



Arkansas Public Employees Retirement System

2021 Legislative Overview

Duncan Baird, Executive Director

Summary

- It is important to maintain a strong system into the future.
- The legislative proposal for the 2021 Regular Session was designed based on input from members at the statewide townhall meetings.
- The changes will help to strengthen the system over time.
- Let me know your feedback or questions regarding the proposals.

The Importance of a Strong APERS



The Importance of the APERS Benefit

For our members:

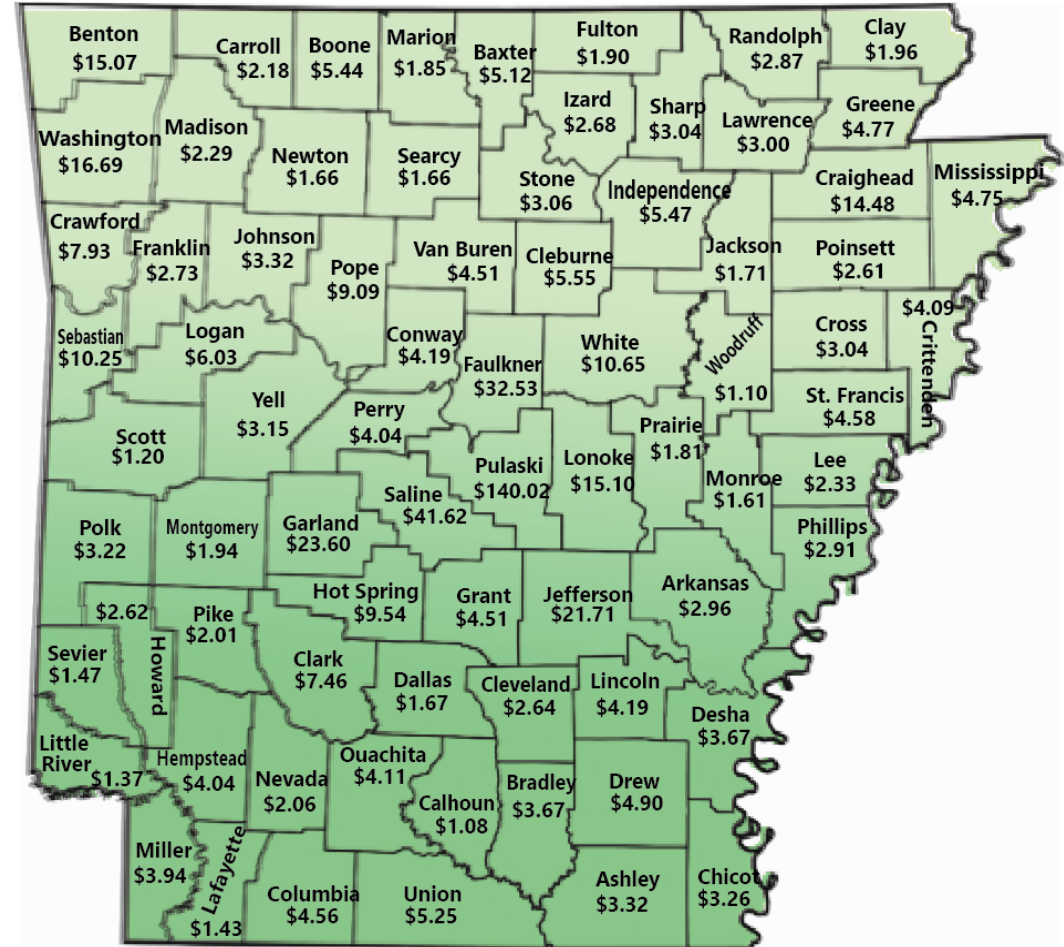
- Provides guaranteed lifetime income in retirement.
- Provides protection in cases of death or disability.
- Rewards long term employees for their public service.

