandatory retirement of judges at age 70. Currently, if a judge is elected prior to age 70, but turns 70 while in office, he or she is allowed to complete their term without losing retirement benefits. However, if they continue to serve an additional term after the age of 70, all retirement benefits are forfeited. Judge Smith told the legislators the Judicial Council is requesting the committee authorize an actuarial cost study to determine the ramifications to the Arkansas Judicial Retirement System if the mandatory retirement age limit is removed.

Chairman Key told the committee the request by Judge Smith and the Judicial Council is directed only towards approval of an actuarial cost study and not a debate of the merits of the age limitation. A motion was made and seconded to approve the cost study request. The motion was approved by acclimation.

Due to time constraints, Chairman Carnine asked David Clark, Executive Director, LOPFI and Larry Dickerson, Executive Secretary, ASHERS, to present their system updates at a future committee meeting.

There being no further business, the meeting adjourned at 12:10 p.m.