



Arkansas Public Employees Retirement System

2021 Legislative Proposal

Duncan Baird, Executive Director

Summary

- It is important to maintain a strong system into the future.
- The legislative proposal was designed based on input from members at the statewide townhall meetings.
- The changes will help to strengthen the system over time.
- We are here today to answer questions and hear additional feedback from you regarding the proposals.



Summary of today's slides

- Importance of a strong APERS
- Financial summary
- Feedback and input received from our members
- Details of the proposed legislative package
- Questions

For retirement questions: (501) 682 7800 or (800) 682-7377

<https://www.apers.org>



The Importance of a Strong APERS



Important Benefit for Public Employees

The APERS benefit is valuable to our members:

- Provides guaranteed lifetime income in retirement.
- Provides protection in cases of death or disability.
- Rewards long term employees for their public service.



Important Benefit for Public Employers

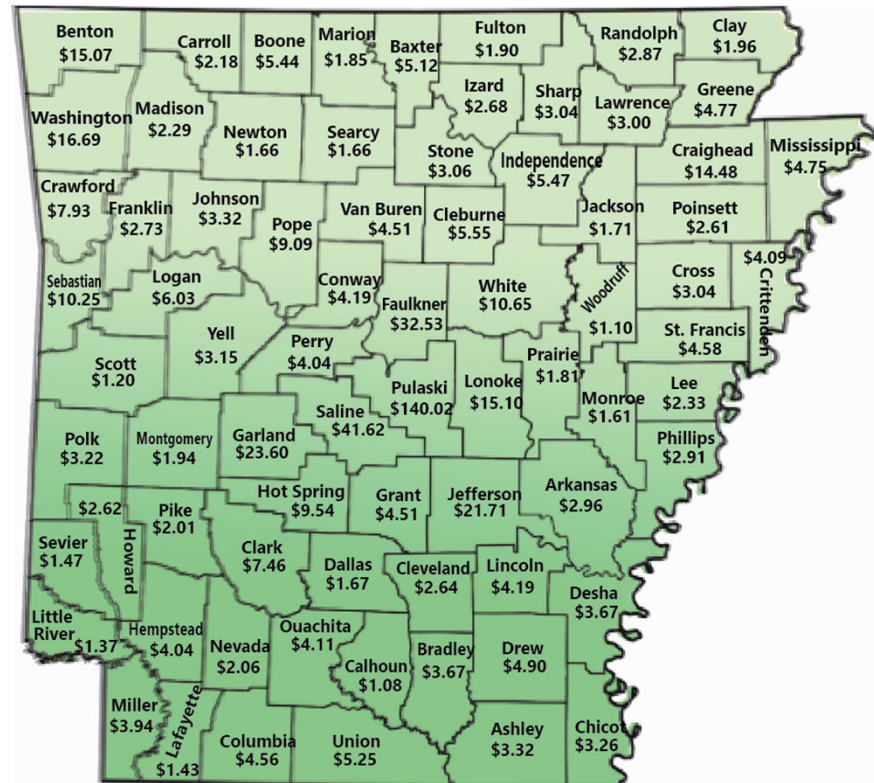
The APERS benefit is important to public employers:

- A great tool for recruiting and retaining talent.
- Different than what is offered in the private sector.
- Many people say, “It’s the most important benefit”.



A \$600 Million Statewide Impact

- APERS paid over \$600,000,000 in benefits last year.
- An average benefit of \$1,317 per month.
- Economic impact in every county of the state.



(The figures shown are benefits paid by county in millions of dollars)