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

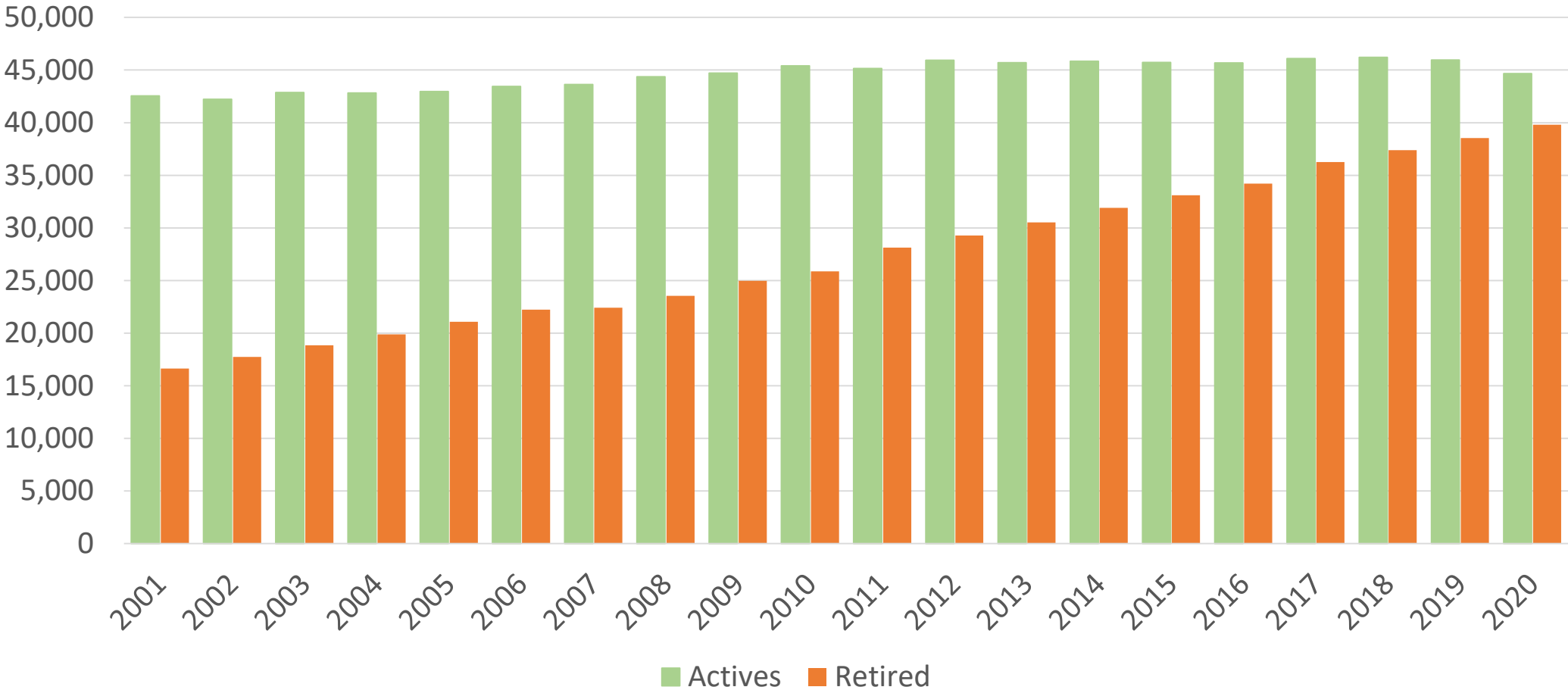


(The figures shown are benefits paid by county in millions of dollars)

