

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JUNE 23, 2020**

A special meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Tuesday, June 23, 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. John Jackson, *Callan LLC*
Mr. Jeff Jackson, *ASEA*
Mr. Gary Wallace, *ASEA*
Mr. James Abson, *ASEA*
Ms. Shauna Carpenter, *ASEA*
Ms. Sheila Weddington, *ASEA*
Mr. Jack Critcher, *Arkansas Municipal League*
Mr. Mark Hayes, *Arkansas Municipal League*
Ms. Cindy Frizzell, *Arkansas Municipal League*
Mr. Chris Villines, *Arkansas Association of Counties*
Mr. Josh Curtis, *Arkansas Association of Counties*
Ms. Katrina Burnett, *Department of Finance and Admin.*
Mr. Paul Louthian, *Department of Finance and Admin.*
Ms. Anita Hood, *Department of Finance and Admin.*
Mr. Randall Allred, *AASIS*
Ms. Barbara Brown, *Legislative Analyst*
Mr. Clint Rhoden, *ATRS Director*
Mr. Michael Harrison, *LOPFI*

Mr. Mark Walthall, *LOPFI*
Mr. Jody Garner, *ASP*
Ms. Ann Blake, *ADEQ*
Ms. Rose Anne Smith, *ADH*
Ms. Barbara Henderson, *ADH*
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Ms. Erika Gee, *Wright, Lindsey & Jennings LLP*
Mr. Rett Hatcher, *Gilmore Strategy*
Mr. Bruce Hawkins, *DBH Management*
Mr. Allen Brown *APERS Member*
Ms. Debra Buckner, *APERS Member*
Ms. Zona Maness, *APERS Member*
Ms. Heather Stevens, *APERS Member*
Ms. Nancy Batchelor, *APERS Member*
Ms. Alesia Ball, *APERS Member*
Ms. Sheree Adams, *APERS Member*
Mr. Michael Hannah, *APERS Member*
Ms. Debbye Wolter, *APERS Member*
Ms. Judy Brummet, *APERS Member*
Mr. Rocky Lambert, *APERS Member*
Mr. Bentley Hovis, *APERS Member*
Ms. Lasandra Rogers, *APERS Member*
Ms. Gretchen Baggett, *APERS Member*
Mr. Nicholas Poole, *APERS Member*
Mr. Alan Johnson, *APERS Member*
Ms. Cristina Roberts, *APERS Member*
Ms. Mary Grace Smith, *APERS Member*
Mr. Clifford Robison, *APERS Member*
Mr. Rodney Corbin, *APERS Member*
Mr. Sam Dove, *APERS Member*
Mr. Jimmy Hart, *APERS Member*
Ms. Rita Chandler, *APERS Member*
Ms. Katrina Burnett, *APERS Member*
Ms. Debbie Cross, *APERS Member*
Ms. Michele Deloach, *Retiree*
Ms. Martha Henry, *Retiree*
Mr. James Bryant, *Retiree*
Ms. Becky Walker, *Retiree*
Mr. Eddie Jones, *Retiree*
Ms. Judy Houser, *Retiree*
Ms. Wendy Spakes, *Retiree*
Ms. Martha Hunt, *Retiree*
Ms. Brenda Johnson, *Retiree*
Ms. Vickie Speaks, *Retiree*
Mr. Hollis Lyons, *Retiree*
Mr. Mike Robbins, *Retiree*
5 Unidentified Call-in Members

STAFF PRESENT:

Mr. Carlos Borrromeo, *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*
Mr. Matthew Turner, *APERS*
Ms. Allison Woods, *APERS Director of Benefits*
Ms. Cheryl Wilburn, *APERS*
Mr. John Owens, *APERS Internal Auditor*
Mr. Jason Willet, *APERS Chief Financial Officer*
Mr. Craig Blackard, *APERS Accounting Supervisor*
Ms. Nina Gettinger, *APERS*
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 welcomed everyone and remarked on the excellent attendance these meeting enjoyed. There had been over 40 attendees to the May meeting and this meeting looked to have even more. He explained that this meeting was a continuation of the last meeting, where the Trustees had worked on possible changes for the 2021 Legislative session. He noted that APERS had representatives from 3 agencies that would speak to the Board: the Association of Arkansas Counties (AAC), the Arkansas Municipal League and the Arkansas State Employees Association (ASEA).

Mr. Baird suggested that the Board's goal for today could be to review the 11 packages presented by GRS and narrow the focus down to 2-3. Hopefully at a July meeting, a single package could be selected. The Legislature is planning to have another series of "Town Hall" meetings across the state (possibly held remotely, like this meeting) during the August - September time frame. Whatever package the Trustees decide upon would be presented to the members at these meetings.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the May 20, 2020 meeting was e-mailed to each APERS Board member for review.

Mr. Brady motioned to accept the May Minutes as drafted. Ms. Lea seconded. The motion passed and the Minutes were approved.

