SPECIAL BOARD MEETING
TUESDAY, JULY 28, 2020 at 9:00 A.M.

** MEETING TO BE CONDUCTED BY VIDEO CONFERENCE **
Contact Linda.McGrath@arkansas.gov for video conference details.

AGENDA

1. Call to Order


3. Recognition of the Presence of a Quorum

4. **Action Item:** Approval of the Minutes from June 23, 2020 (page 2).

5. 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 (page 9).

6. **Action Item:** Approval of a Package of Proposed Legislation.

7. Next Regular Meeting – August 19, 2020 at 9:00 a.m.

8. Adjournment
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. Debyde 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 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
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 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 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.

Ms. Lea and 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 written explanations of the “Hold Harmless” and implementation language so everyone was clear how it would impact them.

Mr. Brady 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 by 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
Agenda

• Recap of February, April, May and June Meetings
• June 2020 Board Requested Supplemental Valuation Packages
• Possible June 30, 2020 Actuarial Valuation Results and Projections Based Upon Board Requested Supplemental Valuation Packages
RECAP OF FEBRUARY, APRIL, MAY AND JUNE BOARD MEETINGS
Introduction

• At the February Board meeting, the evolution of the unfunded actuarial accrued liability (UAAL) for APERS was discussed
  – $2.39B as of June 30, 2019
• At the April Board meeting:
  – Context was provided regarding any proposed benefit changes that the Board may wish to pursue
  – The Board was presented with a preview of what the June 30, 2020 actuarial valuation results may show depending upon various market rate of return scenarios for fiscal year end June 30, 2020
Introduction

• As a result of the discussions in April, the Board requested the results of certain supplemental actuarial valuations to be presented at the May meeting.

• As a result of the May meeting, the following requests were made by the Board and presented at the June meeting:
  – A total of 11 supplemental valuation packages were requested to be evaluated by various Board members.
  – Certain historical information regarding APERS investment return, inflation and employer contribution rates was requested to be presented.
Introduction

• As a result of the June meeting, the following requests were made by the Board
  – June packages 2 and 7 (referred to as packages July-1 and July-2 in this presentation) was requested by the Board to receive further consideration
  – The Board requested an additional package to be presented based upon discussions between Staff and the actuary
    ○ Packages July-3 and July-4 are the packages included in this presentation as a result of this request
JUNE 2020
BOARD REQUESTED
SUPPLEMENTAL VALUATION PACKAGES
Board Requested Supplemental Valuations

• Benefit changes generally fell into the following categories
  – Member Contribution Rate changes for Contributory members
    ○ Current provision is a 5% of payroll member contribution rate
  – Final Average Compensation (FAC) period changes
    ○ Current provision is a 3-year period
  – Vesting Period changes
    ○ Current provision is a 5-year period
  – Cost of Living Allowance (COLA) changes
    ○ Current provision is a 3% compound COLA
Board Requested Supplemental Valuations

• There are also variations about which groups may or may not be affected by any legislated changes
  – New hires only
  – New hires and non-vested members
  – All active members

• There are also variations as to the phase-in period of any member contribution rate change

• Presented on the following slide is a summary of the supplemental valuation packages resulting from the June Board Meeting
<table>
<thead>
<tr>
<th>Benefit Provisions Valued</th>
<th>No Change to Benefit Provisions (i.e., Base)</th>
<th>(Package 2 from June Meeting)</th>
<th>(Package 7 from June Meeting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Contribution Rate (Groups Affected)</td>
<td>5.0%; no phase-in</td>
<td>7.0%; 8-year phase-in</td>
<td>7.0%; 4-year phase-in</td>
</tr>
<tr>
<td></td>
<td>All Contributory Members</td>
<td>All Contributory Members</td>
<td>All Contributory Members</td>
</tr>
<tr>
<td>FAC Period (Groups Affected)</td>
<td>3 years</td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td></td>
<td>All Actives</td>
<td>All Actives</td>
<td>Non-vested and New Hires</td>
</tr>
<tr>
<td>Vesting Period (Groups Affected)</td>
<td>5 years</td>
<td>8 years</td>
<td>10 years</td>
</tr>
<tr>
<td></td>
<td>All Actives</td>
<td>New Hires Only</td>
<td>New Hires Only</td>
</tr>
<tr>
<td>COLA Provision (Groups Affected)</td>
<td>3%, Compound</td>
<td>Min(3%, CPI), Compound</td>
<td>Min(3%, CPI), Simple</td>
</tr>
<tr>
<td></td>
<td>All Members</td>
<td>New Hires Only</td>
<td>Non-vested and New Hires</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefit Provisions Valued</th>
<th>No Change to Benefit Provisions (i.e., Base)</th>
<th>Package July-3</th>
<th>Package July-4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Contribution Rate (Groups Affected)</td>
<td>5.0%; no phase-in</td>
<td>7.0%; 4-year phase-in</td>
<td>7.0%; 8-year phase-in</td>
</tr>
<tr>
<td></td>
<td>All Contributory Members</td>
<td>All Contributory Members</td>
<td>All Contributory Members</td>
</tr>
<tr>
<td>FAC Period (Groups Affected)</td>
<td>3 years</td>
<td>5 years</td>
<td>5 years</td>
</tr>
<tr>
<td></td>
<td>All Actives</td>
<td>New Hires Only</td>
<td>All Actives</td>
</tr>
<tr>
<td>Vesting Period (Groups Affected)</td>
<td>5 years</td>
<td>8 years</td>
<td>5 years</td>
</tr>
<tr>
<td></td>
<td>All Actives</td>
<td>New Hires Only</td>
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</tr>
<tr>
<td>COLA Provision (Groups Affected)</td>
<td>3%, Compound</td>
<td>Min(3%, CPI), Compound</td>
<td>Min(3%, CPI), Compound</td>
</tr>
<tr>
<td></td>
<td>All Members</td>
<td>New Hires Only</td>
<td>New Hires Only</td>
</tr>
</tbody>
</table>
Board Requested Supplemental Valuations