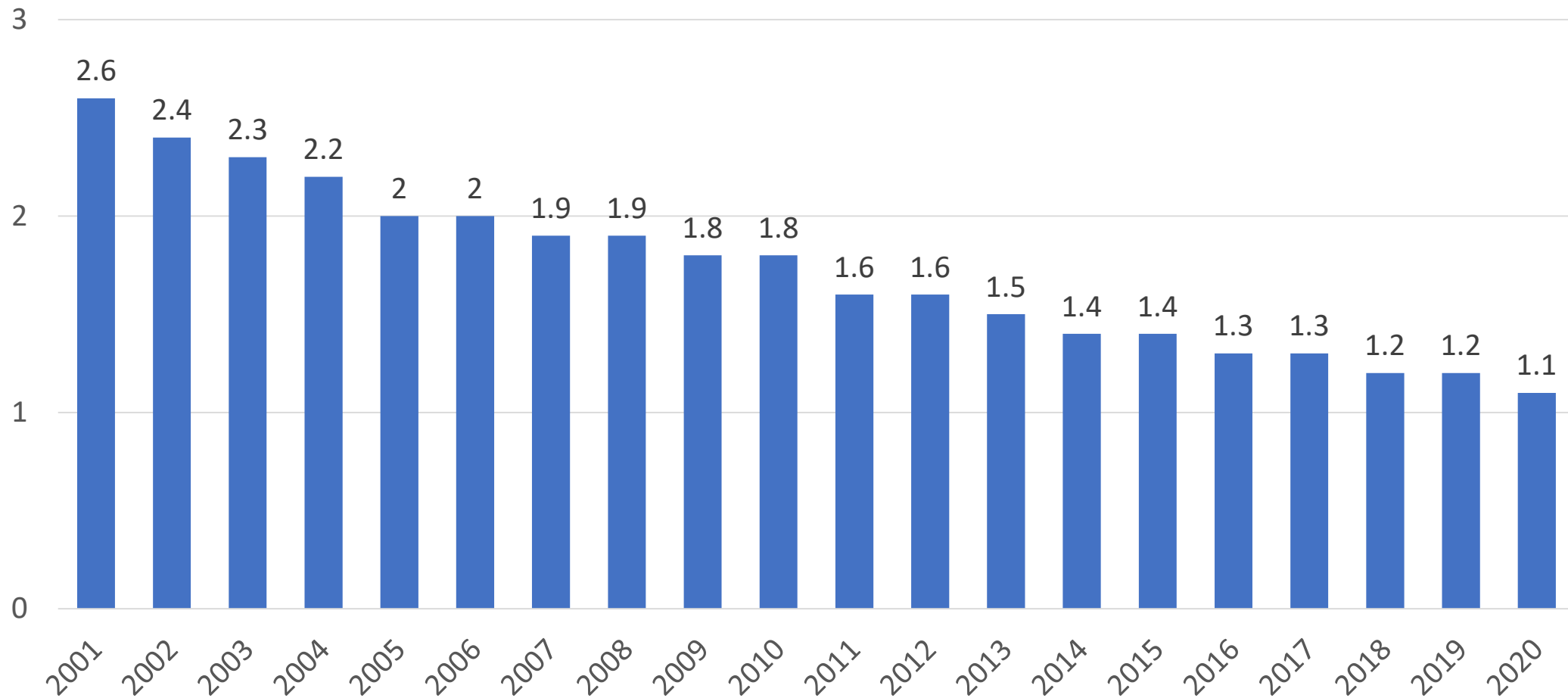
Financial summary



The system is maturing over time

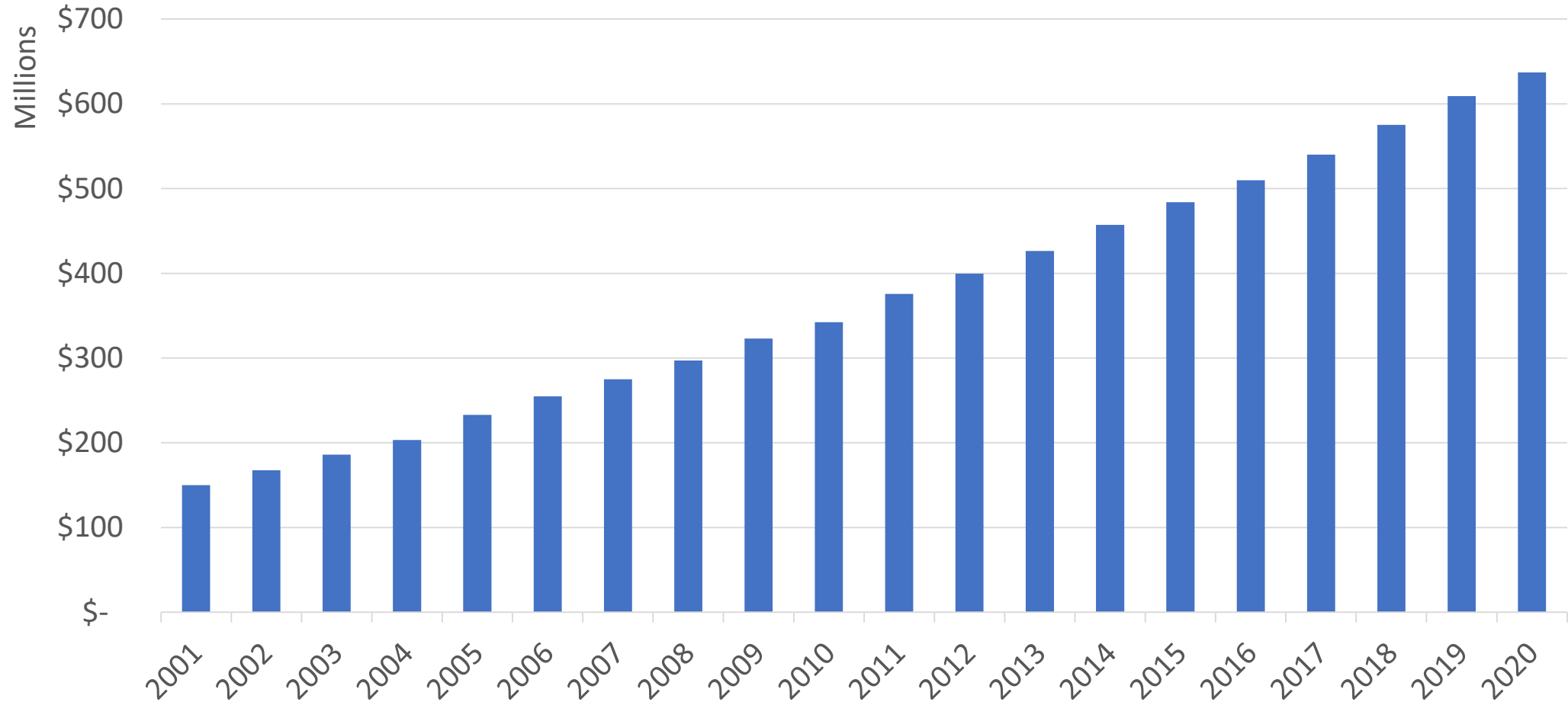


