EXHIBIT C9
APPROVED DECEMBER 18, 2019

MINUTES

JOINT COMMITTEE ON PUBLIC RETIREMENT & SOCIAL SECURITY PROGRAMS

Tuesday, October 22, 2019

The Joint Committee on Public Retirement and Social Security Programs met at 8:30 a.m. Tuesday, October 22, 2019, at Arkansas State University (ASU)-Mountain Home, Sheid Building, 1600 South College Street, Mountain Home, Arkansas.

Committee members present: Senator Kim Hammer. Representatives Les Warren, Co-Chairman; Bruce Coleman, Stu Smith, Douglas House, and Michelle Gray.

Also attending: Senator Missy Irvin and Representatives Craig Christiansen, Jim Dotson, Ron McNair, Johnny Rye, Keith Slape, and Nelda Speaks.

Representative Warren called the meeting to order.

Welcome and Overview of Arkansas State University – Mountain Home (ASU-Mountain Home)

Dr. Robin Myers, Chancellor, ASU-Mountain Home, noted that Mountain Home is a retirement community proud of its Sheid Building, a performing arts facility, which seats 1600, can host different events and displays notable art work such as an original Rembrandt.

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 Liabilit8ies (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 200l 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.

<u>Panel Discussion/Public Comments</u>

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

1. **Mr. Morris Storey, teacher in** the **Mountain Home area,** noted teachers did not get the full 3% cost of living allowance (COLA) in 2019 due to a $75 stipend paid for health insurance. He asked Mr. Rhoden regarding the stipend will it be paid back at $25 over a three-year period.

   Mr. Rhoden explained the benefit stipend, which originally was introduced as benefit cycling at $50/month, but over the years that amount increased to $75/month. In 2017, a one-time adjustment was implemented to return to the $50/month benefit cycle. The 2019 COLA of 3% was paid out at 100%, but teachers received less than expected because benefit cycling returned back up to the full amount. This was done in a one-year time period instead of spreading it out. Next July, teachers will receive their full 3%-simple of base amount COLA.

2. **Mr. John Montgomery, Sherriff, Baxter County,** commented local law enforcement is difficult to recruit, and that county government loses law enforcement officers due to low salaries and retirement system changes. He gave two examples: 1) Retirement incentives as a recruiting/hiring tool have been taken away. Before 1999, the LOPFI retirement system allowed law enforcement to receive one-and-a-half-years of credit for every year served. The contribution rate APERS pays their employees is less than LOPFI and others, but 2) State prison inmate overflow costs county government $20/state-inmate/day. Local law enforcement is required to house state-inmate overflow at the state rate of $30/state-inmate/day, but the average cost to house the state-prison-overflow is $50/state-inmate/day.

3. **Ms. Lisa Holt, Arkansas Department of Health,** noted she is a non-contributory member, has 26 years of service with the state and is concerned about her retirement benefits being available when she retires in 23 months. She asked if the statewide retirement systems have considered early retirement with full benefits for non-contributory members like herself to allow new employees to be hired that will be contributing members, which would help keep the fund going.

4. **Ms. Billie Dalton, retired District Director for Barton School District, asked about the $75 benefit stipend.**

   Mr. Rhoden replied, the $25 benefit cycle adjustment was implemented on July 1, 2019. This benefit began in the 1990's at a rate of $50, and later increased to $75. The $25 increase was costing the system a great deal of money, so they reduced it back to $50 for all members.

5. **Ms. Dalton asked about the five-year average salary calculation and ten-years to be vested. Will some people be grandfathered in?**

6. **Mr. Rhoden** noted last year ATRS has moved from three-year final average salary to five-year final average salary with a protective mechanism beginning June 2018, for people already vested and retiring soon. The ten-year qualifying statement refers to receiving full multipliers going forward. Earned multiplies up to this point are kept whether the employee is 60-years-old or not.

7. **Mr. Charles Adair, Harrison, Arkansas**, retired over ten years, understands from today's meeting that the ATRS is going to stay intact, and the annual 3% increase COLA has a base set on the income earned in the year of retirement. He thinks the base should be moved up every few years to make retirement benefits easier to live on and make ends meet.

8. **Jan Knowles, Public School Retiree,** after 36-years, noted ATRS is one of the best teacher retirement systems in the nation. She asked about stress testing and adjustments and how that affected already retired employees.

Mr. Carreiro noted stress testing is something that needs to be done to keep the system sound. Different areas of risk are looked at to ensure understanding of where areas of risk are and what risk could do to the system. Regular budgets have changes/surprises, the same for budgets of retirement systems. Legislative committees discussed set tests to be done for a cost effective way to provide benefits to recipients regarding tax dollars.

9. **Lynette Bremen, Searcy County, a state employee for 20-years,** noted she is under APERS and is a contributor, but her first five years with the state she was a non-contributor. She asked will she lose the contributed funds if the system goes down or should she take her funds and move them.

   Mr. Carreiro noted the future is positive because minor adjustments are being made to stay in balance. He offered for someone to meet with her to discuss non-contributory and contributory service and help her with those questions.

   Representative Warren asked the audience to contact their legislative representative about any rumor they hear, and ask them for the facts, your representative will tell you the truth, they want what is in your best interest. The committee wants Arkansas retirement system plans to last as long as there are retirees collecting a retirement check.

10. **Mr. John Gilbert, Bull Shoals, White River State Park, seasonal employee,** asked if there is anything APERS or the legislature can do for seasonal employees, such as an incentive to come work for the state for 60 months and be vested in the retirement program. Seasonal employees are inactive a few months of the year, is there a way the employee could contribute to the system while inactive?

    Mr. Carreiro noted there are state and federal guidelines and rules that apply to retirement plans, which make it a balancing act to be fair to the members and seasonal employees. APERS requires 80 hours a month to receive credit for the month and that is difficult for some.

11. **Ms. Barbara Henderson, Health Department, retiree after 42-years,** noted she has been retired for two-and-a-half-years. She asked what a sound investment portfolio with solid investments over time look like.

    Mr. Baird noted last year the APERS' net was about 5.3%. ATRS' portfolio has private equity, APERS does not, but does have a small amount of diversified. The returns on an annual basis will differ, but he offered to get exact numbers for her. Over time a plan changes its asset size. Investments will evolve as the size of its investments change.

12. **Mr. Wes Henderson, Superintendent Yellville-Summit School District asked the committee** to take care of ATRS, so great teachers will continue to be recruited.

Representative Warren thanked the attendees for their comments and suggestions.

With no further business, the meeting adjourned.