

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
DECEMBER 5, 2018**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, December 5, 2018 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mayor Morris presided.

QUORUM PRESENT:

Mayor Morris recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mayor David Morris, (City Employee), *Chair*, Searcy, AR
Mr. David Hudson, (County Employee), Fort Smith, AR
Ms. Candace Franks (State Employee Member), Little Rock, AR
Mr. Steve Faris (Retired State Employee), Little Rock, AR
Mr. Gary Carnahan, (Other, Non-State Employee), Hot Springs, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR (*arrived late*)
Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Mr. Larry Walther, (Ex-Officio Member), Department of Finance and Admin.
Ms. Gail H. Stone (Executive Director), APERS

VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc
Ms. Brianne Weymouth, Callan Associates, Inc
Ms. Karen Harris, Callan Associates, Inc
Mr. David Hoffman, Gabriel, Roeder, Smith
Mr. Paul Louthian, Department of Finance and Admin.
Mr. John Shelnut, Department of Finance and Admin.
Mr. Skot Covert, AR State Auditor's Office
Mr. Jason Brady, AR State Treasurer's Office
Mr. Clint Rhoden, ATRS Executive Director
Rep. Doug House, AR House of Representatives
Rep. Les Warren, AR House of Representatives
Mr. Roger Smith, Lobbyist
Mr. Mike Wickline, *AR Democrat-Gazette*

STAFF PRESENT:

Mr. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Abbi Bruno, APERS Director of Operations
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willet, APERS Chief Financial Officer
Ms. Jessica Middleton, APERS General Counsel
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail with 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 notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

Chair Morris welcomed everyone and pointed out the new ATRS Director, Mr. Clint Rhoden, was a guest at today's meeting.

2017 LEGISLATIVE AUDIT RESULTS:

Ms. Stone stated for the record that Legislative Audit had no findings and no corrections for Fiscal Year 2017. The audit had been discussed at a meeting earlier in the year, but it failed to be noted in the Minutes, as the Auditors required. Ms. Franks motioned to recognize the report and she was seconded by Mr. Faris. Motion passed. Chair Morris praised the APERS Staff for the excellent audit report.

AFFIRM BOARD CHAIR AND VICE-CHAIR:

Chair David Morris distributed a copy of his retirement letter he'd submitted to the Governor and affirmed that he would be retiring from the APERS Board effective December 31, 2018.

Mr. Walther motioned to appoint Ms. Candace Franks to the Board Chair position to replace Mr. David Morris and for Ms. Andrea Lea to assume the Vice-chair position. Ms. Stone stated that a Constitutional Officer cannot serve two offices. Ms. Lea acknowledged that fact and Mr. Walther withdrew his nomination for Vice Chair.

Mr. Walther restated his motion for Ms. Franks to become Chair effective as of Jan 1, 2019. Seconded by Mr. Faris. Passed.

There was a motion by Ms. Lea for Mr. Walther to continue on as Vice Chair. She was seconded by Mr. Faris. Motion passed.

Mr. Faris and Mr. Walther spoke in appreciation of Mayor Morris' lengthy service to both the state and county.

MINUTES:

Prior to the Board meeting, copies of the Minutes from the August 15, 2018 Board Meeting and the 2018 Annual Trustee Educational Seminar meetings were mailed to each APERS Board member for review.

Ms. Lea motioned to accept the Minutes as amended, and she was seconded by Judge Hudson. Motion carried.

2018 ANNUAL ACTUARIAL VALUATION RESULTS – Presented by Mr. David Hoffman of Gabriel, Roeder Smith

Mr. Hoffman presented the final Actuarial Valuation results and confirmed the suggested 15.32% Employer Contribution rate. He reminded the Board that this rate would continue through the Fiscal Year beginning July 1, 2020 (two years). On a Market Value of Assets Basis, the System had an 80% funded ratio.

Mr. Carnahan asked if in the future, GRS could show Contributory and Non-Contributory separately when showing the breakdown of the Computed Employer Contribution Rates (page A3). APERS currently has 30% of the members who are Non-Contributory. Mr. Hoffman said GRS would do that going forward.

Mr. Hoffman reviewed several scenarios involving possible future market returns and how they could affect the Employer Rate and Funded Ratio of the plan. Mr. Hudson and Mr. Carnahan asked for another scenario showing Scenario A, but maintaining the 15.32% employer rate, thus showing the effect in the unfunded liability.