Ratio of Active per Retired is declining



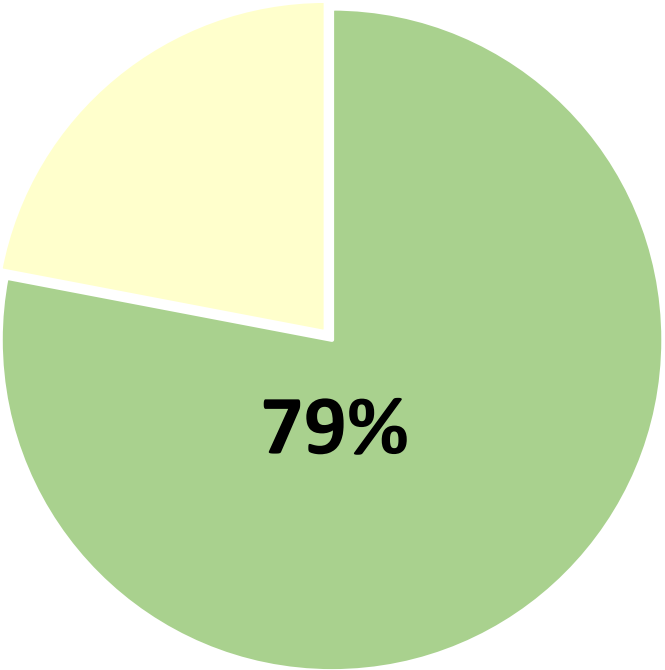
Benefit payments have grown significantly

(\$ in millions)

