

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
MAY 20, 2020**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, May 20, 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. John Bridges, ASEA
Ms. Nancy Priest, ASEA
Mr. Charles Leslie, ASEA
Ms. Shauna Carpenter, ASEA
Ms. Judy Carter, ASEA
Mr. Jack Critcher, Arkansas Municipal League
Mr. Chris Villines, Association of Arkansas Counties
Mr. John Shelnett, Department of Finance and Admin.
Mr. Paul Louthian, Department of Finance and Admin.
Mr. Daniel Faulkner, Attorney General's Office
Ms. Barbara Brown, Legislative Analyst
Senator Bill Sample, General Assembly
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Austin Grinder, Mullenix & Associates
Mr. Clint Rhoden, ATRS Director

Mr. Heinz Braun, ADEQ
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Michael Bowman, The Capital Group
Ms. Erika Gee, Wright, Lindsey & Jennings LLP
Ms. Betti Rippentrop, *APERS Member*
Ms. Cristina Roberts, *APERS Member*
Ms. Karrie Goodnight, *APERS Member*
Ms. Cristina Roberts, *APERS Member*
Ms. Donna Bedwell, *APERS Member*
Ms. Maria Zamarripa, *APERS Member*
Ms. Judy Houser, *APERS Member*
Ms. Jacqueline Greene, *APERS Member*
Ms. Julie Kardas *APERS Member*
Ms. Marcia Moore, *APERS Member*
Ms. Selena Corter, *APERS Member*
Ms. Sobrena Roland, *APERS Member*
Ms. Brenda Jackson, *APERS Member*
Ms. Patti Gilliland, *APERS Member*
Ms. Brenda Jackson, *APERS Member*
Ms. Lottie Adams, *APERS Member*
Mr. Christopher Anderss, *APERS Member*
Ms. Melissa Slaughter, *APERS Member*
Mr. Ralph Mills, *APERS Member*
Ms. Mary McGehee, *APERS Member*
Ms. Jennifer Shipley, *APERS Member*
Ms. Reta Dean *APERS Member*
Ms. Pam Wileman *APERS Member*
Ms. Yvonne Bowman, *APERS Member*
Ms. Deiona McKnight, *APERS Member*
Mr. Rocky Lambert, *APERS Member*
Ms. Vivian Cook, *APERS Member*
Mr. Keith Ingram, *APERS Member*
Ms. Rebekah Griffin, *APERS Member*
Ms. Sharon Lewis, *APERS Member*
Ms. Patty Florczak, *APERS Member*
Ms. Wendy Spakes, *APERS Member*
Mr. Nicholas Poole, *APERS Member*
Ms. Mary Runnels, *APERS Member*
Ms. Sheila Weddington, *APERS Member*
Mr. Nathan Marlin, *APERS Member*
Ms. Kim Williams, *APERS Member*
Ms. Daina Witt, *APERS Member*
Ms. Michele Pruss, *APERS Member*
Mr. Corlett Warmath, *APERS Member*
Mr. Rodney Corbin, *APERS Member*
Ms. Sharon G. Laster, *Retiree*
Mr. Edwin Waddell, *Retiree*
Mr. Michael Smith, *Retiree*
Ms. RoseAnne Smith, *Retiree*

Ms. Mary Grace Smith, *Retiree*
Ms. Becky Walker, *Retiree*
Mr. Eddie Jones, *Retiree*
Ms. Evelyn Wainwright, *Retiree*
Ms. Mary Grace Smith, *Retiree*
Mr. John Hubbard
Mr. Adam Johnson
4 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. 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. Nina Gettinger, APERS Retirement Coordinator
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.

WELCOME:

Mr. Baird welcomed everyone to the first APERS Quarterly Meeting to be held remotely via ZOOM. He noted that besides all the Trustees, Staff and presenters, there were over forty attendees including the Press. Mr. Baird also explained that each the APERS Trustees had received a comment letter from ASEA (Arkansas State Employees Association) earlier in the week, regarding Item #8 in the agenda: Actuarial Presentation and Discussion of Preparations for the 2021 Legislative Session and hoped everyone had read it prior to the meeting.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the April 30, 2020 meeting was e-mailed to each APERS Board member for review. Mr. Douthit noted that he had requested a study on the effects of a 6-year Final Average Salary, not 5-year.

