

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
APRIL 30, 2020**

A special meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Thursday, April 30, 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. David Hoffman, GRS
Mr. Mita Drazilov, GRS
Ms. Heidi Barry, GRS
Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Jack Critcher, Arkansas Municipal League
Mr. Chris Villines, Arkansas Association of Counties
Mr. John Shelnut, Department of Finance and Admin.
Mr. Daniel Faulkner, Attorney General's Office
Ms. Barbara Brown, Legislative Analyst
Rep. Les Warren, General Assembly
Mr. Edwin Waddell, *Retired*
Judge Robert Edwards, AJRS *Chair*
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Austin Grinder, AR Municipal League
Mr. Clint Rhoden, ATRS Director
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
3 Unidentified Call-in Members

STAFF PRESENT:

Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS General 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. Allison Woods, APERS Director of Benefits
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willet, APERS Chief Financial Officer
Mr. Craig Blackard, APERS Accounting Supervisor
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.

MINUTES:

Prior to the Board meeting, a revised copy of the Minutes from the November 20, 2019 and February 19, 2020 meeting were e-mailed to each APERS Board member for review.

Mr. Brady motioned to accept the November and February Minutes as presented. Mr. Douthit seconded. Motion passed 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 began by touching on the recent market events and noted that the uncertainty around the markets and the economy may change the Board's objectives. He admitted that a lot would depend on how quickly the economy and society returned to "normal". He outlined the purposes of the presentation: to provide context to proposed benefit changes, establish formal objectives for what those benefit changes are expected to achieve, provide the Board with a preview of what the June 30, 2020 actuarial valuation may show, depending upon various market return scenarios, and establish next steps for preparing a legislative package.

Mr. Drazilov reviewed the responsibilities of both APERS' Investment Consultants and their Actuaries. He acknowledged that at the last meeting in February, GRS had planned to bring an updated Actuarial Funding Policy for the Board to review, however due to COVID-19 and the world-wide market fall-out, he felt it might be premature.

Mr. Drazilov reviewed the history of the APERS Employer Rates since 2000, explaining the ups and downs. He discussed how lowering the expected rate of investment returns from 8% to 7.15% had put upward pressure on the Employer Rate. He discussed the Member Contribution rate and explained that it is established in statute; any changes would require legislative action. In FY 2019, member contributions equaled \$67 million.

Before establishing more formal objectives regarding potential legislative changes, Mr. Drazilov suggested the Board revisit what can and cannot be achieved through those changes. Among the items that can be achieved: a partial reduction in the \$2.39 billion UAAL (as of 6/30/2019), and more flexibility in maintaining the employer contribution rate at 15.32%. Things that probably cannot be achieved: a complete elimination of the UAAL or a guarantee that the employer contribution rate will not exceed 15.32%.

Mr. Drazilov suggested some considerations the Board might review before establishing their legislative objectives:

- How long would an affected member have to “plan” for the legislative changes?
- Could a legislative change have unintended consequences (rush to the door)?
- How much of a reduction of the UAAL is the Board Considering?

He recommended the Board establish objectives by groups based on their Actuarial Accrued Liabilities (AAL). These groups are: Retirees & Beneficiaries (54%), DROP Participants (6.2%), Deferred Members (4.9%) and Current Active Members (34.8%). Those Active Members can be further broken down by those currently Eligible to Retire (10.9%), Eligible to Retire within 5 Years (7.9%) and All Other Members (15.7%). Mr. Drazilov noted that he used the term “Future Retirees” in reference to current Active Members, as a reminder that current Active Members of APERS will become part of the Retired membership over time. He pointed out that roughly 85% of the membership is comprised of Retirees and those Eligible to Retire within 5 Years; the groups with the least amount of time to plan for legislative changes. This fact highlights the competing objectives the Trustees had to weigh before making any changes.

Mr. Drazilov reviewed changes that Arkansas Teacher Retirement (ATRS) and Arkansas Highway Retirement (ASHERS) had recently introduced.

Mr. Hudson asked for clarification about the “flexibility of the Employer Contribution Rate” Mr. Drazilov had mentioned earlier and the GRS representative commented that question was a perfect opening into the next section of the report. He showed the Trustees five scenarios based upon possible returns for Fiscal Year 2020, ranging from 5% to -15%, and how that would affect the plan’s Funded Ratio, Amortization Period and Employer Rates. Mr. Drazilov reminded the Trustees that regardless of how the economy resolved itself, the numbers in the June 30, 2020 Valuation would be used for calculating the Employer Contribution Rate beginning July 1, 2022. Currently, the Fund was earning around the -5% range. The scenarios highlighted how once the Amortization Period was pushed up to the 30-year limit, the Employer Rate started rising from current 15.32% into the 16-19% range, depending on the scenario.