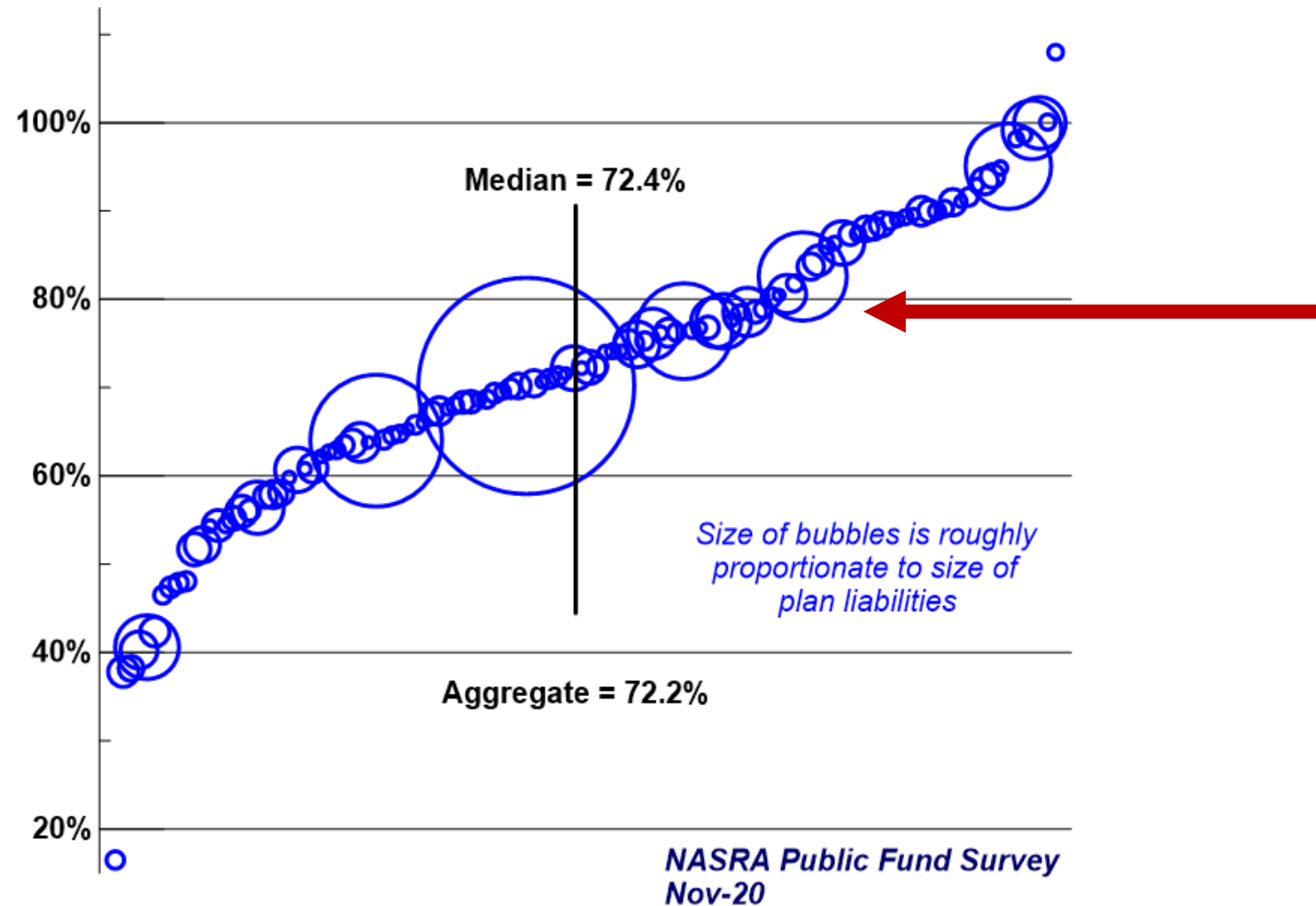


APERS has a Funded Ratio of 79%

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