Mr. Brady motioned to accept the April Minutes as amended. Mr. Walther seconded. Motion passed and the Minutes were approved.

INVESTMENTS

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING MARCH 31, 2020- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC

Mr. Jackson reviewed the global economic environment in the wake of the outbreak of COVID-19 noting that the virus had caused global economies to grind to a halt. “Social distancing” shut down business world-wide and led to a dramatic surge in unemployment. Second quarter GDP decline is estimated to be negative 20-30% (annualized), something that has not been seen since the Great Depression. There has been a 95% decline in airline passengers as of April 7, 2020 and oil prices fell over 65% in the first quarter as a result of both demand and supply shocks. Governments have stepped in with unprecedented levels of monetary and fiscal stimulus. Currently, it is felt that true recovery can only be realized once a vaccine is introduced.

Ms. Weymouth described the portfolio’s performance through end of March, noting the fund was slightly underweight in International Equity due to market movements; no rebalancing was necessary. Ms. Weymouth cautioned on making hasty decisions on rebalancing the portfolio in this highly volatile market.

The APERS portfolio was down 16% for the quarter, dropping from almost \$9.6 billion on December 31, 2019 to just over \$8 billion on March 31, 2020. While most managers had very disappointing returns, for the most part their returns were in-line with their respective benchmarks.

Ms. Weymouth noted that a Domestic Equity manager, LSV Asset Management, had been particularly challenged over the last 12 months. LSV is a Small-Cap, Value manager which had been hit hard from both categories over the recent time period. She noted that LSV was a newer manager to the APERS portfolio and Callan felt they should be given more time. Ms. Weymouth offered to review their performance again at the next meeting.

ADMINISTRATIVE

SUMMARY OF RETIREES FOR FEBRUARY, MARCH and APRIL 2020:

Mr. Baird read from the report, noting that APERS had 213 members who retired in February, 203 in March and 164 retirees in April. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 36,286. Currently, about 2/3 of the retirees are Non-Contributory while the remaining 1/3 are Contributory members.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2020:

Employer Contributions are up over \$5 million from the same time period a year ago to \$228 million, while Member contributions totaled \$54 million over that period. There has been about a 6% increase in payouts to retirees since a year ago. Looking forward, APERS expects to pay out over \$600 million in benefit payments for FY 2020.

Mr. Brady asked for detailed numbers on APERS’ rate of return through March 31 and the updated number for the first 45 days of this quarter. Mr. Baird answered that at the end of March the portfolio showed a (10.65%) rate of return. This number had improved slightly as of May 18th, showing APERS portfolio holding a value of \$8.635 Billion (unaudited). Mr. Baird noted that for the GRS Presentation later in the meeting, the Actuaries had assumed a (5.0%) rate of return for FY 2020.

MEDICAL REVIEW BOARD RESULTS:

The Medical Review Board met at 9:00 a.m. on Wednesday, May 12, 2020 in the APERS Library to discuss two (2) cases: Member XXX3926 and Member XXX9571.

- After review and discussion, the Medical Review Board recommended denial of disability retirement to Member XXX3926 at this time, pending additional information.
- After review and discussion, the Medical Review Board recommended denial of disability retirement to Member XXX9571 at this time, pending additional information.

No action was needed by the APERS Board.

REVIEW OF FY 2019 LEGISLATIVE AUDIT REPORT

Mr. Baird explained that this was a required annual process. The report shall be presented to the Trustees for approval at the first meeting held after the report is finalized. Each board member had been sent a copy of the audit directly, prior to this meeting. For the record, that Legislative Audit had no findings and no corrections for Fiscal Year 2019. The previous audit had noted a couple small issues, but Staff (under Interim Director Wills) had worked to resolve those issues. Mr. Baird felt the progress they had made was reflected in the current Legislative Audit. Mr. Bassett commended Mr. Baird and the APERS Staff for the excellent audit report.