Financial summary



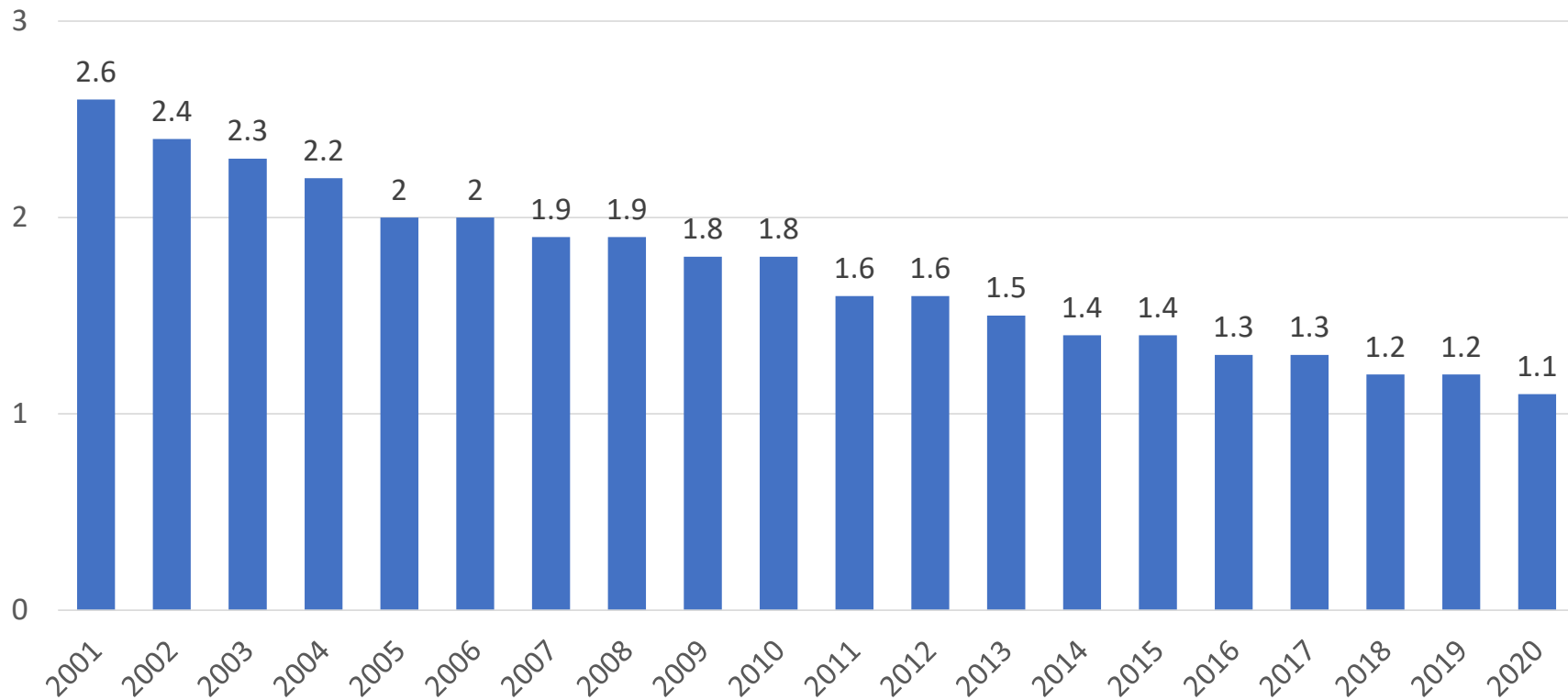
The system is maturing over time

The number of Retirees is increasing while the number of Actives remains flat.



Source: APERS 2020 Annual Report

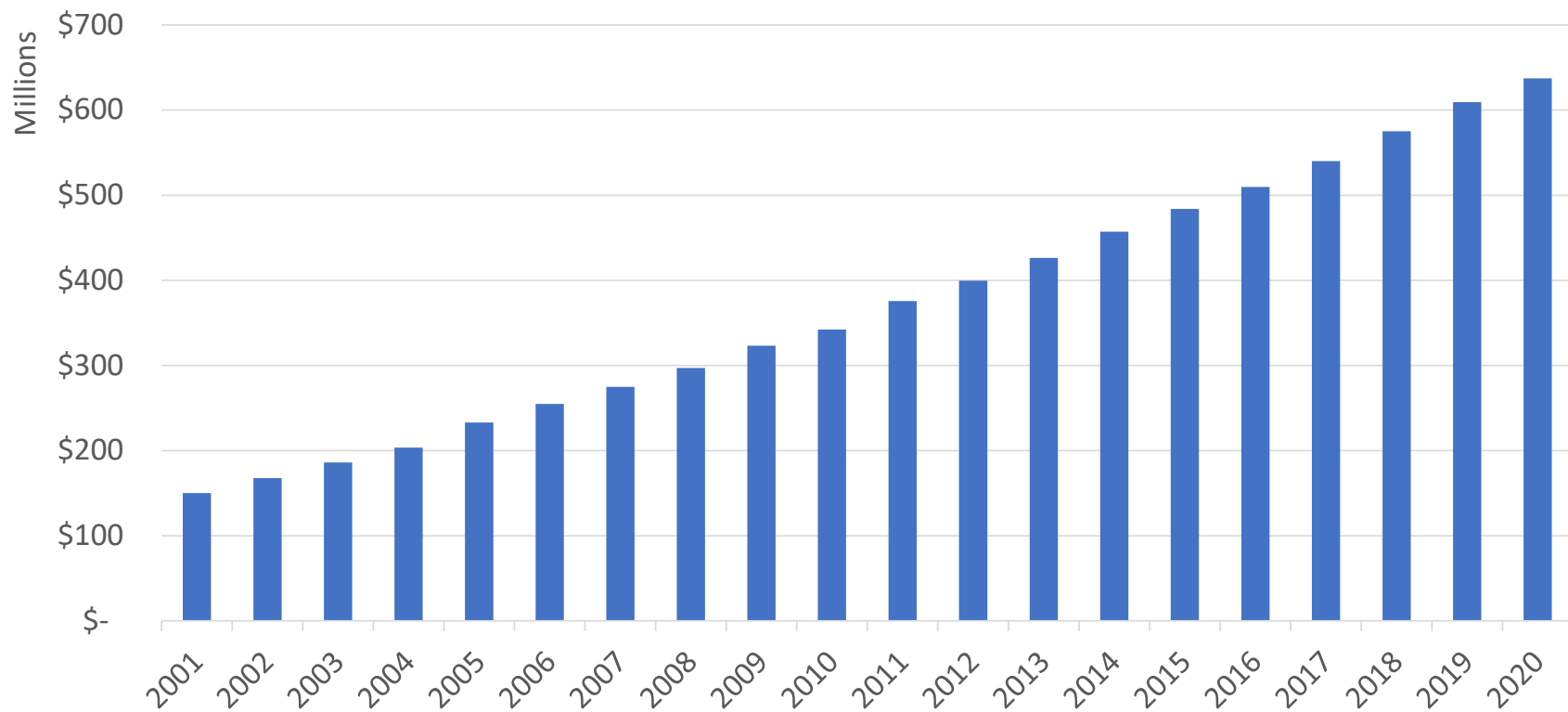
Ratio of Active per Retired is declining



Source: APERS 2020 Annual Report

Benefit payments have grown significantly

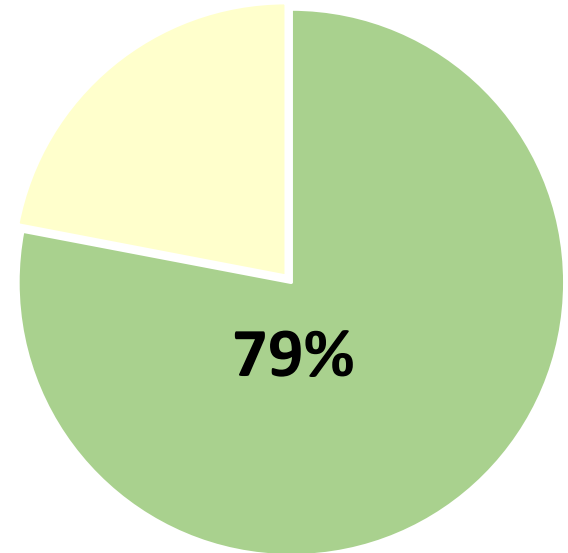
(\$ in millions)