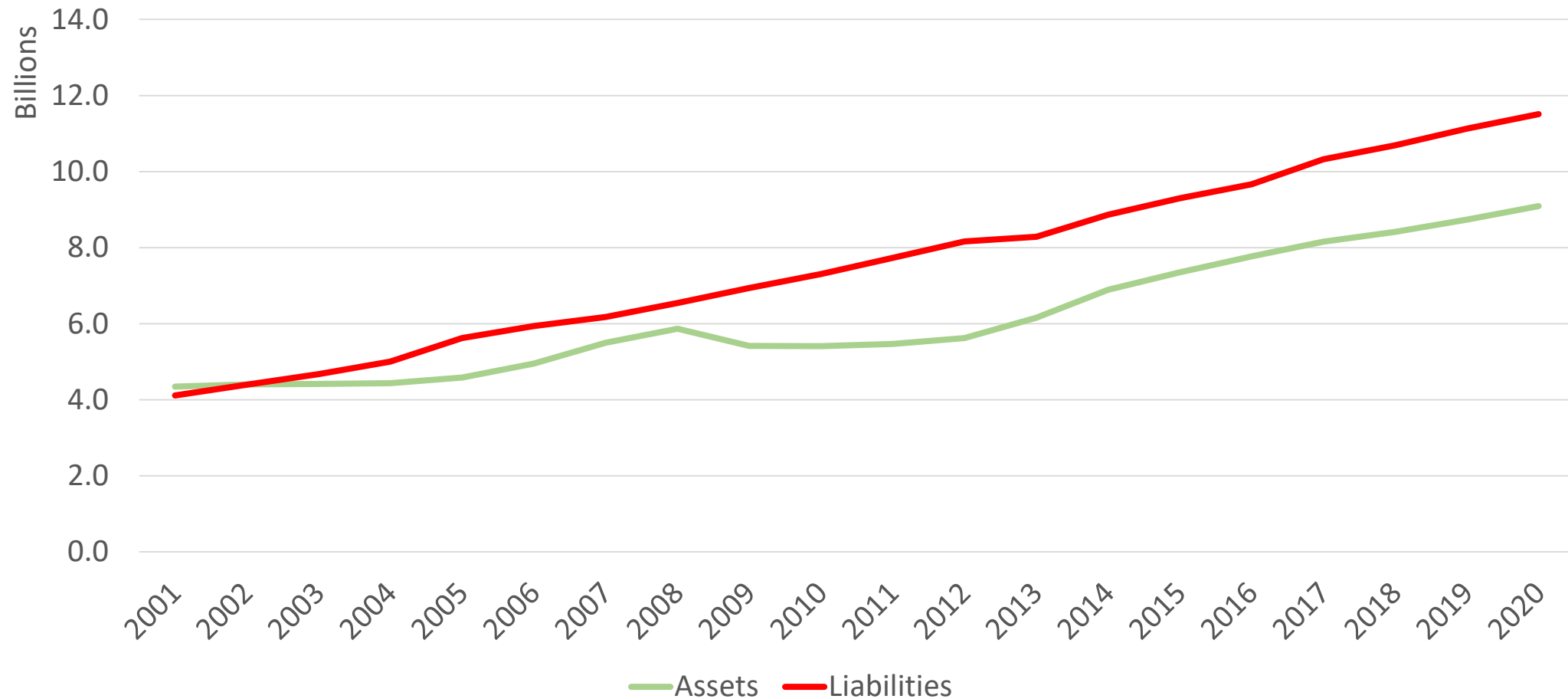


How we compare to other pension plans



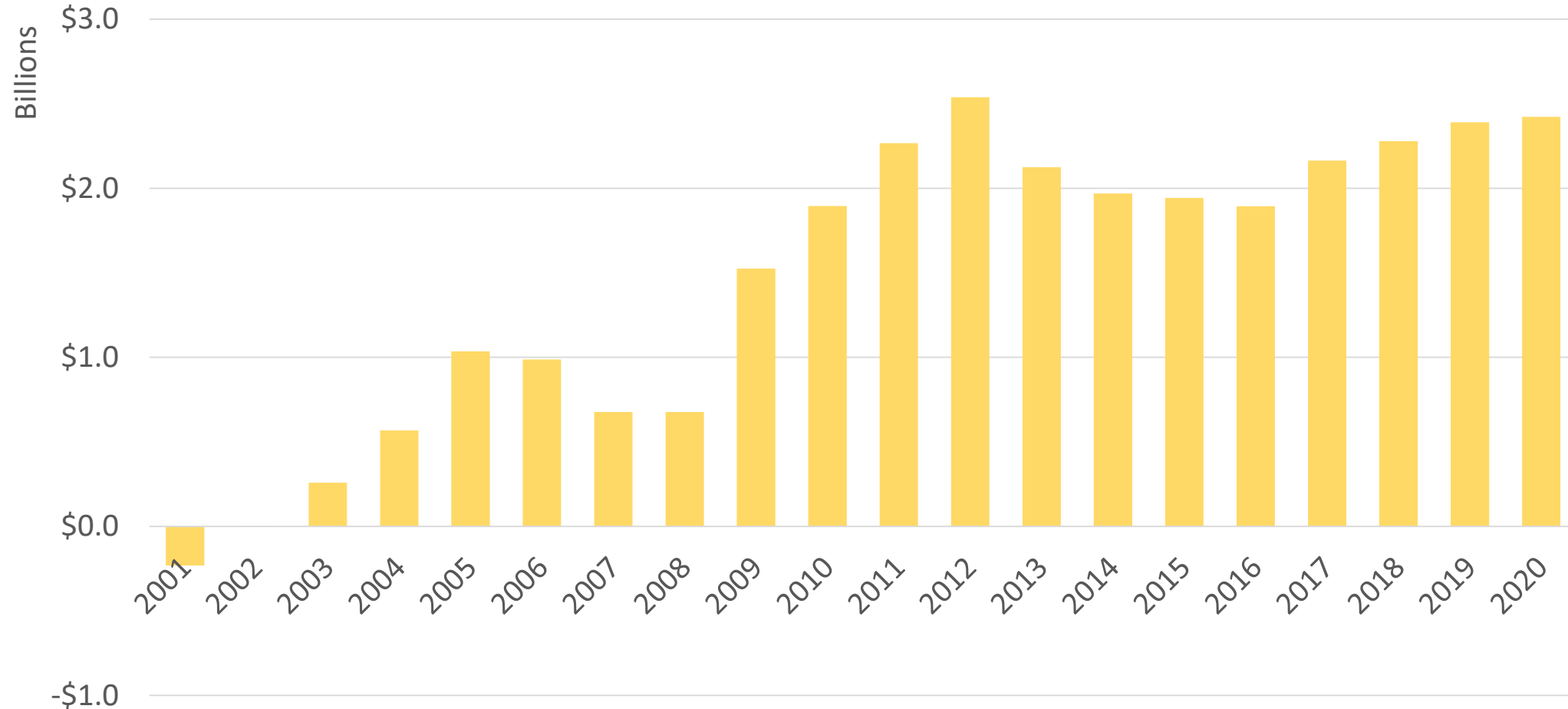
Liabilities have grown faster than Assets

