

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JULY 28, 2020**

A special meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Tuesday, July 28, 2020 at 9:00 a.m., via ZOOM remote conferencing due to the COVID-19 crisis. Ms. Candace Franks presided.

QUORUM PRESENT:

Ms. Candace Franks recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR
Mr. Larry Walther (Ex-Officio Member), *Vice Chair*, Department of Finance and Admin
Mr. David Hudson (County Employee), Fort Smith, AR
Mr. Gary Carnahan (Other, Non-State Employee), Hot Springs, AR
Mr. Joe Hurst, (City Employee), Van Buren, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Mr. Jason Brady, State Treasurer's Office (*proxy*)
Hon. Andrea Lea (Ex-Officio Member), State Auditor
Mr. Duncan Baird (Executive Director), APERS Executive Director

BOARD MEMBERS ABSENT:

Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer

VISITORS PRESENT:

Mr. Mita Drazilov, *GRS*
Mr. David Hoffman, *GRS*
Ms. Heidi Barry, *GRS*
Ms. Brianne Weymouth, *Callan LLC*
Mr. Gary Wallace, *ASEA*
Ms. Shauna Carpenter, *ASEA*
Mr. John Bridges, *ASEA*
Mr. Jack Critcher, *Arkansas Municipal League*
Ms. Cindy Frizzell, *Arkansas Municipal League*
Mr. John Wilkerson, *Arkansas Municipal League*
Mr. Chris Villines, *Arkansas Association of Counties*
Mr. Josh Curtis, *Arkansas Association of Counties*
Mr. Paul Louthian, *Department of Finance and Admin.*
Dr. John Shelnett, *Department of Finance and Admin.*
Ms. Barbara Brown, *Legislative Analyst*
Mr. Clint Rhoden, *ATRS Director*
Ms. Kristi Brown, *Central Arkansas Water*
Mr. Steve Osborne, *Osborn & Carreiro Actuarial*
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Ms. Erika Gee, *Wright, Lindsey & Jennings LLP*
Mr. Blake Wilson, *APERS Member*
Ms. Selena Blair, *APERS Member*
Mr. Kevin Molder, *APERS Member*
Mr. Tim Stockdale, *APERS Member*
Mr. Dennis Thornton, *APERS Member*
Mr. Kyle Sylvester, *APERS Member*
Mr. Vernon Morris, *APERS Member*
Mr. Ray Vance, *APERS Member*
Ms. Rachel Dawson, *APERS Member*
Mr. Russell Hill, *APERS Member*
Mr. Warren Sanders, *APERS Member*
Ms. Tammy Sanders, *APERS Member*
Ms. Debbie Cross, *APERS Member*
Mr. Leslie Ross, *APERS Member*
Ms. Alberta Hires, *APERS Member*
Mr. Fred Houston, *APERS Member*
Ms. Lindsey French, *APERS Member*
Ms. Melanie Jackson, *APERS Member*

Mr. Nathan Marlin, *APERS Member*
Mr. Clayton Rogers, *APERS Member*
Ms. Jayme Nicholson, *APERS Member*
Mr. Randy Martin, *APERS Member*
Ms. Rachel Waller, *APERS Member*
Ms. Teresa Reed, *APERS Member*
Ms. Kelly Cantrell, *APERS Member*
Ms. Robin Johnson, *APERS Member*
Mr. Allen Johnson, *APERS Member*
Ms. Margurite Al-Uqdah, *APERS Member*
Ms. Zona Maness, *APERS Member*
Ms. Louann Clayton, *APERS Member*
Ms. Barbara Hager, *APERS Member*
Mr. Ross Grant, *APERS Member*
Mr. Charles Dirden, *APERS Member*
Mr. Leslie Nutt, *APERS Member*
Ms. Lis McGehee, *APERS Member*
Mr. Nicholas Poole, *APERS Member*
Ms. Debra Buckner, *APERS Member*
Ms. Shawna Rogers, *APERS Member*
Ms. Teresa Grasser *APERS Member*
Mr. Clifford Robison, *APERS Member*
Ms. Karen Martin, *APERS Member*
Ms. Rita Chandler, *APERS Member*
Ms. Persundra Hood, *APERS Member*
8 Unidentified Call-in Members

STAFF PRESENT:

