Kelly Cantrell

From: Kelly Cantrell
Sent: Friday, February 01, 2019 09:44
To: SheriffEmployees
Subject: Proposed APERS Changes in the State Legislature - GOING ON RIGHT NOW
Attachments: APERS - Proposal 1.pdf; APERS - Proposal 2.pdf; APERS - Proposal 3.pdf; APERS - Proposal 4.pdf; APERS - Proposal 7.pdf; APERS - Proposal 8.pdf; APERS - Proposal 9.pdf; 190123 Proposal 1 - Final Average Compensation Period Actuarial.pdf; 190123 Final Average Compensation Change Draft Language.docx; 190123 Proposal 2 - Benefit Multiplier Actuarial.pdf; 190123 Benefit Multiplier Draft Language.docx; 190123 Proposal 3 - Early Withdrawal Actuarial.pdf; 190123 Early Withdrawal Draft Language.docx; 190123 Proposal 4 - Contribution Increase Actuarial.pdf; 190123 Contribution Increase Draft Language.docx; 190124 Proposal Five Cost of Living Increase Bill.docx

Hello All!

Not sure if you're aware of it or not, but there are several proposed bills in the State Legislature this session that would affect our APERS retirement…..and NONE of them in a positive way! The below e-mail was sent to Sheriff Helder from Chris Villines (Executive Director of the Association of Arkansas Counties) giving a synopsis of what is being proposed. Sheriff Helder asked me to share the information with all of you, so that you might be better informed.

I am also including e-mails from the County Clerk's office (sent to them from Chris Villines as well) giving more detail of each proposal.

I am ALSO ☺ sharing (below the emails from Villines) a link to State Representatives and State Senators, which will list their contact information…just in case you want to contact your own representative and give them your thoughts on the proposed changes.

EMAIL #1

DATE: January 23, 2019

TO: All County and District Officials

FROM: Chris Villines

RE: Changes to APERs

There are important updates to our retirement system on the horizon. We wanted to take some time to walk you through the latest developments, and educate you on the potential impact to you and all state, county and some municipal participants in APERs.

The APERs program, along with other state programs, is under close scrutiny by the legislature to prevent it from becoming insolvent someday. With this in mind, and with looming rumors of major restructuring of the APERs program (possibly conversion to a 401(k) or 457(b)(3) type system), the Board of Trustees of APERs last week proposed five changes in the current legislative session.

These changes are in some cases, very minor, and in other cases very major changes to our system.

Before discussing the changes, let me first say that the APERs program relative to other similar programs across the country is in good shape at a 78% funding level, according to the annual financial report for APERS for the year ending June 30, 2017. This report can be found here:

http://www.apers.org/images/PDFs/APERS-Financial-Report-2017_combined.pdf

According to the TAX FOUNDATION website, Arkansas ranks as the 14th most well-funded state pension system in the country at 77% using FY2016 numbers. The worst funded states were Kentucky and New Jersey, tied at 49th, and funded at only 31%. This information runs a couple of years behind, and can be found here:

https://taxfoundation.org/state-pensions-funding-2018/

A PEW study issued in 2018 mirrors these results and can be found here:

https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/04/the-state-pension-funding-gap-2016

While we look great relative to other states, there is always room for improvement, and not unlike a philosophical argument we find some legislators and leaders who would like to see our system funded at 100%. Being funded at 100% would simply mean if all new participants were cut off, and new contributions cut off as well, the system would be able to pay off all current and future retirees based on projected actuarial numbers. One important piece of information that is driving the inspection of APERs is that at 78% funded, it carries approximately a $2.3 Billion amount of unfunded liability.

The less than 100% funding combined with rumors of major fundamental shifts in how APERs would be constructed have, I think, fueled the APERs Board of Trustees recommending changes that would decrease this $2.3 Billion in unfunded liability. They have discussed in their meetings that they have a duty to the system, its employees, and the retirees.

Below is a list of the five proposed legislative changes in no particular order that the Board of Trustees has approved to send to the legislature:

(1) FINAL AVERAGE COMPENSATION CHANGE - For members first hired on or after July 1, 2020, their final average compensation used for retirement calculation will become a 5 year average instead of the current 3 year average.

(2) BENEFIT MULTIPLIER - For members first hired on or after July 1, 2020 (all of whom are contributory), the multiplier used to calculate final retirement benefits will be reduced from 2.03% / 2.00% (depending on service prior to or after July 1, 2007) to 1.8%.

(3) EARLY WITHDRAWAL - For those who are hired by an APERs covered employer, should they sever employment before they are vested and request a refund of their contributions, the interest on those contributions would drop from 4% per annum to 2% per annum.