Source: GRS 2020 Actuarial Valuation

APERS has a Funded Ratio of 79%

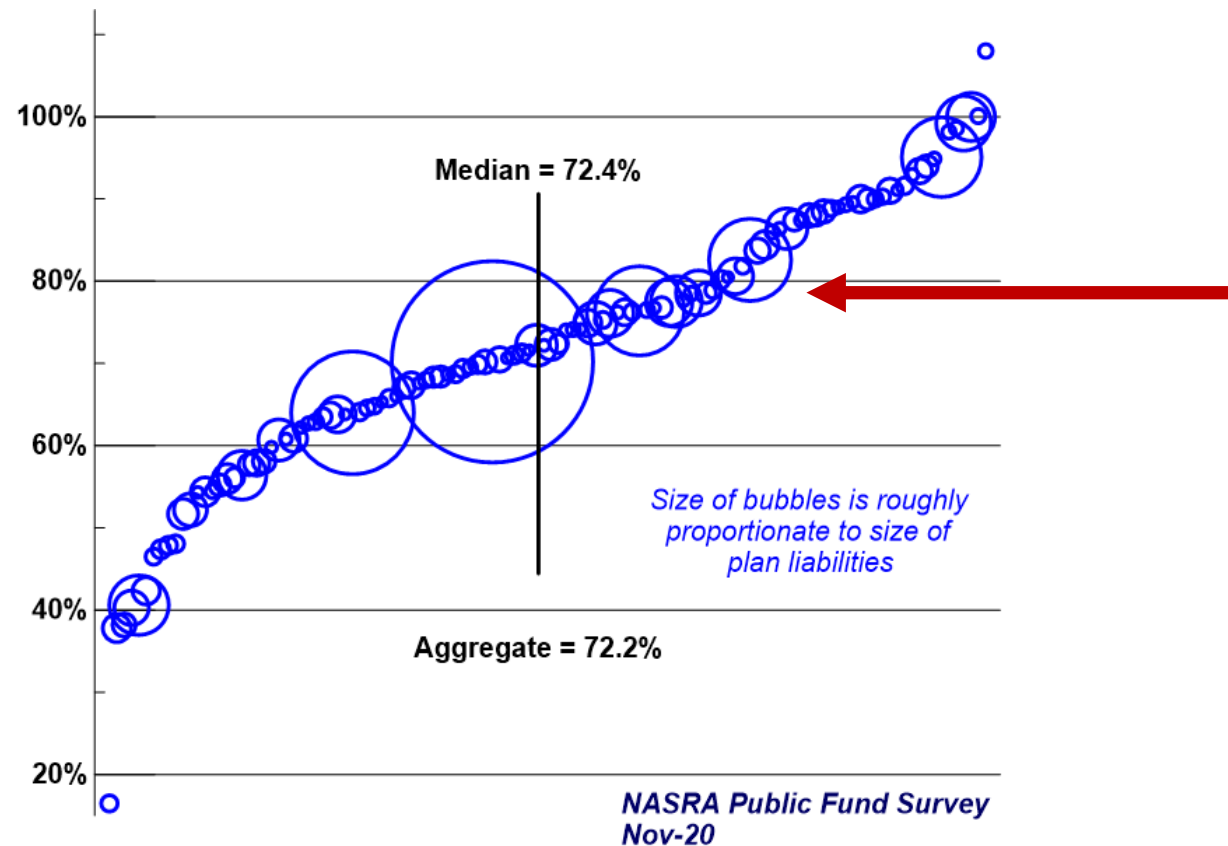
Reflects a pension fund's current financial position, expressing the **ratio** between available **assets** and **liabilities**.



Liabilities (AAL)	\$11.5 Billion
Assets (Valuation)	\$9.09 Billion
Unfunded Liability (UAAL)	\$2.42 Billion