COMMENTS FROM STAKEHOLDERS ON PROPOSALS BEING CONSIDERED:

Chris Villines, Association of Arkansas Counties

Mr. Villines thanked the Board for the opportunity to speak on behalf of the roughly 18,000 county employees in the state in Arkansas. He stated that APERS was the most valuable benefit that

counties have to attract and retain valuable employees, and he appreciated the balance that the board showed in maintaining a strong system and providing reliable benefits to the members.

Mr. Villines noted that there were so many variations being proposed that it was hard to address specific issues, but most members were united against any change to the COLA. Other three benefit issues the APERS Board was proposing have varied support, but nothing has 100% buy-in. However, Mr. Villines felt that these issues could be ironed out.

Mr. Walther asked if Mr. Villines had sense of urgency regarding adjustments to the benefits, in order to keep the retirement plan on solid footing. Mr. Villines agree that there was some urgency to make changes and likened the pension system to huge cargo ship, that required slow, measured changes opposed to a jet-ski. He did not wish to throw the balance of benefits off-line to the point it would impact the hiring ability of all APERS employers.

Mr. Brady wondered about the timeline for enactment of possible changes. He noted that as it stood, any legislative changes would not go into effect until July 2022. Mr. Villines stated that communication was the key and AAC is well prepared to inform new hires of possible changes to the system. Mr. Villines thanked everyone for the allowing him the chance address the board and complimented Mr. Baird on his handling of the retirement system.

Mark Hayes, Arkansas Municipal League

Mr. Hayes remarked the Municipal League members appreciated the long-term view that APERS maintained. He stated his letter mirrored a lot of the issues that AAC had covered. Mr. Hudson asked Mr. Hays, as an attorney, did he have any concerns of litigation regarding property rights over benefit changes and Mr. Hays stated that he did. He commented about the Final Average Compensation (FAC) calculation, saying it has room for abuse. Due to his concerns, he suggested the Board might want to form a committee to evaluate the FAC on a member by member basis, rather than change the calculation for all members through legislation.

Mr. Brady asked Mr. Hayes if he saw any potential problems with the changes in vesting and those people hired after July 2022. Mr. Hayes felt it would not be an issue and communication was the key. He stated that once a person is vested, that is where the problems begin. Mr. Brady asked what would be a reasonable line in the sand? Mr. Hayes stated that if a person was not vested, they really didn't have any rights; the longer vesting period will lead to individuals sticking around longer and investing in public service. Ms. Lea reminded all that the goal of the APERS benefit is to keep and attract long term, dedicated employees.

John Bridges, Arkansas State Employees Association

Ms. Gee apologized to the group and explained that John was unavailable, but she would be happy to answer questions on the ASEA letter. Mr. Brady addressed what he felt was a gray zone in letter with regards to vesting and asked the same question he had asked Mr. Hayes: where to draw the line for people already close to vesting? Ms. Gee stated that ASEA would prefer the changes apply exclusively to new hires, rather than tell existing employees their benefit would decrease. Ms. Lea questioned how much time does ASEA spend educating membership on APERS. Ms. Gee stated they spend quite a bit of time on that subject.

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 greeted everyone and reminded everyone that these were continuations of the discussions from the Feb, April and May meetings. He recapped the information discussed at those meetings and how it had led to the presentation today. After the May meeting, 11 supplemental valuation packages were submitted by individual Board members to be analyzed by GRS. Historical information regarding APERS investment returns, inflation and employer contribution rates was also requested.

Mr. Drazilov gave a quick, 20-year history of Market Returns, changes in the Consumer Price Index and Employer Contribution Rates. Ms. Lea reminded everyone that the Employer Contributions and Employee paychecks were being drawn off the general funds of the State of Arkansas. This was not just money that was floating around waiting to be tapped.

Mr. Drazilov reviewed the 11 proposed supplemental valuation packages requested by the Board at the last meeting. The benefit changes requested fell into the following categories:

- Member Contribution Rate for Contributory members
- Final Average Compensations (FAC) calculation
- Vesting period
- Cost of Living allowance (COLA)

As previously requested, he showed the difference how changing the COLA from 3% Compound (current) to the proposed 3% Simple, Lower of 3% or CPI-W Compound, or Lower of 3% or CPI-W Simple would have affected a theoretical member over the past 10 years.

Mr. Drazilov discussed the 4 classes of affected members, noting that various packages affected different groups in various fashion. The four classes of members were:

- New Hires only
- New hires and non-vested members
- All active members
- All non-retired members excluding DROP participants

He reviewed the eleven packages and how they would be applied. Mr. Drazilov commented that Packages 8-11 might, in his opinion, create a “rush to the door”. By that he meant that many members who were close to retirement, might chose to retire earlier than originally planned in order to lock in the existing benefit provision and this could offset part of the savings the plan was expecting.

Mr. Drazilov discussed each proposed package and showed how the fund would look today, if each package had been in place for the 2019 Annual Valuation. He reminded the Board that there was no right answer and they had gotten very good feedback from the three representatives at the start of the meeting.

