

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
JANUARY 17, 2017**

The special meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Tuesday, January 17, 2017 at 10:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mr. Williams presided.

**QUORUM PRESENT:**

Mr. Williams recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Mr. Artee Williams (State Employee Member), *Chair*, Maumelle, AR  
Mayor David Morris, (City Employee), *Vice-Chair*, Searcy, AR  
Ms. Ouida Wright (State Employee Member), Conway, AR  
Judge David Hudson, (County Employee), Fort Smith, AR  
Mr. Bill Gaddy (State Employee Member), Little Rock, AR  
Hon. Andrea Lea, (Ex-Officio Member), State Auditor (*via tele-conference*)  
Mr. Larry Walthers, (Ex-Officio Member), Department of Finance and Administration  
Ms. Gail H. Stone (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR  
Mr. Dennis Milligan, (Ex-Officio Member), State Treasurer

**VISITORS PRESENT:**

Mr. David Hoffman, Gabriel Roeder, Smith & Company  
Dr. John Shelnett, Department of Finance and Administration

**STAFF PRESENT:**

Mr. Jay Wills, APERS Deputy Director  
Ms. Jessica Middleton-Kurylo, APERS General Counsel  
Mr. John Owens, APERS Internal Auditor  
Ms. Linda McGrath, APERS Administrative Specialist

**NEWS MEDIA NOTIFIED:**

A letter of notification of the Arkansas Public Employees Retirement System Board meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Television Station KLRT/FOX16, Radio Station KARN, and Radio Station KAAY. This letter of notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

**Actuarial Cost Study for Benefit Changes – Presented by Mr. David Hoffman of Gabriel, Roeder, Smith & Associates**

Ms. Stone requested that Ms. Jessica Middleton-Kurylo, APERS General Counsel, give a quick summary of the Contracts Clause in both the U.S. Constitution, as well as the Arkansas Constitution before the Actuary began his report. Ms. Middleton explained that the State cannot impair its own contracts, which the 8<sup>th</sup> Circuit and Arkansas Supreme Court interpreted to mean that vested, contributory members benefits could not be reduced, after the fact, as it would be impairing a state contract. The General Assembly's authority to change the law was recognized in the same opinion; however, it was not permitted to retroactively affect the benefits of vested, contributory members. She clarified that this protection began immediately when a contributory person vested, and was not delayed until they actually retired. Ms. Wright asked for confirmation that this interpretation would allow for the benefits a person who had worked many years for the state, but was non-contributory, to be altered or reduced and Ms. Middleton agreed that was her interpretation.

Mr. Gaddy queried Ms. Stone on the number of non-contributory members still in the system and she replied that about 30% of the current APERS members were still non-contributory, but that number was shrinking every day as older members retired and new employees were hired. Ms. Stone opined that changing the benefits on this fraction of the membership would not solve the problem of funding the APERS in an optimal manner.

Mr. Hoffman introduced himself to the newer Trustees and explained Gabriel, Roeder, Smith's responsibilities to the system. At the last few meetings they have been at, the actuaries have described the changes they expect to make in the process over the next couple of years. Combining the expected investment returns with the last three years' recognized investment gains/losses, they can begin to project what the employer contribution rate might be in the near future. Currently, there is about \$400 million in investment losses to be phased in over the next 3 years, which will result in an increase in the Employer Contribution equal to about 1.6% of payroll. Mr. Hoffman also noted that the current Investment Assumption of 7.5% should probably be dropped to 7.25% for the 2017 Valuation; this change would raise the Employer Contribution rate another 1.5% of payroll. If nothing else changes, the actuaries would probably ask for a further reduction in the Investment Assumption for the 2019 Valuation to 7.0%, adding another 1.5% to the Employer Contribution rate.

Judge Hudson asked for clarification in the numbers and Mr. Hoffman explained that it simply meant that without a change in the investment environment, it was projected that the Employer Rate (currently 14.75%) would rise to 17.75% by 2019.

Mr. Gaddy asked about the current length of time the unfunded liability was amortized over and Ms. Stone stated it was 21 years, down one year since the last Valuation. Mr. Gaddy then inquired if it would be possible to push it back out to 30 years, as the plan had done in the past. Mr. Hoffman calculated that extending the amortization back out to 30 years would lower the Employer Rate to about 15.5% for next year, but by 2019 that would have risen to over 19% as the other demographic changes came into play.