Mr. Bassett motioned to approve the Legislative Audit Report. He was seconded by Mr. Carnahan and the motion carried.

Mr. Baird also noted that the Controlled Self-Assessment had been submitted in March 2020.

DIRECTOR'S BIENNIAL BUDGET REQUEST

Mr. Baird detailed the Agency's proposed budget for the next two years. He pointed out that there was no increase planned for appropriation levels and no increase in the number of agency positions. Mr. Walther asked if this represented a zero-budget increase and Mr. Baird stated that was correct. Ms. Lea asked how many of the 81 listed positions were filled. The Director responded that 69 positions were currently staffed. He was holding the positions open to allow the agency flexibility to adjust going forward.

Motion to approve the Director's Biennial Budget as submitted by Mr. Walther and second by Mr. Hudson. The motion passed.

LEGAL

Litigation Update – Ms. Laura Gilson, APERS General Counsel

A litigation report was included in the board materials. Ms. Gilson apprised the Board that the recent Court Clerks' case that was before the board (Veronica Young, et al.) was appealed to Pulaski County Circuit Court on March 27th. APERS filed the Administrative Record as required under the law, answered the complaint and moved to dismiss.

In *Bolding v. APERS*, a member appeal that was appealed to Pulaski Court Circuit Court, counsel for Bolding has requested a hearing on motions that have been filed. APERS filed a motion to dismiss based upon sovereign immunity.

Regarding two cases before the Arkansas Claims Commission, *Clark v. State* has been set for hearing before the Claims Commission in August, and *Ellis Sloan v. APERS* remains in the discovery phase.

Ms. Gilson reviewed the securities litigation cases where APERS has been named lead plaintiff. The *Sea World* case is settled, APERS does not yet know the amount it will receive in the settlement distribution.

The other pending U.S. case is *Bristol Meyers*, with Bernstein, Litowitz, Berger & Grossman serving as securities litigation counsel for APERS. APERS is still awaiting the Court's decision. The final case is against TESCO (U.K.) involving Labaton Sucharow.

There was a short discussion between Mr. Walther, Mr. Baird, Ms. Gilson and Mr. Douthit regarding the article in the *Arkansas Democrat Gazette* about the legislative review of the agency's securities monitoring firms, specifically Labaton Sucharow. Mr. Baird commented that APERS has historically engaged in a very limited amount of securities litigation as lead plaintiff and he expected the same to be true going forward. Board members voiced the desire to be apprised prior to any new litigation.

**ACTUARIAL
PRESENTATION & DISCUSSION OF PREPARATIONS FOR THE 2021 LEGISLATIVE
SESSION — Presented by Mita D. Drazilov, David L. Hoffman, and Heidi G. Barry of GRS**

Mr. Drazilov opened by recapping the discussions of the February and April meetings. Based on those discussions, GRS would be presenting possible June 30, 2020 Actuarial Valuation results and projections based upon requested supplemental valuations at the last few meetings. Finally, there would be a discussion of the possible timelines for implementation and other considerations.

At the April meeting, the Board was presented with a preview of what the June 30, 2020 actuarial valuation might show based on various market rate of return scenarios. It was projected that the APERS' UAAL of \$2.39 Billion (as of June 30, 2019) could grow significantly under various scenarios due to the recent market downturn. Mr. Drazilov reviewed the Summary of Projections where the Board had previously discussed the tentative results of a (5%) Market Value Return for Fiscal Year 2020 and its effect on the UAAL and the APERS' Funded Ratio over the next 15 years. He also showed how the Employer Contribution Rate would need to be increased, in order to keep within the suggested 30-year amortization period. He suggested that after the Board reviewed the supplemental valuations at this meeting, it was likely they might want to schedule another special meeting before reaching any final decisions.