- The following slides present supplemental actuarial valuation results as of June 30, 2019 of Board requested supplemental valuation packages
  - It is assumed that the benefit changes would have been in effect as of the last valuation date (i.e., June 30, 2019 and no recognition of phase-ins)

- Column (a) on the following slides is the decrease in the June 30, 2019 amortization period (i.e., 24 years) to maintain an employer contribution rate of 15.32%
  - For example, if Package July-1 had been in effect and the employer contribution rate were 15.32%, the amortization period as of June 30, 2019 would have been 16.5 years (i.e., 24.0 – 7.5 = 16.5 years)

- Column (b) on the following slides is the amount the computed employer contribution rate would be decreased
  - For example, if Package July-1 had been in effect and the amortization period were unchanged (i.e., 24 years) for the existing UAAL, the computed employer contribution rate would have been 13.30% (i.e., 15.32% - 2.02% = 13.30%)
  - Changes in the UAAL were amortized over a 20-year period

- Either (a) or (b) could happen, but not both
- Column (c) is the decrease to the UAAL
- Column (d) is the decrease in the employer normal cost as new hires replace current employees
# Board Requested Supplemental Valuations

## Effect of Proposed Benefit Change as of June 30, 2019

<table>
<thead>
<tr>
<th>Package</th>
<th>Decrease in Amortization Period</th>
<th>(a) Decrease in Total Employer Contribution Rate (as % of Payroll)</th>
<th>(b) Decrease in Total Employer Normal Cost as New Hires Replace Current Employees (as a % of Payroll)</th>
<th>(c) Decrease in UAAL ($ in millions)</th>
<th>(d) Decrease in Employer Normal Cost as New Hires Replace Current Employees (as a % of Payroll)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-1</td>
<td>7.5 years</td>
<td>2.02%</td>
<td></td>
<td>$125.8</td>
<td>0.96% 1.53% 2.78%</td>
</tr>
<tr>
<td>July-2</td>
<td>6.9 years</td>
<td>1.95%</td>
<td></td>
<td>$57.2</td>
<td>1.08% 1.73% 3.08%</td>
</tr>
<tr>
<td>July-3</td>
<td>5.0 years</td>
<td>1.16%</td>
<td></td>
<td>-</td>
<td>0.96% 1.53% 2.78%</td>
</tr>
<tr>
<td>July-4</td>
<td>7.5 years</td>
<td>2.02%</td>
<td></td>
<td>$125.8</td>
<td>0.96% 1.53% 2.78%</td>
</tr>
</tbody>
</table>

### Notes:

1. **FAC changes applicable to all active members:** 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.
POSSIBLE JUNE 30, 2020 ACTUARIAL VALUATION RESULTS AND PROJECTIONS BASED UPON BOARD REQUESTED SUPPLEMENTAL VALUATION PACKAGES
Possible June 30, 2020 Results and Projections

• The following slides show possible June 30, 2020 actuarial valuation results and the potential effects on future computed employer contribution rates.

• The scenarios are not meant to be predictions of what the June 30, 2020 or any other actuarial valuation results will show.