Judge Hudson expressed grave concern over thoughts to reduce the retirement benefits in order to lower the employer rate. He felt that such actions would greatly decrease the quality of people that that public service jobs needed to attract. He outlined the three ways he understood to improve the financial health of the retirement system: increase employer contribution, increase employee contribution and/or reduce benefits.

Mr. Gaddy stated that more figures and charts were needed before the Board could make any decisions. Mr. Walthers agreed that he did not feel like he had a clear picture of the financial options and the necessity of making a decision today. Judge Hudson requested clear guidelines that the board could consider before making these judgments. Mr. Williams explained that as a long-term member of the board who worked closely with the Director, it had been the practice to trust Staff's recommendations, but if newer members were uncomfortable with that process, he certainly understood. Mr. Walthers said that since this was Staff's area of expertise, the board members should be able to look to them for advice and possible alternatives. Ms. Stone noted that the Trustees were the ultimate deciders and were free to act relatively independent of Staff. She clarified that the handout the Actuaries had provided to the board members was more of a spectrum of options, rather than exact solutions to be instituted. She explained how one could use the options to discover a "sweet spot" that enhanced benefits for a nominal increase in employee contributions.

Ms. Stone explained that the Unfunded Liability was currently factored over a 21-year "closed" amortization period. If left unchanged, it would drop down to a 20-year period next year. Previously, APERS had employed a 30-year "open" amortization period, which remained constant at 30 years. In light of the new GASB regulations, these rules are currently in flux and Mr. Hoffman was unsure what might be the repercussions of going back to a 30-year amortization period. Ms. Stone explained how following the new GASB regulations meant that different numbers were reported to different agencies.

Mr. Hoffman attempted to summarize the discussion and stated that for budget purposes the payroll was currently about a \$1.7 million with 15% of that coming to APERS. GRS calculated that it would need to be raised another 4% over the next few years, giving APERS about \$25 million in additional employer contributions each year. Judge Hudson expressed his desire to see a complete breakdown of how much would be collected from employers at various rate settings. He was adamant that it was preferable to raise contribution rates to both employers and employees, before ever considering cutting benefits to either current or future employees. Mr. Walthers asked if there was an urgent need to make a decision now while the legislation was still in session or could the board do more due-diligence before making a decision. Ms. Stone stated that if Mr. Walthers could get APERS in the call during the next Fiscal Session of the legislature, that timing would be preferred by Staff. She reminded the Board that APERS was very close to

going live with the new pension administration plan (COMPASS). Mr. Hoffman agreed that there was no immediate urgency that a delay of just several months would change.

Mr. Wills touched on the appeal currently before the State Supreme Court regarding some State Police Retirement benefits. He gave a quick history of the case and explained that the outcome would greatly clarify the issue of what was and was not permissible regarding reduction of benefits. Judge Hudson acknowledged the report had been a good start to get dialog flowing and asked Ms. Stone which of the options she would encourage the Board to adopt. She stated that going back to 30 years for full-retirement and lowering the interest (currently 4%) paid on contributions were good plan designs.

Mayor Morris commented he appreciated Judge Hudson's comments and being one of the newer board members, he did not want to act in haste. If it was possible to delay action until everyone felt they had a better understanding of the issues and various solutions, he would be willing to make that motion. Ms. Stone agreed that delaying any action would be easier for Staff as it would allow them to get COMPASS up and running first. Hopefully, the Supreme Court would have made their ruling regarding the ASPRS benefits, which could also be used for guidance.

Ms. Stone encouraged any new Trustee to consider attending one of the "Callan Colleges" offered throughout the year. She also noted that the first Retirement Committee meeting would be held on January 23<sup>rd</sup> at 10:00 a.m. There would be an overview of all the retirement systems provided by their directors and then the actuaries for committee (Osborne & Carreiro) would speak. Trustees that could attend this meeting would find it very enlightening.


Judge Hudson made a motion to delay consideration of adopting any cost saving measures until Staff and DF&A could identify a variety of options available beyond the ones submitted by the actuaries. He also hoped at that time to have indications of what the State, County and City payrolls were in order to gauge the impact of the decisions. Mayor Morris seconded and the motion was adopted.


**NEXT QUARTERLY BOARD MEETING:**

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, February 15, 2017 at 9:00 a.m.

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

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MAYOR DAVID MORRIS

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MS. GAIL STONE, EXECUTIVE DIRECTOR