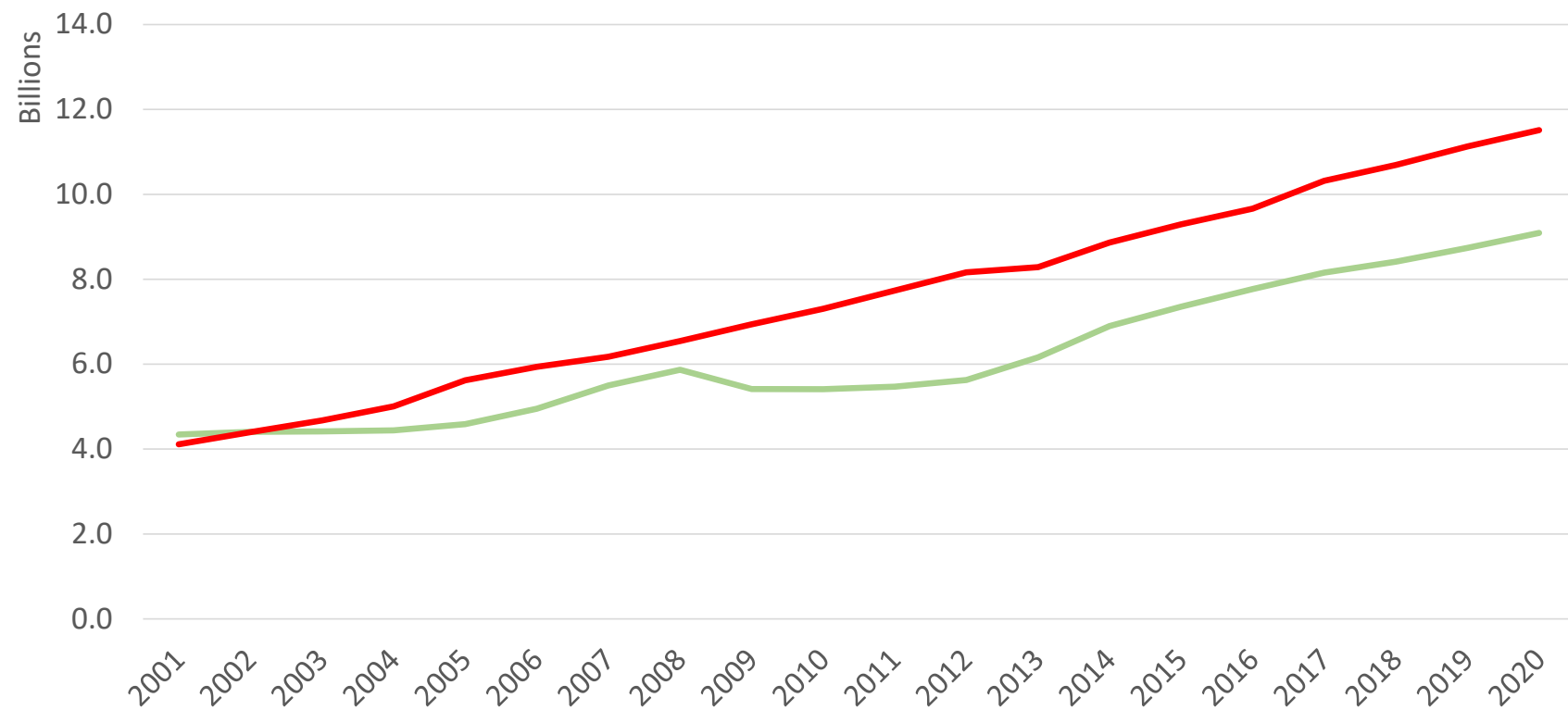


How we compare to other pension plans



Liabilities have grown faster than Assets

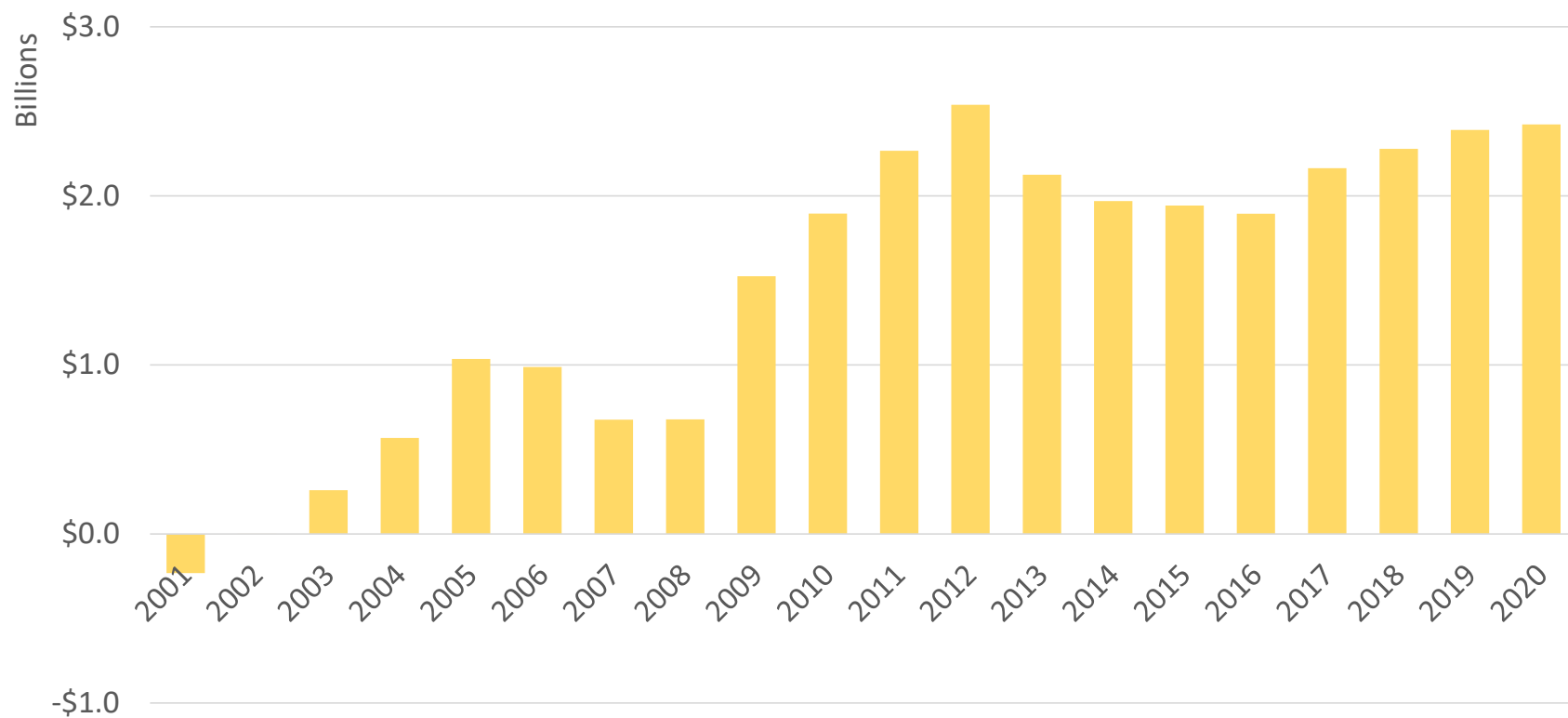
(\$ in billions)