In reviewing the previously requested supplemental valuations from the April 2020 meeting, it was noted they generally fell into the following categories:

- Member Contribution Rate changes
- Cost of Living Allowance (COLA) changes
- Final Average Compensation (FAC) changes
- Vesting changes

The Board also discussed the effects of legislated changes on the various member groups:

- Current retirees
- Vested active members
- Non-vested active members
- New hires

Mr. Drazilov explained how GRS calculated the supplemental actuarial results hypothetically assuming the various benefit changes had been in effect as of the June 30, 2019 valuation. He reviewed several slides that detailed how various changes to the Member Contribution Rate, COLA, FAC, and Vesting could affect either the Amortization Period or Decrease the Employer Contribution Rate (but not both) and potential decrease the UAAL. The concept of “Quasi-vesting” was explained, under which the currently 5-year vesting period would not change, but until a member reaches 10-years of service, their benefit multiplier would be 1.6%. Upon obtaining 10-years of service, the regular multiplier would be retroactively applied to those first 10-years and as well as any additional service in the system.

Mr. Drazilov told the Trustees that for the purpose of the scenarios, they had assumed the changes went into effect on specific future dates. Mr. Baird clarified that GRS was not suggesting the board adopt those dates, but merely using them to show the framework under which these assumptions were made. Using several slides, Mr. Drazilov showed how raising the Member Contribution Rate to 6.0%, 6.5% and 7.0% (phased-in over various periods of years) could affect the UAAL, Funded Ratio, Amortization Period and projected Employer Contribution Rate.

The actuaries showed the various effects of changing the current 3% Compound COLA to a 3% Simple Interest COLA or a Compound COLA that would be the lesser of 3.0% or the increase in CPI each year. They showed charts that detailed the gradual increase in the Funded Ratio, as well as the decrease in the fund’s UAAL.

Mr. Brady asked Mr. Baird to explain to the Board what timeline they needed to be working on to have potential legislation ready in time for the 2021 session. He also asked if any of the proposed ideas would be difficult for Staff to implement and finally, what Mr. Baird’s thoughts were on the ASEA letter that all the board members had received prior to the meeting.

Mr. Baird said he had talked to the Chairs of the Legislative Joint Retirement Committee about the “Town Hall” meetings they have previously discussed holding later this year. He said that the Chairs had indicated that the meetings would take place across the state in August and September, well in advance of the October Legislative Budget Hearings. He opined that the meetings would probably be held remotely, due to the on-going COVID situation. Mr. Baird also stated that by holding them online, it might allow even greater attendance than last year’s round of state-wide meetings. He noted that the Board’s discussions were progressing and there was a possibility of scheduling another special meeting in June to narrow down their focus.

Regarding the implementation of any changes to the benefit structure, Staff was confident that new Pension Administration System could handle the technical implementation, He did suggest that the least complex implementation was any change in member contributions be applied to all active members, likewise changes in FAC to be applied to all active members. Vesting was a more complex issue due to termination refunds, switching employers and reciprocity, and Mr. Baird commented that applying this to New Hires only would be the most logical implementation. Regarding the COLA changes, the APERS tech staff was prepared to work to make any necessary changes.

At the previous Town Hall meetings, Mr. Baird noted there were several clear themes in the feedback he received from members. Retired members argued against changing the COLA, since they were already retired and could not readily adapt. Active members spoke up for changes that would reward long-term service and stated they would rather pay more in Employee Contributions to keep the level of benefits they currently enjoyed, rather than see them pared. Members also suggest that employers

should pay more. Reading through the ASEA letter that Mr. Brady had referred to earlier, Mr. Baird noted the desire on everyone's part that APERS remain strong, but requested the Board give special attention to not cutting the benefits of current retirees and employees who have already made "life altering decisions".

Towards that end, the ASEA letter gave some specific directions they urged the APERS Board to consider; increasing the contribution rate to 6% for new hires only. If the rate was raised on existing employees, it was suggested to increase it gradually over a 4-year period. Other suggestions were to increase the vesting period to 10-years for new hires and increase the FAC formula for everyone from three to five years. These suggestions paralleled the feedback Mr. Baird had received at the Town Hall meetings last year.