Mr. Drazilov touched on the 4-year “Smoothing Process” that GRS uses to factor in market gains and losses beyond the 7.15% expected investment returns. He reminded the Board that there was still a “Market Value Corridor” that prevents the Funding Value of Assets from varying with the Market Value of Assets by more than 25%. If the fund saw a -20% return for FY2020, the fund would likely go outside this corridor, which would result in more investment losses being recognized immediately.

In summary, there is no “right” answer for what legislative changes should be pursued, but in establishing more formal objectives, GRS strongly suggested the Board consider member feedback and which membership groups should or should not be affected.

Mr. Bassett thanked GRS for a well thought out and highly informative presentation.

DISCUSSION

Mr. Hudson asked if GRS had done any calculations on how raising the Employee Contribution rate to 6-7% would affect the unfunded liability and Mr. Drazilov responded that a 1% increase would roughly provide an extra \$14 million to the fund annually.

Mr. Brady summarized that there were four categories of members in APERS: Future employees, Non-vested members, Vested members and Retired members and noted that each would be affected in different degrees from potential legislation. The changes that would produce the most immediate increase in funding would affect those that had the least time to prepare for it, while changes to the plan involving future and non-vested employees would take years add any substantial benefit to the system.

Ms. Lea expressed interest in reviewing the idea of dropping the COLA from 3% compound to 3% simple for those already retired and asked if GRS would provide some statistics on that idea. She also asked for projections on a 3% COLA capped at CPI-W.

Mr. Bassett felt that APERS should be reviewing investment alternatives to reduce the unfunded liability and on the other side, increasing employee contributions. Mr. Baird agreed and stated that during his "Town Hall" presentations last fall, he heard repeatedly that members were willing to put more into the system to preserve their benefits and the sustain the plan.

Mr. Walther agreed and thought the Board needed to start actively working on these processes. Mr. Baird offered the talks would continue at the May meeting and could be continued at special meetings in June and July. He noted that he planned to do another round of "Town Hall" meetings this fall to get the proposals out to the membership for feedback.

Mr. Douthit expressed interest in selecting some plan changes for GRS to investigate and provide APERS Staff with details on how they would affect the plan. He wanted to see details on how moving to a 10-year vesting period (from the current 5-year) and a 5-year Final Average Compensation (from the current 3 year) could help. Mr. Bassett agreed that now was the time for the Board to get moving on these issues. Mr. Baird stated he could have specific information for the Board at the May meeting on the changes they wanted to propose and move forward from there.

Mr. Hudson suggested that the Board define their objectives and present them in a similar fashion as he does with the Quorum Court by presenting a series of facts and then recommendations. By being developed in a documented and logical fashion that it would be clear what actions are being taken on specific policies. He also pushed for another training session with the Trustees, Staff and Retirement Legislators.

Mr. Carnahan asked for numbers on four issues before the May meeting. He was interested in the effects of raising the Member Contribution Rate to 6.5% over a 4-year period, going to a 5-year Final Average Compensation (FAC) instead of 3-years, changing to a 3% simple COLA for retirees, and using a 3% or CPI-W for non-vested/new members. Ms. Lea added she'd like to see the numbers on raising the Member Contribution Rate to 7% over a 4-year period be included in the study. Mr. Douthit expressed interest in raising the vesting period from 5 to 10 years. Mr. Baird discussed how ATRS had introduced a quasi-vesting period and explained how that functioned. He also noted how ATRS had adjusted their 5-year FAC with a phase-in for all active members. Mr. Bassett warned about copying ATRS too closely, since APERS was a totally different system with very different issues and could not operate in the same fashion.

Mr. Drazilov commented that the actuaries could have many, if not all the results, the Trustees had requested ready in time for the May 20th meeting. Mr. Baird said the May meeting would most likely be held remotely, and he felt it would be possible to focus most of the meeting on this topic. If more discussion was required, another meeting could be held in June. When asked, Mr. Baird stated that of all the changes proposed the one most members seem on board with was raising the Member Contribution Rate. He also thought the “quasi-vesting” would go over well, to reward long-term members and stop the “gaming” of the system; and that changing the FAC is another proposal that would reward dedicated long-term employees. Ms. Lea asked if GRS could present the numbers for raising the Member Contribution to 6% and 7% over a two-year period. Mr. Baird thanked everyone for their feedback.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, May 20, 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