(\$ in billions)

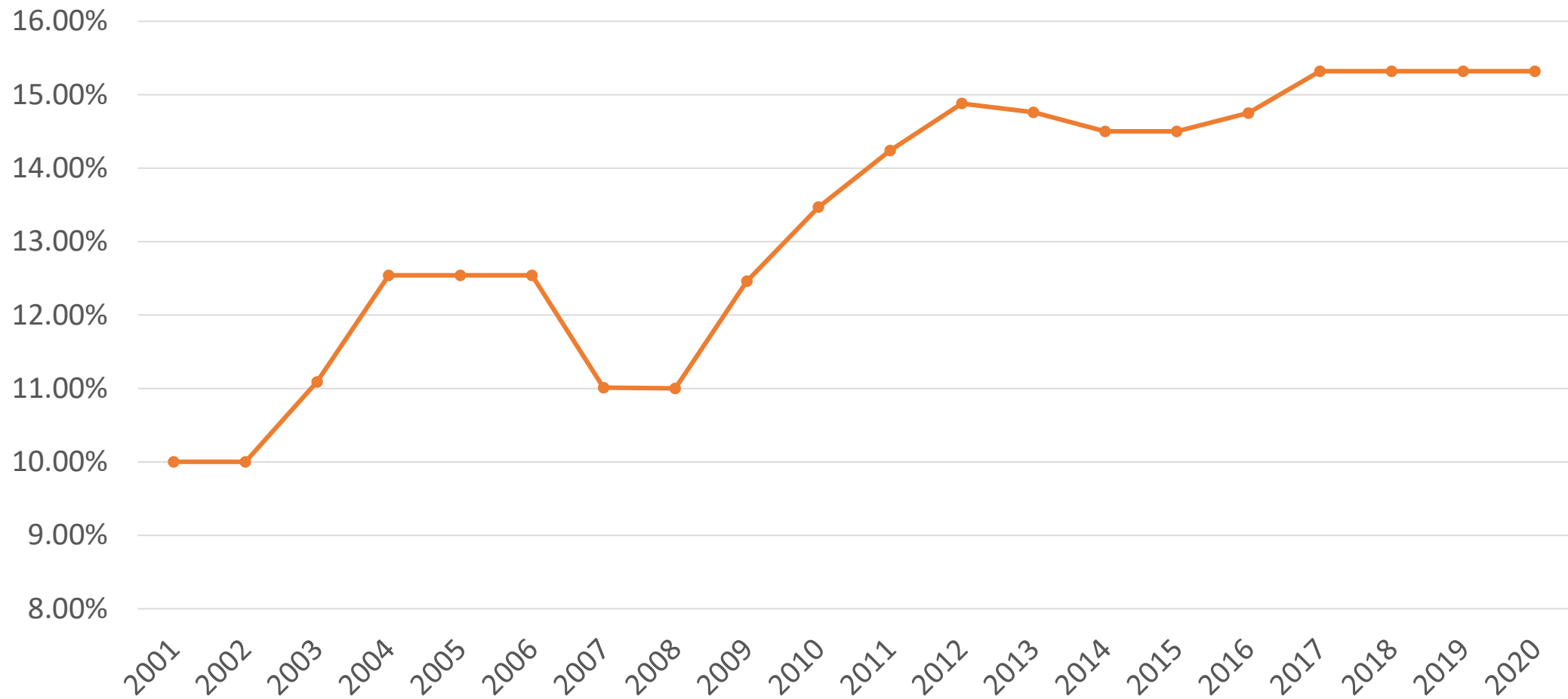


Unfunded liability has developed over time

(\$ in billions)