After the presentation, he reminded the Trustees they needed to approve the District Judges Employer Rate. Mr. Hoffman read from the report of the recommended rate for each part of the district judges. Ms. Stone noted there were only 24 members left in that plan. She suggested the proposed rates (page D-1) needed to be formally adopted now, but going forward, Staff should just follow the recommendation of the actuaries. Mr. Hudson motioned to adopt the proposed rates and was seconded by Mr. Walther. Passed unanimously.

Public Pension Standards Award

Mayor Morris noted that APERS had received an award from the Public Pension Coordinating Council for meeting professional standards for plan funding and administration as set forth by the Public Pensions Standards. He congratulated Staff on earning this honor for 2018.

Consideration of Possible Legislative Changes

The Trustees received a copy of a 2016 actuarial assessment with six possible changes and some variations to reduce the retirement system's unfunded liability. Ms. Stone distributed a one-page handout that broke down the benefit changes and effects they might have on the system. The Trustees reviewed them individually for savings and merit. She noted that if there were legislative changes to be sought, they would need to seek a legislative sponsor before January 28th, the bill filing deadline.

Mr. Hoffman reviewed all the options presented in the handout, discussing financial impact to the system over various time horizons. Various changes to the COLA were shown to have the most cost savings in the quickest amount of time. An extensive discussion regarding the COLA and possible variations ensued.

Mr. Carnahan suggested going forward with a bills supporting a change in the annual COLA to the lesser of 3% or the Consumer Price Index (CPI) for everyone, Reducing the member interest from 4% to 2%, and Changing from a 3-year Final Average Compensation (FAC) to a 5-year FAC.

After more debate, Mr. Bassett motioned to table discussion of the issues until the board had a chance for further study, as well as reviewing any other financial information the board needed, before setting a date for a special meeting to conclude this topic. There was further discussion regarding additional meetings and Mr. Bassett withdrew his motion.

Mr. Faris motioned to table any further discussion in order to collect all the information needed to make an informed decision and continue this discussion at a special meeting in January. Motion died for lack of a second.

After extensive discussion, Ms. Lea motioned for the Chair to go down list of cost saving proposals from GRS and vote separately on each change, along with a separate discussion about COLA, for inclusion in the cost study packet from GRS. Mr. Faris seconded. Motion passed.

- 1A/B – Ms. Stone suggested the Board avoid extending the “full retirement” time from 28 years to 30 years. It would create a nightmare with reciprocity, as all the other systems currently remain at 28 years. Ms. Lea motioned to remove 1A/B from consideration. Ms. Franks seconded. Motion passed.
- 2A – This proposal would change the Final Average Salary calculation from highest 36 months to highest 60 months on new hires only. Ms. Lea motioned to remove, Mr. Milligan seconded. Motion passed
- 2B – This would change the Final Average Salary calculation from highest 36 months to highest 60 months for new and non-vested members. Ms. Lea motioned to keep this change in the packet. Judge Hudson seconded; passed. Ms. Stone mentioned that doing this would put APERS at odds with the other Arkansas retirement systems who still calculated FAS on 3 years.
- 3A/B – Ms. Stone commented that in regards to changing the Multiplier, she preferred proposal 3B, which affected both new and non-vested. Mr. Walther motioned to eliminate 3A and keep 3B in the study. Mr. Milligan seconded and the motion passed.
- 4 – COLA changes. Discuss later in the meeting.
- 5 – This proposal would change the member’s contribution interest from 4% to 2%. Mr. Walther motioned to retain in the study; Judge Hudson seconded. Passed.
- 6A/B – Mr. Walther motioned eliminate 6A and retain 6B for further study. Seconded by Mr. Milligan. Motion passed. This proposal increased the member contribution from 5% to 6% for both new and non-vested.

Ms. Stone noted there were many combinations of numbers/features when discussing changes to the COLA. She asked for direction on which set the Board wished to focus on for possible COLA changes.

Option A: Lesser of 2.0% or CPI for new or non-vested
Lesser of 3.0% or CPI current, vested & deferred
Lesser of 3.0% or CPI for retirees

Option B: Lesser of 2.0% or CPI for all

Option C: Lesser of 3.0% or CPI for all

Mr. Walther motioned for GRS to cost out the savings of all three options on COLA payouts for the Board’s review; second by Mr. Milligan. Passed

Mr. Carnahan motioned to set the next meeting date for Tuesday, January 8th at 9 am. Mr. Faris seconded and the motion passed.