Source: GRS 2020 Actuarial Valuation

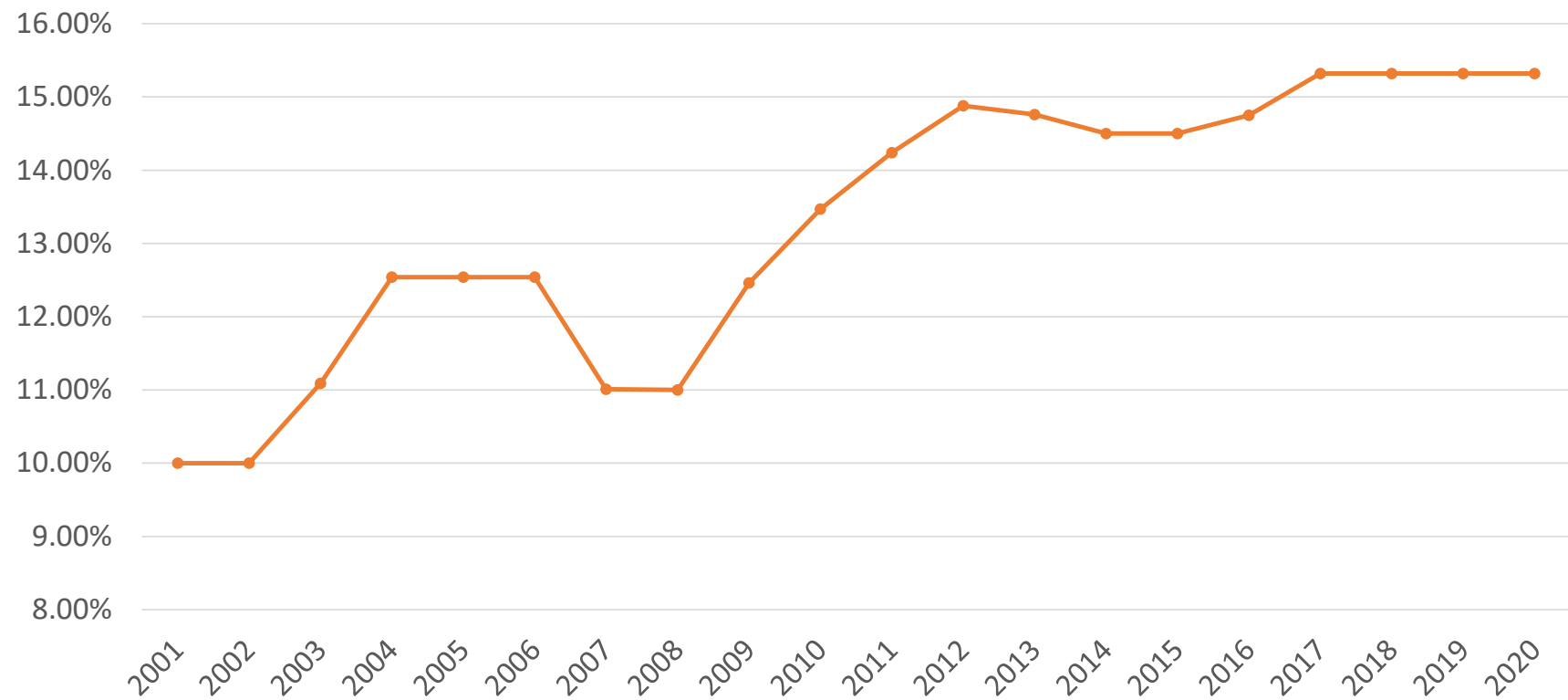
Unfunded liability has developed over time

(\$ in billions)



Source: GRS 2020 Actuarial Valuation

Employer Contributions have increased over time



Townhall meetings & Board Process



Regular review of the System

- The APERS Board reviews actuarial data and investment results throughout each year.
- They have been assessing how to improve the financial strength of the system for the past several years.



Previous discussion

2018:

The Joint Retirement Committee heard testimony from various policy groups on pensions.

2018

2019 Legislative Session :

The Joint Retirement Committee looked at the APERS proposals and decided to study them in the interim.

2019

2018 – 2019:

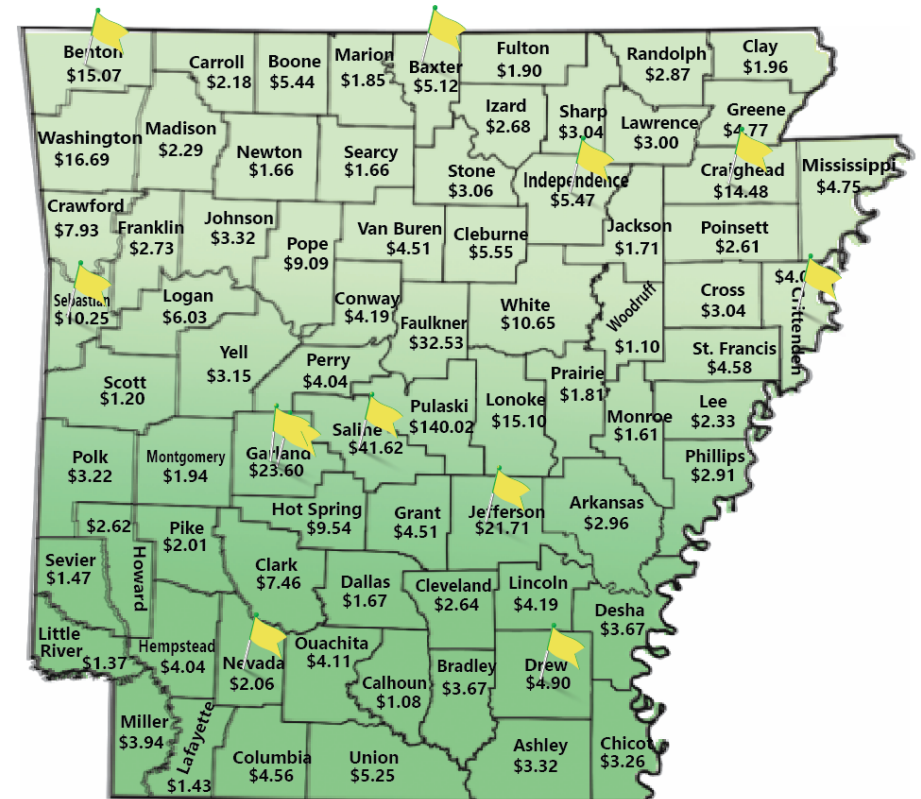
The APERS Board working with the system's actuary, proposed a package of benefit legislation.