Mr. Carlos Borromeo, *APERS Chief Investment Officer*
Ms. Usha Doolabh, *APERS Investments Manager*
Ms. Laura Gilson, *APERS Chief Legal Counsel*
Ms. Abbi Bruno, *APERS Director of Operations*
Mr. Phillip Norton, *APERS Director of IT*
Mr. Jon Aucoin, *APERS Retirement Section Manager*
Ms. Jennifer Taylor, *APERS Retirement Section Manager*
Ms. Allison Woods, *APERS Director of Benefits*
Ms. Cheryl Wilburn, *APERS Retirement Coordinator*
Mr. Byron Porchia, *APERS Retirement Counselor*
Mr. Julianna Alamina, *APERS Retirement Counselor*
Mr. Gerard Sikora, *APERS Retirement Counselor*
Ms. Nekneda Carruth, *APERS Retirement Counselor*
Ms. Davona Nichols, *APERS Retirement Counselor*
Ms. Krista Long, *APERS Retirement Counselor*
Ms. Kristi Brown, *APERS Retirement Counselor*
Mr. Bryan Taylor, *APERS Retirement Counselor*
Mr. John Owens, *APERS Internal Auditor*
Mr. Jason Willet, *APERS Chief Financial Officer*
Mr. Craig Blackard, *APERS Accounting Supervisor*
Mr. Stefan Melikian, *APERS Retirement Counselor*
Ms. Jacobia Twiggs, *APERS Retirement Section Manager*
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.

DIRECTOR'S OPENING REMARKS

Mr. Baird thanked everyone and noted on the attendance of these meetings seems to be increasing at every meeting. Including Trustees and Staff, there were over 100 people online participating in this meeting. He touched on the process the Board had been following since last summer, identifying and narrowing down the selection of possible benefit changes. Mr. Baird explained that whatever package the Board adopted at this meeting was just the first step. Any possible legislative changes would need to go before the Joint Retirement Committee and would

be discussed with members at the “Virtual Town Hall” meetings planned for later this Summer/Fall.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the special June 23, 2020 meeting was e-mailed to each APERS Board member for review.

Mr. Brady motioned to accept the June Minutes as drafted. Mr. Carnahan seconded and the Minutes were approved.

PRESENTATION OF ACTUARIAL INFORMATION TO CONTINUE PREPARATIONS FOR THE 2021 LEGISLATIVE SESSION — Presented by Mita D. Drazilov, David L. Hoffman, and Heidi G. Barry of GRS

Mr. Drazilov welcomed everyone and reminded them that this would be a continuation of the discussions from the previous four meetings. He recapped the information discussed at those meetings and how it had led to the presentation today. Mr. Drazilov noted that when these discussions had begun back at the April meeting, the investment return outlook was very bleak due to COVID. Market Returns at that time were estimated to be in the negative 15-20% range. Fortunately, the market had come back significantly since then and Mr. Drazilov said it was looking like the Fund finished the fiscal year with around a positive 2% return.

At the last meeting, in June, Trustees deliberated on eleven valuation packages presented by GRS and winnowed them down to two and asked for a third scenario to be calculated. GRS included a fourth scenario at the Director’s request. Mr. Drazilov explained the valuations carried over from the June meeting (#2 and #7) were now being referred to as July-1 and July-2. The two new scenarios were July-3 and July-4. He reviewed the changes for each of the four valuations shown and the effects of each proposed benefit changes. He noted that these numbers were based on a -5% Market Return for Fiscal Year 2020, to remain consistent with the numbers presented at previous meetings, although actual Market Returns for the year are better.

Benefit Provisions Valued	No Change to Benefit Provision (i.e. Base)	Package 2 June Mtg Package July-1	Package 7 June Mtg Package July-2	Package July-3	Package July-4
Member Contrib. Rate (Groups Affected)	5%; No Phase-in All Contrib. Members	7.0%; 8-yr Phase-in All Contrib. Members	7.0%; 4-yr Phase-in All Contrib. Members	7.0%; 4-yr Phase-in All Contrib. Members	7.0%; 8-yr Phase-in All Contrib. Members
FAC Period (Groups Affected)	3 years All Actives	5 years All Actives	5 years Non-Vest & New Hires	5 years New Hires Only	5 years All Actives
Vesting Period (Groups Affected)	5 years All Actives	8 years New Hires Only	10 years Non-Vest & New Hires	8 years New Hires Only	5 years All Actives
COLA Provision (Groups Affected)	3% Compound All Members	Min (3%,CPI) Compound New Hires Only	Min (3%,CPI) Simple Non-Vest & New Hires	Min (3%,CPI) Compound New Hires Only	Min (3%,CPI) Compound New Hires Only