• They are intended to allow the Board to compare current benefit provisions with proposed benefit provisions without commenting on the actual valuation results on each future valuation date.
Possible June 30, 2020 Results and Projections

• Projected actuarial valuation results are based upon the -5% market value return scenario for fiscal year 2020
  – The -5% market value return scenario was chosen since this was the most reasonable estimate of the fiscal year 2020 market value return known at the time
  – Projected actuarial valuation results are highly dependent upon the market value rate of return scenario chosen

• For projections purposes, it is assumed that the proposed benefit change would have been effective as of June 30, 2022
  – For member contribution rate changes, FY 2023 is the first assumed affected fiscal year
  – For COLA changes, the July 1, 2022 COLA is the first COLA assumed to be affected

• The June 30, 2021 valuation (i.e., the valuation that determines the employer contribution rate for the fiscal year beginning July 1, 2023) was the first valuation to reflect the proposed changes
-5% Market Value (MV) Return for the Year Ended June 30, 2020;
7.15% MV Return for Fiscal Years Thereafter

<table>
<thead>
<tr>
<th>Benefit Provisions Valued</th>
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<td>7.0%; 8-year phase-in All Contributory Members</td>
<td>7.0%; 4-year phase-in All Contributory Members</td>
</tr>
<tr>
<td>FAC Period (Groups Affected)</td>
<td>3 years All Actives</td>
<td>5 years All Actives</td>
<td>5 years Non-vested and New Hires</td>
</tr>
<tr>
<td>Vesting Period (Groups Affected)</td>
<td>5 years All Actives</td>
<td>8 years New Hires Only</td>
<td>10 years Non-vested and New Hires</td>
</tr>
<tr>
<td>COLA Provision (Groups Affected)</td>
<td>3%, Compound All Members</td>
<td>Min(3%, CPI), Compound New Hires Only</td>
<td>Min(3%, CPI), Simple Non-vested and New Hires</td>
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</tbody>
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<tr>
<td>2020</td>
<td>$2.7</td>
<td>77%</td>
<td>$2.7</td>
<td>77%</td>
<td>$2.7</td>
<td>77%</td>
</tr>
<tr>
<td>2021</td>
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<td>2.8</td>
<td>76%</td>
<td>2.9</td>
<td>76%</td>
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<td>73%</td>
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<td>3.2</td>
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</tr>
<tr>
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<td>3.5</td>
<td>72%</td>
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<td>3.5</td>
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## Packages July-1 and July-2 (Slide 2 of 2)

<table>
<thead>
<tr>
<th>Benefit Provisions Valued</th>
<th>No Change to Benefit Provisions (i.e., Base)</th>
<th>Package July-1</th>
<th>Package July-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Contribution Rate</td>
<td>5.0%; no phase-in All Contributory Members</td>
<td>7.0%; 8-year phase-in All Contributory Members</td>
<td>7.0%; 4-year phase-in All Contributory Members</td>
</tr>
<tr>
<td>FAC Period (Groups Affected)</td>
<td>3 years All Actives</td>
<td>5 years All Actives</td>
<td>5 years Non-vested and New Hires</td>
</tr>
<tr>
<td>Vesting Period (Groups Affected)</td>
<td>5 years All Actives</td>
<td>8 years New Hires Only</td>
<td>10 years Non-vested and New Hires</td>
</tr>
<tr>
<td>COLA Provision (Groups Affected)</td>
<td>3%, Compound All Members</td>
<td>Min(3%, CPI), Compound New Hires Only</td>
<td>Min(3%, CPI), Simple Non-vested and New Hires</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results for Period Ending June 30</th>
<th>Applied to Period Beginning July 1</th>
<th>Amortization Period to Maintain 15.32% (yrs.)</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>15.32%</td>
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<td>2020</td>
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<td>15.57%</td>
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<td>11</td>
<td>15.32%</td>
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</tr>
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</table>

Comment: The employer rate with a maximum of a 30-year amortization period assumes that the employer contribution rate remains level at 15.32% per year until the applicable valuation date.
### Packages July-3 and July-4 (Slide 1 of 2)

**-5% Market Value (MV) Return for the Year Ended June 30, 2020;**

**7.15% MV Return for Fiscal Years Thereafter**

<table>
<thead>
<tr>
<th>Benefit Provisions Valued</th>
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</tr>
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<tbody>
<tr>
<td><strong>Member Contribution Rate</strong>&lt;br&gt;(Groups Affected)</td>
<td>5.0%; no phase-in&lt;br&gt;All Contributory Members</td>
<td>7.0%; 4-year phase-in&lt;br&gt;All Contributory Members</td>
<td>7.0%; 8-year phase-in&lt;br&gt;All Contributory Members</td>
</tr>
<tr>
<td><strong>FAC Period</strong>&lt;br&gt;(Groups Affected)</td>
<td>3 years&lt;br&gt;All Actives</td>
<td>5 years&lt;br&gt;New Hires Only</td>
<td>5 years&lt;br&gt;All Actives</td>
</tr>
<tr>
<td><strong>Vesting Period</strong>&lt;br&gt;(Groups Affected)</td>
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<td>8 years&lt;br&gt;New Hires Only</td>
<td>5 years&lt;br&gt;All Actives</td>
</tr>
<tr>
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<td>3%, Compound&lt;br&gt;All Members</td>
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<tr>
<td>2029</td>
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<td>3.9</td>
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# Packages July-3 and July-4 (Slide 2 of 2)