2019: Statewide Townhall Meetings

- 11 Townhall meetings
- Attended by over 2,000 members from all Arkansas systems.

Mountain Home	Hot Springs	Hope
Rogers/Bentonville	Fort Smith	Batesville
Jonesboro	West Memphis	Pine Bluff
Monticello		
Central Arkansas (Benton)		



(The figures shown are benefits paid by county in millions of dollars)

Input and Feedback from the Townhalls

- The COLA is a priority, especially for current retirees and those near retirement.
 - Make sure the plan rewards long term service.
 - Consider implementing small changes over time, rather than large changes all at once.
 - Consider increasing the contribution rate rather than changing benefits significantly.
 - Consider requiring employers to contribute more to the plan.
 - “Thank you” for keeping an eye on our retirement.
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Actuarial Review and Analysis of Scenarios

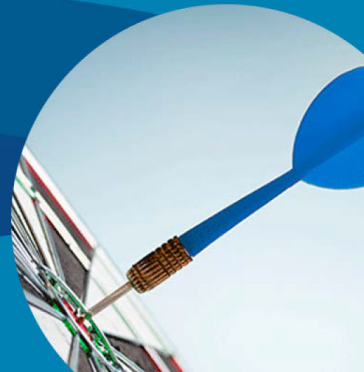


APERS 2021 Legislative Planning Session

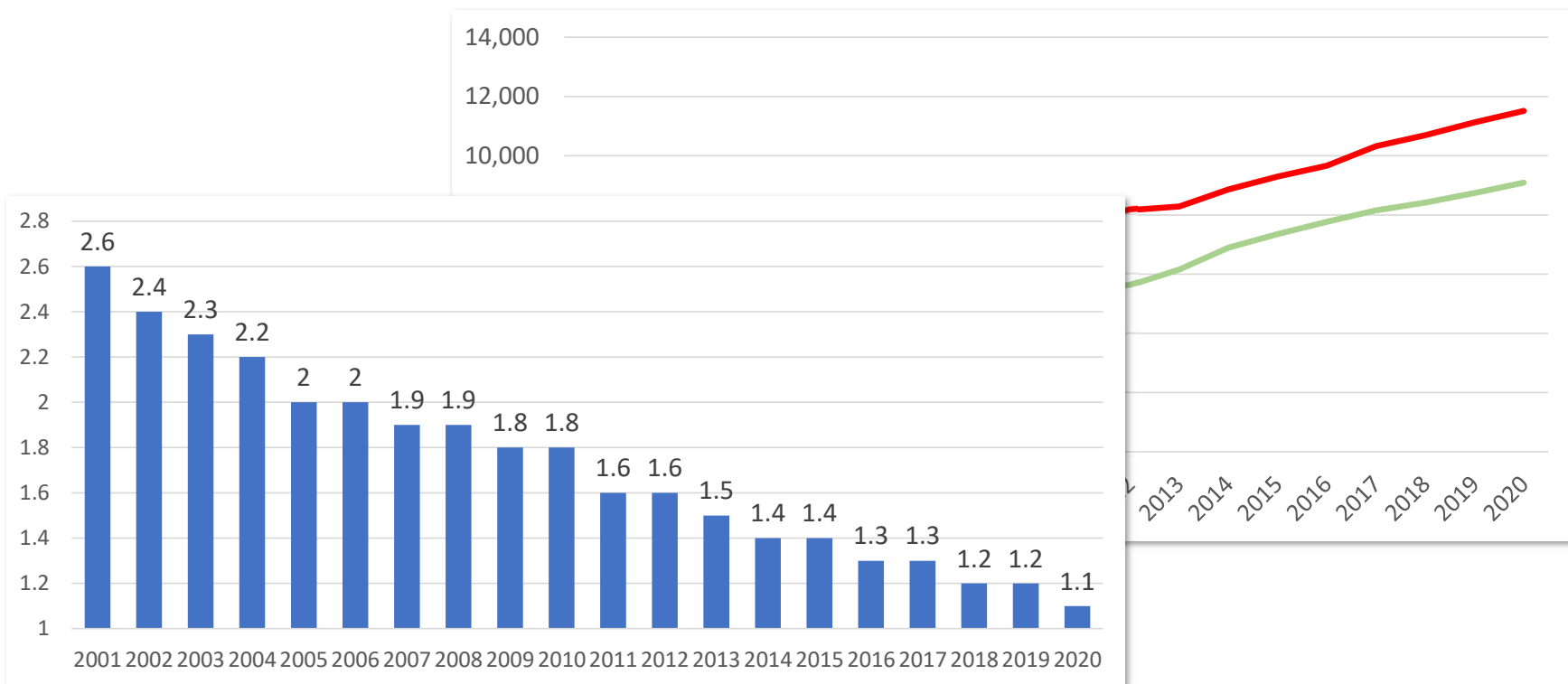
July 28, 2020 Board Meeting

Presented by: Mita D. Drazilov ASA, FCA, MAAA
David L. Hoffman
Heidi G. Barry ASA, FCA, MAAA