Mr. Hudson asked for clarification on the “Hold Harmless” provision of the FAC changes. Mr. Drazilov explained that based on the Board’s previous discussion, GRS had calculated the change with a provision that would calculate and freeze a current member’s 3-year FAC as of the date of enactment. If they were to retire one day after the benefit change, they would retire under a 3-year FAC. However, if they worked longer, their 5-year FAC would be computed at their date of retirement and compared to the 3-year FAC that was calculated and frozen at the date of enactment. The member would receive the higher of the two numbers for benefit calculation purposes.

Ms. Lea questioned how many contributory members were expected to retire with 28 years? Mr. Hoffman stated they didn’t calculate in quite that fashion, but quoted from the last valuation that about 53% of the active members were expected to retire with regular retirement benefit.

Mr. Hudson noted that if these benefit changes were enacted in the Legislature in 2021, they would become effective July 1, 2022. He asked the Actuaries if they thought this might trigger “a rush to the door” as they had mentioned earlier? Mr. Drazilov replied that he did not see this as an issue and felt that it might encourage people to extend their career to offset that change.

Mr. Brady stated that the Treasurer’s Office was leaning towards Package 1 or Package 4 and asked for the Counties’ and Cities’ input. Mr. Hudson relied that what he heard back was urging the Board to consider phasing in the increased contribution rate over an 8-year period, since raises were going to be minimal and members could not afford a half percent pay reduction.

Mr. Carnahan also liked Package 1 and Package 4 since they had the greatest impact on the Unfunded Liability. He also felt the 5-year FAC was fairer to everyone and discourages people

from “gaming the system”, but he was not sure if the board could get Legislative support for any changes to the COLA and for that reason Mr. Carnahan stated he preferred Package 1.

Mr. Douthit also preferred Package 1 since it gave the best chance of reducing the Unfunded Liability. It also utilized the 8-year Phase-in which he felt was more acceptable to members.

Mr. Walther stated that the only difference between Package 1 and Package 4 was the vesting period going from 5 to 8 years, and he did not see much difference between the two proposals other than that. He said he recalled that 8-year vesting might be a problem for elected officials, including Constitutional Officers, who are on 4-year cycles with term-limits and said that a change could possibly be made for that. He stated he was sympathetic to both APERS Employees and APERS Employers since he operated in both roles.

Mr. Baird noted that the Board’s Fiduciary Duty was to the plan and asked if Ms. Gilson would clarify the Trustees’ role and legal responsibilities to APERS. Ms. Gilson explained that one thing unique about the fiduciary duty to a State Pension Plan was that it restricted the flexibility Trustees have in their decisions. There are three fiduciary duties that Trustees are charged with: the first being: Duty of Loyalty. This duty is exclusive to the members (beneficiaries) and does not extend to the employers. Constituent groups and the General Assembly are not part of the board’s fiduciary duty. The appointing official who placed trustees on the board, was not included in their fiduciary duty; and the taxpayers do not fall under this fiduciary duty. Ms. Gilson acknowledged there were practical considerations that the board can consider and reducing the unfunded liability was a component of the Board’s fiduciary duty. The other two duties were the Duty of Care and the Duty of Prudence. Prudence came into play when dealing with the investments and Duty of Care required administering the plan properly.

Ms. Lea thanked Ms. Gilson and stated that she always tried to keep the long-term viability of the plan foremost in her head. It was more than just about the retirees; the Trustees had to plan for the members who had just started working and needed to know the plan would still be solvent when they got ready to retire. Mr. Gilson agreed and noted the membership had to be considered as a holistic group, not as individual components.

Mr. Brady asked GRS for clarification on the difference between a 7-year vesting period and 8-year vesting period when it came to lowering the unfunded liability. Mr. Drazilov stated that if a particular job class had a 7-year vesting period, while the majority of the membership was held to an 8-year period, it would have little effect on the change to the unfunded liability. Administratively, it might be more complex. Mr. Baird commented that if APERS had a year after the Legislative session approved the changes, to get them coded into the system, that should not be a problem. If there were different rates for different groups of new members, that might be more of a challenge. However, if there was a single rate applied to all new hires beginning July 2022, the agency would be ready to incorporate it.