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<tr>
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<td>(Groups Affected)</td>
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<td>12</td>
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</tbody>
</table>

Comment: The employer rate with a maximum of a 30-year amortization period assumes that the employer contribution rate remains level at 15.32% per year until the applicable valuation date.
THANK YOU
Disclaimers

• This presentation should not be relied on for any purpose other than the purpose described in the presentation.

• Mita D. Drazilov and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

• This presentation shall not be construed to provide tax advice, legal advice or investment advice.

• Readers are cautioned to examine original source materials and to consult with subject matter experts before making decisions related to the subject matter of this presentation.

• This presentation expresses the views of the authors and does not necessarily express the views of Gabriel, Roeder, Smith & Company.
APPENDIX
Whereas, the Arkansas Public Employees’ Retirement System (APERS) Board is vested with the administration and control of APERS, and in this role, has a fiduciary duty to ensure that the system can meet its commitments to provide monthly retirements to its nearly 100,000 active, deferred, and retired members and their beneficiaries; and

Whereas, it is in the best interests of the membership for the system’s trust fund to remain financially strong and healthy, with a well-designed framework of benefits, contributions, and investments that allow the plan to achieve continued sustainability from generation to generation; and

Whereas, the general financial objective of APERS is to maintain its trust assets in the most prudent manner as required under the Prudent Investor Rule, A.C.A. § 24-2-601 et seq; and establish and receive contributions that will remain approximately level from generation to generation; and

Whereas, the Fiscal Year 2019 Actuarial Valuation shows that APERS has an actuarial funding value of $8.739 billion, actuarial accrued liabilities of $11.129 billion, an unfunded actuarial accrued liability of $2.390 billion and a Funded Ratio of 79%; and

Whereas, the Board has worked over the years to improve the system’s financial status without changing member benefits, by raising the employer contribution rate from 11.00% in Fiscal Year 2010 to 15.32% in Fiscal Year 2019, an increase of 39%, and by prudently investing and growing the assets of the system; and

Whereas, the board has a fiduciary duty to propose adjustments that achieve the objective of the board to cover benefit commitments for its members, and to consider the impact of adjustments made to the plan that would establish or revise a multiplier, any benefit, or a provision of a deferred retirement option plan; and

Whereas, A.C.A. § 24-4-104 gives the Board the authority to do all things necessary to carry out and make effective the provisions of the APERS laws, including the duty to propose legislation for the General Assembly to consider in order that the board may properly administer the system; and

Whereas, for the above reasons, the Board has undertaken a multi-year effort to evaluate steps to improve the long-term fiscal health and sustainability of the system, with
assistance and advice from its professional actuarial consultant, professional investment consultant, and APERS staff; and

Whereas, in 2019, the Executive Staff of APERS participated in 11 statewide Legislative townhall meetings attended by over 2,000 individuals to listen to the concerns, input, ideas, and suggestions from members and retirees regarding changes to benefits and contribution rates; and

Whereas, the Arkansas General Assembly will convene in 2021 for a regular legislative session which presents an opportunity for the Board to address needed changes to the plan through successfully enacted legislation; and

Whereas, the Board must act in good faith on current and projected financial circumstances to make its decisions for the benefit of the members; and

Whereas, in order to accomplish meaningful protection of APERS trust fund that portions of the law should be amended; and

Now, therefore, be it resolved, the Board of Trustees, after consideration of the review and expertise provided to the Board by its investment advisor, the expertise and projections provided by its actuary, the review and recommendations of APERS staff, and the input of the membership from the 2019 Legislative townhalls, directs staff to draft and offer proposed legislation for it to consider for the 2021 session to reach the objectives of the plan and to improve the funding status of plan, and

May it also be resolved, the Board, in seeking the support and trust of the plan members, directs the staff to continue to engage in Legislative townhalls to allow its members to voice their opinions regarding the proposal of any legislation for the 2021 General Assembly.

Adopted this _____ day of ______________, 2020.

______________________________
Candace Franks, Chair
Arkansas Public Employees Retirement System

______________________________
Duncan Baird, Executive Director
Arkansas Public Employees Retirement System