(4) CONTRIBUTION INCREASE - For ALL contributory members (who are currently paying 5% of their salary) beginning July 1, 2020 their contribution level would increase by 0.25% each of the next four years until it reaches a 6% contribution level.

(5) COST OF LIVING INCREASES – Right now the retirement benefit increase annually is set at 3% by statute, and is calculated based on the most recent year's benefit (compounded). This proposal would make two substantial

changes. First of all, it would require the Board of Trustees of APERs to annually set the COLA at a percentage between the Consumer Price Index, South Region and 3%. Secondly, instead of compounding the increases by multiplying the COLA by the most recent year's benefit, it will instead multiply the COLA by the base year retirement benefit and add it to the most recent year's benefit.

Because each of these issues is complicated and deserves close inspection, I will follow this email with individual emails on each of these issues. The bill filing deadline for retirement bills is January 28th, so we will have a clearer picture on that day of who is filing which bills, but I would caution you that many shell bills (bills that will be amended with substantive language) will be filed on that day as well, so we will diligently watch amendments as they are brought forth.

In each of the emails that follow on these specific topics, I will include proposed draft language that has not yet been approved by the APERs Board of Trustees. I expect language tweaks to be added so look for changes as we move forward.

Finally, the AAC Board of Directors will discuss these proposals next week to determine what position the AAC would like to take. We will continue to communicate with you all on these issues and encourage you to begin reaching out to your legislators to let them know you have an interest in retirement changes and ask that they please get with you once bills are filed.

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EMAIL #2 – (Proposal 1)

Proposal One – Final Average Compensation Change Bill

This email is sent to give more detailed information on this issue. The APERs Board of Trustees has proposed these changes in order to reduce the unfunded actuarial liability to the fund. Attached you will find the proposal, in pdf form, that outlines what the savings to the fund would be. You will also find a word document that represents the proposed language that, if approved by the APERs Board of Trustees, will be forwarded to BLR for drafting of the bill.

This would affect all members first hired after July 1, 2020. As you know, right now your retirement benefits are calculated using a Final Average Compensation (FAC) which is the average of your "high-three" years in the system. This would change that calculation for new members by using a calculation of the average of the "high-five" years in the system. This is similar to other retirement systems currently in the state of Arkansas.

** PLEASE NOTE – the actuarial information implies that the change would affect those first hired after July 1, 2020 AND NON-VESTED employees. The draft language is expressly written to affect only new hires. We will watch closely for any potential reconciliation for the draft language to match the actuarial. However, my recollection from the meeting was that the Board of Trustees was silent on whether this affects both sets of employees.

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EMAIL #3 (Proposal 2)

Proposal Two – Benefit Multiplier Change Bill

This email is sent to give more detailed information on this issue. The APERs Board of Trustees has proposed these changes in order to reduce the unfunded actuarial liability to the fund. Attached you will find the proposal, in pdf form, that outlines what the savings to the fund would be. You will also find a word document that represents the proposed language that, if approved by the APERs Board of Trustees, will be forwarded to BLR for drafting of the bill.

This would affect all members first hired after July 1, 2020.

For a contributory retiree, the multiplier used for your years of service are multiplied by 2.03% for service in years prior to June 30, 2007. For those years following July 1, 2007 this was dropped to 2.00%. (APERs operates on the July 1 to June 30 fiscal year).

In Section 2 of the attached proposed bill, members who are FIRST HIRED on or after July 1, 2020 would have a reduced multiplier of 1.80% for their years of service.

** PLEASE NOTE – the actuarial information implies that the change would affect those first hired after July 1, 2020 AND NON-VESTED employees. The draft language is expressly written to affect only new hires. We will watch closely for any potential reconciliation for the draft language to match the actuarial. However, my recollection from the meeting was that the Board of Trustees was silent on whether this affects both sets of employees.

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EMAIL #4 (Proposal 3)

Proposal Three – Early Withdrawal Proposed Bill

This email is sent to give more detailed information on this issue. The APERs Board of Trustees has proposed these changes in order to reduce the unfunded actuarial liability to the fund. Attached you will find the proposal, in pdf form, that outlines what the savings to the fund would be. You will also find a word document that represents the proposed language that, if approved by the APERs Board of Trustees, will be forwarded to BLR for drafting of the bill.

Of the five items proposed, this would be the most likely to be supported by all in the APERs system. It would affect ONLY those employees who are hired, contribute money to APERs, then sever employment prior to the five year vesting period. It would not affect vested employees or those who vest in the future. It would simply reduce accrued interest in their contributory account held by APERs by 2% instead of the current 4%.

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EMAIL #5 (Proposal 4)

Proposal Four – Contribution Increase Bill

This email is sent to give more detailed information on this issue. The APERs Board of Trustees has proposed these changes in order to reduce the unfunded actuarial liability to the fund. Attached you will find the proposal, in pdf form, that outlines what the savings to the fund would be. You will also find a word document that represents the proposed language that, if approved by the APERs Board of Trustees, will be forwarded to BLR for drafting of the bill.