Ms. Lea commented that she agreed the Board needed to plan a June meeting and stressed that when one spoke of "Employer Contributions" they were, in fact, referring to the General Fund of the State of Arkansas; the same fund that pays the salaries of everyone. It was the actual budget that agencies lived with every year. She also noted that every board member is a member of APERS and "we are all eating from the same cookie." Mr. Walther concurred with Ms. Lea's statements and echoed the need for a June meeting. He reminded everyone that their actions affected not only State workers, but also many City and County workers, as well.

Mr. Carnahan suggest that for the June meeting, Trustees narrow down their focus to 2-4 specific changes so the Actuaries could come back in June and present them with the cumulative effect of various combinations of benefit changes. Mr. Hudson also noted the need for a June meeting to allow the APERS Trustees more time to absorb all the information they had been recently presented with from GRS and the ASEA letter. He agreed that the most sensitive area under consideration was the COLA and suggest that the changes be presented similar to how one would craft a resolution for the legislature to pass. Mr. Hudson also advocated for continuing retirement education for the Trustees, as well as the Board's partners on the Joint Retirement Committee.

Mr. Bassett also agreed he needed more time to review all the information and agreed that a June meeting would be appropriate. Mr. Walther asked Mr. Baird what deadline(s) the Board faced on deciding which changes they wanted to address. Mr. Baird responded the he thought any decisions should be made before the Town Hall meetings began in August, so he was looking at a June, and possibly a July meeting. He asked that if any Trustees had questions about the potential benefit changes to please reach out to him for clarification.

Mr. Douthit agreed with Mr. Carnahan about the importance about seeing the cumulative numbers for various groups of legislative changes. He stated he wished to see the cumulative effect on the UAAL if the Board doubled the vesting period to 10 years flat (not quasi), doubled the FAS to 6 years, and also raised the Employee Contribution Rate to 6.5% (phased in over 2 years) the next time the Board met. Mr. Drazilov agree to produce this, and any other specific packages that the Trustees desired as long as they could be very specific on the provisions. Mr. Brady followed up with the statement that the Treasurer's Office would very much like to find a guaranteed 3% investment for their funds, which is what the current COLA offered retirees. He requested Mr. Baird to ask Mr. Bridges at the State Employees Association, to address this issue when the APERS' fund suffered a such catastrophic downturn, falling far short of their 7.15% assumed rate of return.

Mr. Hudson asked the Board members coordinate their packages of suggested legislative changes through Mr. Baird so he could be present them to GRS in the most efficient form. He also suggested

inviting not only ASEA, but also the Municipal League and the County Association to give a short (5-minute) presentation at the next meeting, with their suggestions on how to best strengthen and maintain the retirement system.

Ms. Franks summed up that everyone seemed to agree they needed another Special Board meeting in June to review the effect of certain packages, as well as absorb all the information they so recently received from GRS. She noted that a July meeting might not be out of the question, in order to finalize the proposals. Ms. Franks stated she would like to hear presentations from the other associations, as well. Ms. Lea and Mr. Bassett agreed with Ms. Franks on the probable need for a July meeting.

Motion by Mr. Bassett to extend an invitation to the ASEA and other similar organizations that might wish to appear before the board in June. Mr. Brady seconded and the motion passed. Ms. Franks asked Mr. Baird to reach out to those associations and get them on the June agenda. Mr. Baird felt they would be happy to be able to engage with the APERS Board in such a fashion.

Mr. Walther reminded the Board that in the end, it was the legislators who would carry the changes forward and not everything the APERS Board put forth might be written into a bill. He suggested that the Trustees give the legislators as much material to select from as possible in 2021.

OTHER BUSINESS

There was no other business.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, August 19, 2020 at 9:00 a.m. A special Board Meeting will be scheduled in June. Time and date to be announced later.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

Ms. Candace Franks, Chair

Mr. Duncan Baird, APERS Executive Director