Mr. Basset questioned Mr. Drazilov on the impact of an increased vesting period in combination with a higher member contribution rate. Mr. Drazilov said an increase in the vesting period with a higher member contribution rate would mean fewer members would become vested, resulting in more members taking refunds of higher amounts. Mr. Brady confirmed that the state’s contribution does not get refunded if member terminates. Mr. Hudson wondered what was a prudent time frame to expect to reduce the UAAL and Mr. Drazilov stated that in a perfect world, an amortization period of 17 years or less was ideal, however APERS is at the mercy of the market and getting that time down to 4-5 years at the expense of a portion of the APERS’ membership would be an over-reaction. A shorter amortization period gives the fund flexibility but basing far-reaching decisions on just the last several months of market returns was ill advised.

Mr. Carnahan commented he appreciated the comments from various organizations that brought in the added aspects of legality, public relations and employee morale. After much deliberation, he stated he was leaning towards supporting Package 2 and then explained his position.

Mr. Bassett emphasized reducing unfunded liability was his primary consideration but cautioned against a knee-jerk reaction. The Board needed to look towards long term solutions.

Ms. Lea also liked Package 2 and explained her thoughts. Mr. Bassett echoes Ms. Lea's comments about what makes the most sense for APERS and brought the plan in line with many of the other systems.

Mr. Brady brought up the point of requiring 8 years for vesting (Package 2) and how that might affect elected people and term limits. He also questioned a "line in the sand" regarding the COLA for new retirees and those that would retire before July 2022

Mr. Douthit compared Package 2 and Package 7 noting both get to the same place, but 7 seems more generous. Mr. Drazilov explained the differences. Mr. Douthit commented he was leaning towards Package 7.

Mr. Walther discussed the projected changes in the UAAL when comparing Package 2 and Package 7. He found himself drawn towards Package 2. Mr. Walther wondered how the AAC, ASEA and Muni League felt about that package.

Mr. Hudson stated that APERS should have another meeting in July to select the final package; then ASEA, AAC and the Muni League could disseminate the information to their members for feedback. He also appreciated the drafted resolution format.

Mr. Bassett agreed the Board needed to narrow down number of packages to focus on before next meeting. Mr. Hudson agreed, noting that Package 2 and Package 7 seemed to be getting a lot of attention and felt there should be written explanations of the "Hold Harmless" and implementation language so everyone was clear how it would impact them.

Ms. Lea questioned if the Board couldn't pick and choose items to create a new package that would be acceptable to all the Trustees. Ms. Franks concurred with Ms. Lea that the Board didn't need to feel bound to select one of the eleven presented packages. She proposed going forward with Packages 2 and 7 and then adding another package with a combination of elements the Board selected. Ms. Lea and Mr. Bassett thought that was an excellent suggestion and felt it was important to narrow the focus down to selected components.

Mr. Brady motioned that the Board schedule a special meeting in July for focus on Package 2 and Package 7. Mr. Hudson seconded. Mr. Walther asked to add third package, with several modifications. Mr. Brady amended his original motion to include a third package based on Mr. Walther's recommendations. Mr. Hudson amended his second to the new motion, asking that Mr. Baird contact the various Board members after the meeting to flesh out the new, modified package. Mr. Bassett felt that the new "Alternative" package should be a combination of the proposals in Package 2 and Package 7.

Mr. Baird observed that whatever option was selected for Vesting, it had a minimal impact. He suggested that the Board use Package 2 as a framework and then look at the FAC covering either All Actives or Non-vested and New Hires. Leaving the Vesting out of the conversation, for now, might simplify examining the other components of the package. Mr. Bassett said that made sense.

Mr. Carnahan felt that considering Mr. Brady's observation about elected officials and the 8-year vesting term, changing it to 7-years made more sense, and was something everyone could agree on, especially since Mr. Baird felt Vesting period changes had the least impact. Regarding the COLA, changing the interest from Compound to Simple yielded little increase to the system's funded status, and the Board should go with the Lesser of 3% or CPI-W. The real decision would be where to draw the line on making that change.

Mr. Brady stated he would be happy to withdraw his motion, so that in light of all the discussion, a cleaner motion could be presented. Mr. Hudson agreed and withdrew his second. Mr. Bassett suggested that Mr. Brady just streamline his motion to just 2 packages and an aggregate package.

Ms. Lea motion the Board select Package 2 and Package 7, and requested the Executive Director confer with GRS and come up with an amalgamated third package, based upon the discussion today, at a special-called July meeting. Second by Mr. Brady. Motion passed unanimously.

Ms. Franks urged that the components of the three packages be identified as soon as possible and promulgated out to the various stakeholders so they could comment at the July meeting.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, August 13, 2020 at 9:00 a.m. There will be a Special Meeting scheduled in July, the date to be announced in the near future.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

Ms. Candace Franks, Chair

Mr. Duncan Baird, APERS Executive Director