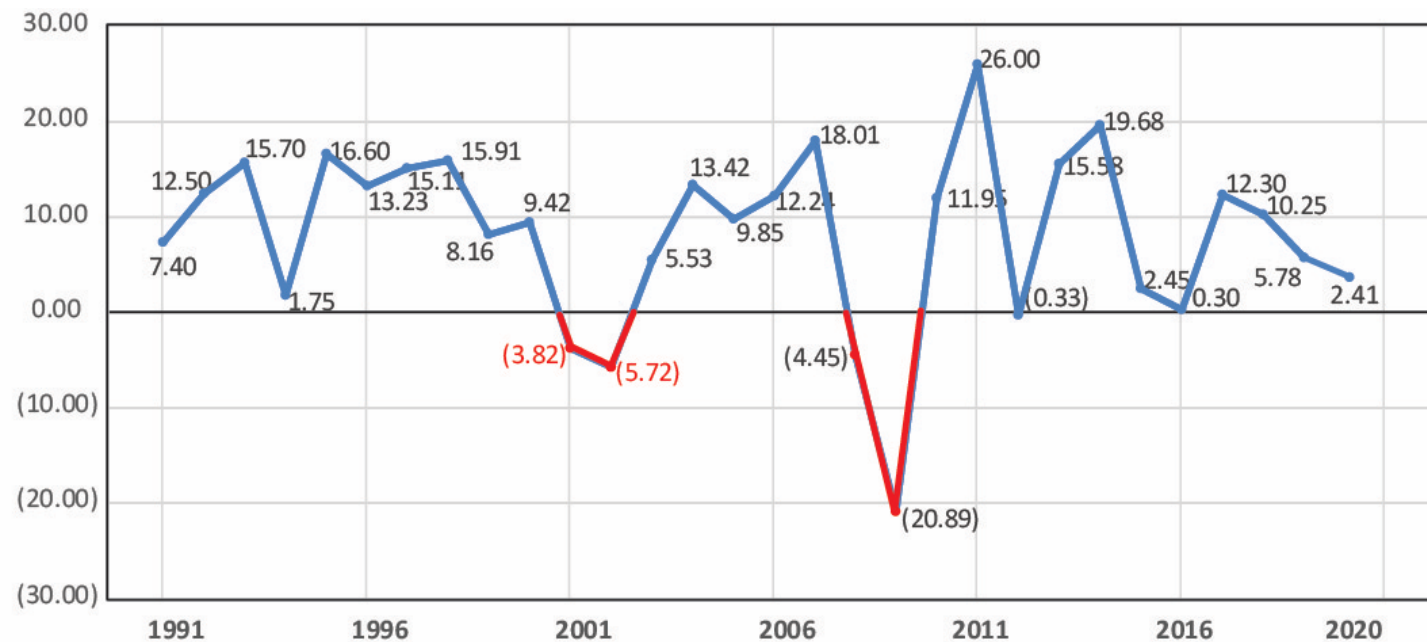
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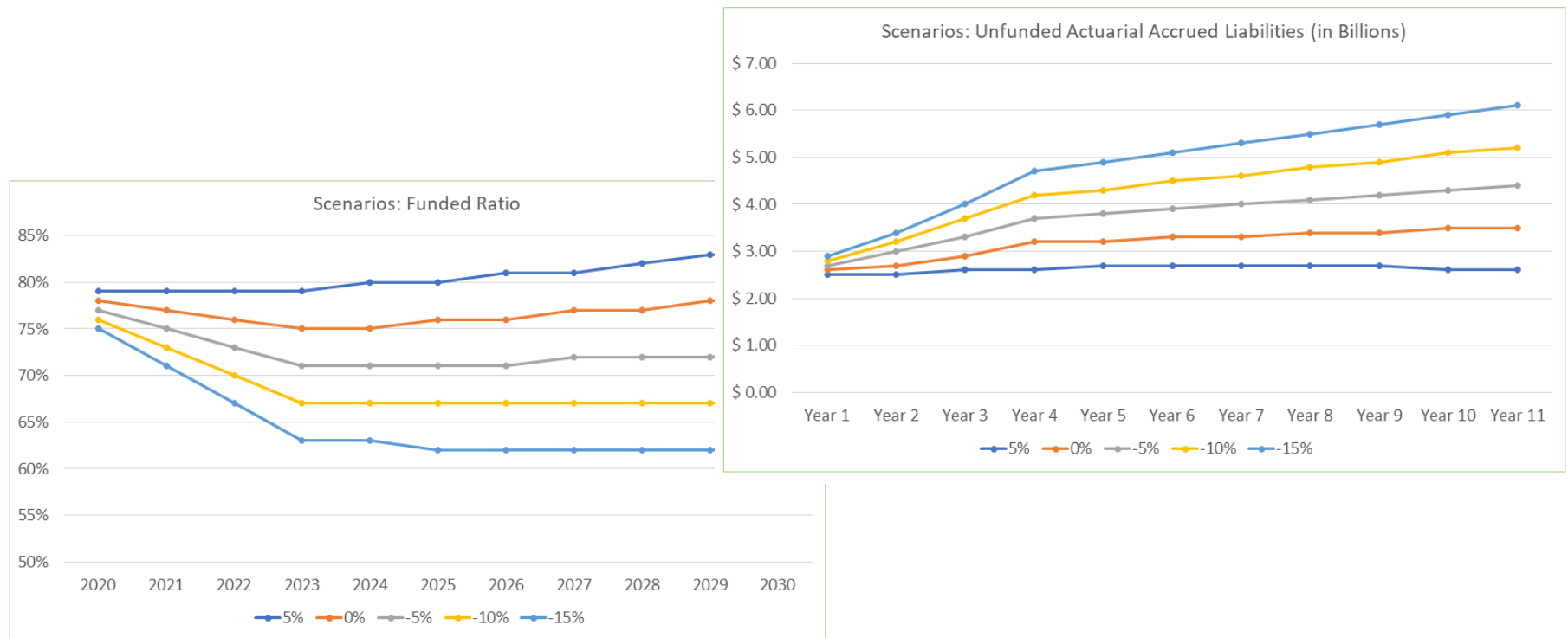
Historical review of the system



Review of investment return history



Review and Analysis of Various Scenarios



What have other Arkansas systems done?