This would affect ALL CONTRIBUTORY MEMBERS

For a contributory retiree, you are currently providing 5% off of the top of your salary to APERs (deducted from each paycheck). This bill would not affect non-contributory members.

For all contributory members, the contribution rate would increase beginning July 1, 2020. The increases would be staggered over a period of four years, with an increase of 0.25% occurring each of the four years. In other words, contributions off of the top of contributory salaries would be adjusted upwards as follows:

July 1, 2020 to June 30, 2021 5.25%

July 1, 2021 to June 30, 2022 5.50%

July 1, 2022 to June 30, 2023 5.75%

July 1, 2023 and going forward 6.00%

Again, this would not affect non-contributory members. It would also not affect the 2.5% that newly elected officials have to contribute in order to receive the 2 for 1 benefit for the first ten years of employment for those first working for an APERs covered employer after July 1, 2011.

** Please note that the draft language does not match with the actuarial report. The Board of Trustees discussed this bill applying to ALL contributory members but the actuarial study applied to only new hires and those members who were not yet vested. Because this created a third tier of retirement within the system the Board of Trustees voted to apply this contribution increase to ALL contributory employees. I expect to see a revised actuarial report out soon.

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EMAIL #6 (Proposal 5)

Proposal Five – Cost of Living Increase Reduction

This email is sent to give more detailed information on this issue. The APERs Board of Trustees has proposed these changes in order to reduce the unfunded actuarial liability to the fund. Attached you will only find a word document that represents the proposed language that, if approved by the APERs Board of Trustees, will be forwarded to BLR for drafting of the bill. At this time an actuarial study is being reconfigured to account for simple interest and we do not yet have it.

This would affect ALL CURRENT EMPLOYEES AND RETIREES

This bill would have the most profound impact on the system, from a savings standpoint, and on the employees and retirees, on a reduction of benefits.

Right now, under ACA 24-4-607, the predetermined amount for an increase of retirement benefits is 3%. This is a statutory “redetermination” of benefits that happens automatically on July 1 of each year of retirement. This benefit is compounded, meaning that if your retirement benefit is $10,000 per year, the next year it would be $10,300, the following year would be $10,609 and so on. A simple 3% COLA would simply increase your retirement benefit by $300 per year. Please see the comparison between the two types of interest calculation below based on a $10,000 per year benefit:

Retirement Year	3% Simple Redetermination	3% Compound Redetermination
1	$10,000	$ 10,000.00
2	$10,300	$ 10,300.00
3	$10,600	$ 10,609.00
4	$10,900	$ 10,927.27
5	$11,200	$ 11,255.09
6	$11,500	$ 11,592.74
7	$11,800	$ 11,940.52
8	$12,100	$ 12,298.74
9	$12,400	$ 12,667.70
10	$12,700	$ 13,047.73
11	$13,000	$ 13,439.16
12	$13,300	$ 13,842.34
13	$13,600	$ 14,257.61
14	$13,900	$ 14,685.34
15	$14,200	$ 15,125.90
16	$14,500	$ 15,579.67
17	$14,800	$ 16,047.06
18	$15,100	$ 16,528.48
19	$15,400	$ 17,024.33
20	$15,700	$ 17,535.06

In addition to going to simple interest, the change this bill would produce is that the APERs Board of Trustees would meet annually to redetermine a "Cost of Living Increase" which would be set between the range of the "Consumer Price Index, South Region, as determined by the United States Department of Labor (CPI) over the one-year period ending in the December immediately preceding the date for which the cost of living amount is being calculated" as written in proposed ACA 24-4-607(b) draft language attached. At this time there is not an actuarial report prepared to speak to this proposal, and I will send you one when we get it, but the savings to the system could be tremendous if this approach is adopted and if the Board of Trustees selects the CPI rate. Below is a recent history of what this CPI rate has been over the past few years:

YEAR	CHANGE IN CPI
2005	3.20%
2006	4.10%
2007	2.40%
2008	5.60%
2009	-2.10%
2010	1.20%
2011	3.60%
2012	1.40%

2013	2.00%
2014	2.00%
2015	0.20%
2016	0.80%
2017	1.70%
2018	2.90%

Estimated savings for the system cannot be calculated because there is no assurance that the Board of Trustees would go with a specific number, but CPI is closely related to economic growth, which is also correlated to growth in APERs funds.