Employer Contributions have increased over time



Townhall meetings & Board Process



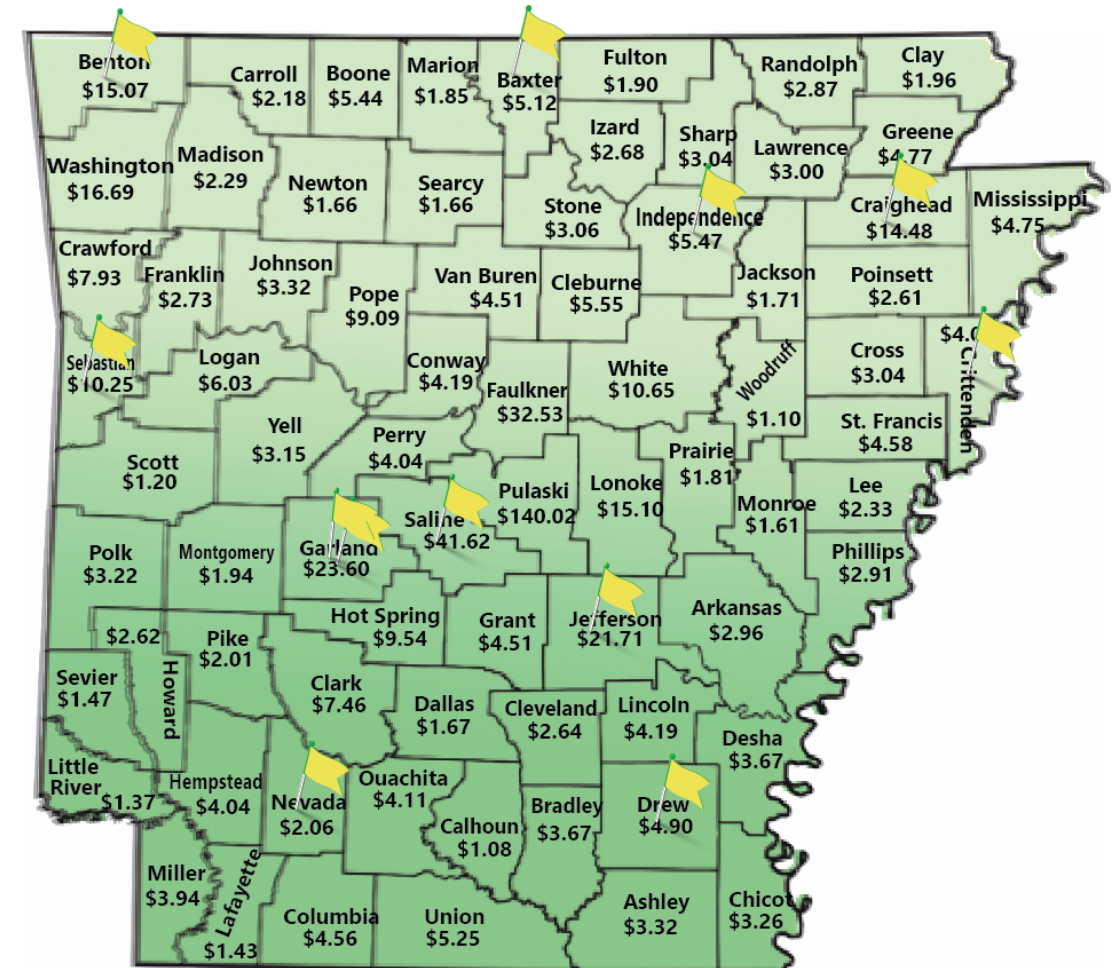
Regular review of the System

- The APERS Board reviews actuarial data and investment results throughout the year.
- Investments:
 - Investment performance is reviewed every quarter.
 - An Asset-Liability study is conducted every five years.
- Actuarial:
 - An annual valuation is performed every year.
 - A systematic review of assumptions is conducted every five years.
- In recent years, the Board has been assessing how to improve the financial strength of the system.

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.

Actuarial Review and Analysis of Scenarios

The slide features a background with abstract, flowing blue and white shapes. In the top left corner is the GRS logo, which consists of a blue circle with a white crescent shape inside, followed by the letters 'GRS' in blue. The main title 'APERS 2021 Legislative Planning Session' is written in bold yellow text. Below it, 'July 28, 2020 Board Meeting' is written in white. The presenters' names are listed in white text: 'Presented by: Mita D. Drazilov ASA, FCA, MAAA', 'David L. Hoffman', and 'Heidi G. Barry ASA, FCA, MAAA'. In the bottom left corner, there is a small copyright notice: 'Copyright © 2020 GRS – All rights reserved.' On the right side of the slide, there is a circular inset image showing a close-up of a blue dart with a gold-colored tip hitting a target, with a building visible in the background.

GRS

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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Analysis & Discussion of Possible Packages

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

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

Arrived at 3 Proposed Changes by the Board

Selected 1 final package made up of 3 different items:

- 1 change to – Benefit provision
 - all active members
- 1 change to – Member contribution rate
 - all active contributory 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.

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

- This 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 for the 2021 Regular Session was designed based on input from members at the statewide townhall meetings.
- The changes will help to strengthen the system over time.
- Let me know your feedback or questions regarding the proposals.

Thank you

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