- Arkansas Teacher Retirement System (ATRS)
- Arkansas State Highway Employees' Retirement System (ASHERS)

Benefit Provision	Change enacted	Group Affected
Member Contributions	ATRS – 7% ASHERS – 7%	ATRS – All actives ASHERS – All actives
Final Average Compensation	ATRS – 5-years	ATRS – All actives
COLA	ASHERS – Lower of 3% or CPI	ASHERS – All actives and retirees



Analysis & Discussion of Possible Packages

11 Packages for Analysis and Discussion

Packages 1 Through 5

Benefit Provisions Valued	No Change to Benefit Provisions (i.e., Base)	Package 1	Package 2
Member Contribution Rate (Groups Affected)	5.0%; no phase-in All Contributory Members	6.5%; 2-year phase-in All Contributory Members	7.0%; 8-year phase-in All Contributory Members
FAC Period (Groups Affected)	3 years All Actives	6 years New Hires Only	5 years All Actives
Vesting Period (Groups Affected)	5 years All Actives	10 years Non-vested and New Hires	8 years New Hires Only
COLA Provision (Groups Affected)	3%, Compound All Members	3%, Compound All Members	Min(3%, CPI), Compound New Hires Only
Benefit Provisions Valued	Package 3	Package 4	Package 5
Member Contribution Rate (Groups Affected)	6.0%; 2-year phase-in All Contributory Members	7.0%; 4-year phase-in All Contributory Members	7.0%; 5-year phase-in All Contributory Members
FAC Period (Groups Affected)	5 years All Actives	5 years All Actives	5 years All Actives
Vesting Period (Groups Affected)	5 years All Actives	5 years All Actives	5 years All Actives
COLA Provision (Groups Affected)	Min(3%, CPI), Compound New Hires Only	Min(3%, CPI), Compound New Hires Only	Min(3%, CPI), Compound New Hires Only

Packages 6 Through 11

Benefit Provisions Valued	Package 6	Package 7	Package 8
Member Contribution Rate (Groups Affected)	6.0%; 2-year phase-in All Contributory Members	7.0%; 4-year phase-in All Contributory Members	6.0%; 2-year phase-in All Contributory Members
FAC Period (Groups Affected)	5 years Non-vested and New Hires	5 years Non-vested and New Hires	5 years Non-vested and New Hires
Vesting Period (Groups Affected)	10 years Non-vested and New Hires	10 years Non-vested and New Hires	10 years Non-vested and New Hires
COLA Provision (Groups Affected)	Min(3%, CPI), Simple Non-vested and New Hires	Min(3%, CPI), Simple Non-vested and New Hires	Min(3%, CPI), Simple All Non-retired excl DROP
Benefit Provisions Valued	Package 9	Package 10	Package 11
Member Contribution Rate (Groups Affected)	7.0%; 4-year phase-in All Contributory Members	6.0%; 2-year phase-in All Contributory Members	7.0%; 4-year phase-in All Contributory Members
FAC Period (Groups Affected)	5 years Non-vested and New Hires	5 years Non-vested and New Hires	5 years Non-vested and New Hires
Vesting Period (Groups Affected)	10 years Non-vested and New Hires	10 years Non-vested and New Hires	10 years Non-vested and New Hires
COLA Provision (Groups Affected)	Min(3%, CPI), Simple All Non-retired excl DROP	3%, Simple All Non-retired excl DROP	3%, Simple All Non-retired excl DROP



Arrival at 3 Proposed Changes by the Board

Selected 1 final package made up of 3 different items.

- 1 change to – Benefit provision (all active contributory members)
- 1 change to – Member contribution rate (all active members)
- 1 change to – Cost of living adjustment COLA (new hires)



Proposed Changes



Proposal: Member Contributions

Benefit Provision	Description of Proposal	Group Affected
Member Contributions	Increase from 5% to 7% — <i>0.25% per year for 8 years.</i>	All Active Contributory members

- Member contributions are used to fund a secure retirement benefit.
 - Phase-in to minimize the impact (based on townhall feedback).
 - Average of \$3-\$4 impact per pay period, per year
 - Based on an average salary of \$40,469.
 - Aligns with the change enacted by ATRS and ASHERS.
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Proposal: Final Average Compensation

Benefit Provision	Description of Proposal	Group Affected
Final Average Compensation	Increase from 3 to 5 years — <i>The current 3-year FAC of all members would be computed and then frozen with the ultimate FAC being the greater of the frozen 3-year FAC and the ultimate 5-year FAC.</i>	All Active members

- Shift to a 5-year FAC going forward for all active members.
- Includes a snapshot provision to capture the current 3-year FAC on July 1, 2022.
- Similar to the change enacted by ATRS.



Proposal: COLA (for New Hires Only)

Benefit Provision	Description of Proposal	Group Affected
Cost of Living Allowance (COLA)	Provide a COLA based on the Lower of 3% or Consumer Price index (CPI).	New Hires Only

- Change is for new hires after July 1, 2022 only (based on townhall feedback).
 - Retirees have made decisions based on the current COLA.
 - Those near retirement and many actives have planned around the COLA.
 - Considered the following question
 - What COLA would make sense if designing a new plan?
 - Similar to the change enacted by ASHERS.
-



Summary: Final package

Benefit Provision	Description of Proposal	Group Affected
Member Contributions	Increase from 5% to 7% — <i>0.25% per year for 8 years.</i>	All Active Contributory members
Final Average Compensation	Increase from 3 to 5 years — <i>The current 3-year FAC of all members would be computed and then frozen with the ultimate FAC being the greater of the frozen 3-year FAC and the ultimate 5-year FAC.</i>	All Active members
COLA	Provide a COLA based on the Lower of 3% or Consumer Price index (CPI).	New Hires Only



Impact of the Proposal



Beneficial impact of the changes

Projections show that these proposed changes would make meaningful progress in strengthening the fund.

- Reducing the Unfunded Liability (current \$2.4 billion)
- Increasing the Funded Ratio (current 79%)



Summary

- It is important to maintain a strong system into the future
- The legislative proposal was designed based on input from members at the statewide townhall meetings.
- The changes will help to strengthen the system over time.
- We are here today to answer questions and hear additional feedback from you regarding the proposals.



Questions



Thank you

A PDF version of this presentation can be found on the APERS website:

www.apers.org/publications