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING SEPTEMBER 30, 2018 - Presented by Mr. Ryan Ball and Ms. Brianne Weymouth of Callan Associates, Inc.

Mr. Ball commented it had been a good quarter and strong for US equities. The Fund returned 3.45% and 9.86% for the past 12-months, well above the benchmark. The overweight in Equities added nicely to the bottom line.

Ms. Weymouth introduced Ms. Karen Harris, actuary in Callan's San Francisco office who would explain the results of the Asset Liability Study

Asset Liability Study Results – Rebalancing Options

Ms. Harris explained that the Trustees had decided on 7.15% for an expected investment return. She noted various factors that were taken into consideration: rising Fed interest rates, volatile Equities, and a mature fund paying out more in benefits than collecting from members.

Ms. Harris gave five sets of Asset Allocation combinations and compared them to the current asset mix. She suggested Mix 4 to the Board. Once the Board decided their risk tolerance, Callan will bring suggestions for the next step at the February meeting. Mr. Walther motioned for Callan to go forward with Mix 4 and present their plan to get there at the February meeting. Judge Hudson seconded and the motion passed.

SUMMARY OF RETIREES FOR SEPTEMBER, OCTOBER AND NOVEMBER:

Ms. Stone noted the Baby Boomers continue to retire

MEDICAL REVIEW BOARD RECOMMENDATIONS:

The Medical Review Board met at 10:00 a.m. on Tuesday, November 6, 2018 in the APERS Library to discuss three (3) cases: Mr. Terry G. Rogers, Mr. Earl P. Forrester and Ms. Rose M. James.

- After review and discussion, the Medical Review Board found that Mr. Rogers was suffering from an illness or injury at the time of his termination in September 2016, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Mr. Forrester was suffering from an illness or injury at the time of his termination in October 2015, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board recommended denial of disability retirement to Ms. James at this time, pending additional medical information.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for both members will be effective December 1, 2018. Motion to approve the Medical Review Board's recommendations by Ms. Lea and second by Ms. Franks. Motion carried.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30, 2018:

Ms. Stone noted the APERS assets totaled over \$8.8 billion (a new, all-time high) and paid out almost \$145 million during Fiscal Year 2018, new record for annual benefit payments.

OTHER BUSINESS:

Litigation Update – Mr. Jay Wills, APERS Deputy Director

Mr. Wills was pleased to state that for the first time in a long time, the Board had no threatened or pending hearings. The Nursing Home case is still waiting for the Court of Appeals to resume.

In the Diane Harris case, APERS won at Circuit court, but it is currently be briefed at the Court of Appeals.

Regulation Amendment – Rule 201 “Age of Members – How Established”

Ms. Stone recommended amending the regulation to include the Arkansas “Real ID” or new Arkansas enhanced driver's license to be added as a valid for of ID to establish a member's age. Mr. Faris motioned to approve the amendment and was seconded by Ms. Lea. Motion carried

Historical Rates of Return/Contributions

Previously, the Board had asked to see a chart of the historical rates of return for APERS. Ms. Stone distributed a chart that showed the rates of return over the previous years. She then handed out a chart of the APERS contribution rates from 1957 to the present. Finally, Ms. Stone distributed a state map detailing what APERS had paid out benefits, broken down by counties in Arkansas.

2019 APERS Board Meeting Dates

The proposed dates for the Board to meet in 2019 are as follows:

- February 20, 2019
- May 15, 2019
- August 21, 2019
- October 22, 2019 ** Annual Trustee Educational Seminar
- November 20, 2019

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, February 20, 2019.

EXECUTIVE SESSION:

Ms. Franks motioned for the Board to go into Executive Session to discuss the performance of an employee. She was seconded by Mr. Bassett. Motion passed.

Ms. Lea motioned to resume the Regular Session and was seconded by Mr. Milligan. Motion passed.

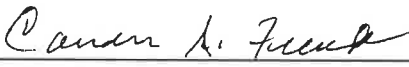
Chair Morris stated that at the Executive Session regarding the personnel matter, it was decided that no action would be taken at this time.

Ms. Stone announced that she would be leaving APERS and taking retirement as of December 31, 2018.

Ms. Lea motioned for Deputy Director Jay Wills to carry on as Interim Director until a new Director can be named. Mr. Faris seconded and motion passed.

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director