Results for Period Ending 6/30	No Change		Package 1		Package 2		Package 3		Package 4	
	UAAL (\$ billions)	Funded Ratio	UAAL (\$billions)	Funded Ratio	UAAL (\$billions)	Funded Ratio	UAAL (\$billions)	Funded Ratio	UAAL (\$billions)	Funded Ratio
2020	2.7	77%	2.7	77%	2.7	77%	2.7	77%	2.7	77%
2021	3.0	75%	2.8	76%	2.9	76%	3.0	75%	2.8	76%
2022	3.3	73%	3.1	74%	3.2	74%	3.3	73%	3.1	74%
2023	3.7	71%	3.4	72%	3.5	72%	3.7	71%	3.5	72%
2024	3.8	71%	3.5	73%	3.6	72%	3.7	71%	3.6	72%
2029	4.3	72%	3.6	76%	3.8	75%	3.9	74%	3.8	75%
2034	4.7	74%	3.5	80%	3.6	80%	3.9	79%	3.7	79%

Mr. Hudson stated that he strongly urged that whatever changes the Board adopted, that they be crafted into a Resolution format that could be shared with everyone, explaining why the Board took the actions that they did.

Mr. Walther asked what FAC were in use by the other State Systems and Mr. Baird noted that ATRS just moved from three to five years, similar to what APERS is considering. He was unsure about ASHERS but knew they had increased the Employee Contribution to 7% (same as ATRS).

Mr. Bassett wanted to focus on Package 4. Mr. Baird talked about how Package 4 had evolved into a three-pronged approach, that minimized the changes to the core benefit. Mr. Bassett agreed and noted it was probably the most conservative of the four proposals that still addressed lowering the unfunded liability. Mr. Baird explained that Package 4 was a combination of the most

discussed changes from the June meeting and he felt that it would be good for a comparison at this meeting. Ms. Franks commented that, as an APERS member, she thought that Package 4 was the best choice to bring to the legislature and see a successful passage.

Mr. Bassett moved to adopt Package 4.

Mr. Douthit noted there had been talk of a shorter vesting period for certain elected members and asked Mr. Baird for a count on how many APERS' members that might encompass. He felt that doing so violated the Trustees' Fiduciary Duty as Ms. Gilson had explained it earlier. Ms. Lea stated that she was a Constitutional Officer and she agreed completely with Mr. Douthit.

Mr. Hudson asked if Ms. Gilson could review the issue of "Property Rights" with regards to Vesting, that had been mentioned earlier. Ms. Gilson noted that the Arkansas Supreme Court has held that the "Property Right" only comes into play once a member is vested. It is considered a *future* property right and until the member reaches the eligibility to vest, there is no protection. She explained that as long as the legislation is clear about what the vesting period is and when it starts, there was nothing unconstitutional in the package. She thanked Mr. Hudson for allowing her to clarify this issue.

Mr. Brady asked if changing the FAC from 3 to 5 years, since it applied to *all active members*, would fall under this "Property Right" issue. Ms. Gilson stated it would not, as the constitutional right is for a monthly benefit, but allowed for the system to make tweaks and changes to the calculation.

APPROVAL OF A PACKAGE OF PROPOSED LEGISLATION:

Mr. Bassett again voiced his support for Package 4 and motioned to adopt it for submission to the General Assembly at the 2021 Session. Second by Mr. Carnahan and the motion carried unanimously.

Ms. Lea suggested that Mr. Baird have GRS break down parts of Package 4 showing the numbers for a 5-year FAC for All Actives, for Non-Vested and for New Hires Only for informational purposes when dealing with the General Assembly.

Mr. Douthit asked Mr. Baird to address how he intended to promulgate these proposed changes to the members before the next legislative session. Mr. Baird explained he had visited with Rep. Warren and Sen. Sample, the co-chairs of the Joint Retirement Committee, and they had been planning to do Virtual Town Halls. These would be similar to the ZOOM Board meetings that enjoyed such great attendance, and he would be able to apprise members of the fund's status, explain proposed legislation and answer questions. He noted the questions might have to be submitted prior to the meeting in order to flow smoothly or come back and do a second Town Hall where the questions were answered. Due to COVID-19 and most of the retirees being in the "vulnerable age" category, Mr. Baird thought that virtual meetings were the only way to go. He felt that it would probably be September before the Town Hall(s) were scheduled.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, August 19, 2020 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

Ms. Candace Franks, Chair

Mr. Duncan Baird, APERS Executive Director