At the AAC we are in the position to see both sides to this argument, and I can tell you that there is legislative and Board of Trustee pressure to make this change in order to keep APERs solvent. I mentioned in my email two weeks ago that people on both sides of this issue seem to have the right motive for pushing for change, and this one item is the largest change on the agenda. It could save over $450 million for the system, raising the funding level to the mid 80% range and fighting off attacks that might make more drastic adjustments. On the flip side we work with many retirees who have made the decision to retire based on calculations into the future of 3% growth in retirement revenue, a decision that might not have considered at that time if they knew their future increases would become volatile.

Again, on this issue as with the others, we will keep you posted on the developments.

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EMAIL #7 (Just another synopsis from Chris Villines regarding the different proposals)

County and District Officials, As you are aware, substantial changes to the Arkansas Public Employee Retirement System (APERS) may be made in the upcoming legislative session. The system is governed by a board of trustees which recommended several cost-savings measures at a meeting yesterday. These measures are intended to reduce the unfunded liability and create stability in the system. The unfunded liability of the system currently stands at 2.3 billion dollars, a number seen as unsustainable by certain legislators and trustees. Basically, this unfunded liability would be the cost to the state, counties and cities that participate in the system should it be shut down today, and an over-simplified explanation would be that no additional contributions coming in would result in benefits owed exceeding the projected balance of the fund by $2.3 billion. The good news is APERS is a strong retirement system when compared to others nationally, with a funding level between 75% and 80%. It has nearly $8 billion invested. Elsewhere, some states are grappling with retirement funds which are funded in the teens, and these funds could very well face insolvency in the coming years. Arkansas has had fiscally responsible trustees on the APERS board who have made wise decisions to keep the fund healthy. Yesterday, the trustees voted to propose several pieces of legislation that would affect new hires and members not yet vested. These four proposals are summed up as follows, and are attached as proposals 1 through 4 to this email: Proposal 1: For members with less than 5 years of service credit on the effective date of the proposed change, their final average compensation (FAC) is the average of the highest 60 months of covered compensation (right now everyone's FAC is calculated on the highest 36 months). Proposal 2: For members with less than 5 years of service credit on the effective date of the proposed change, the full age and service retirement benefit is 2.00% of FAC times years of service for service after July 1, 2007 and prior to the effective date of the benefit. The full age and service retirement benefit is

1.80% of FAC times years of service for service after the effective date of the benefit change. Proposal 3: After the effective date of the proposed change, a member will earn interest on his or her member contribution balance at a rate of 2% annually. Proposal 4: For members with less than 5 years of service credit on the effective date of the proposed change, members participating in the New Contributory Plan contribute 6% of covered compensation (right now the contribution is 5%) In addition to these four proposals, the board of trustees has asked actuaries to review additional changes to the cost of living increase structure. The cost of living adjustment (COLA) is applied each year to retirees' income and is currently set by statute at a flat 3% increase annually. Several ideas were floated including proposals 7, 8 and 9 (attached) which would restructure COLAs for either just new or not yet vested employees (proposals 7 and 9) or for all employees (proposal 8). The board was leaning in discussion to supporting proposal 8, which would affect all APERS covered employees, even retirees already receiving retirement checks. The proposals read as follows: Proposal 7: For members hired on or after the effective date of the proposed change, annually, there will be a cost-of-living adjustment applied to the current benefit equal to the lesser of 2% or the increase in the Consumer Price Index (CPI). Proposal 8: For all members, annually, there will be a cost-of-living adjustment applied to the current system benefit equal to the lesser of 3% or the increase in the Consumer Price Index (CPI). Proposal 9: For members hired on or after the effective date of the proposed change, annually, there will be a cost-of-living adjustment applied to the current benefit equal to the lesser of 3% or the increase in the Consumer Price Index (CPI). In addition, there was discussion about the idea of supporting legislation to allow the APERS Board of Trustees to make COLA changes each year instead of it being set by statute, and further discussion regarding the idea of changing the COLA to be based on and applied to the base retirement annuity instead of compounded as it currently is. Right now, they are working out the details of this conference call, and I will forward the information to you. At this time all we know is that it will be held next week in the APERS Conference Room. Secondly, please remember that these are recommendations to the legislature, the board of trustees does not have authority to unilaterally do any of these things. The items which would have the most impact on county employees/retirees are items 7, 8 and 9, and all of these refer to the CPI. We believe that the CPI-U (Urban Index) is the one they are referring to, and I've listed the last 15 years' CPI-U indices below to see how they compare to our current 3% COLA. 2002 2.4% 2003 1.9% 2004 3.3% 2005 3.4% 2006 2.5% 2007 4.1% 2008 0.1% 2009 2.7% 2010 1.5% 2011 3.0% 2012 1.7% 2013 1.5% 2014 0.8% 2015 0.7% 2016 2.1% 2017 2.1% AVERAGE IS 2.1125 (2018 numbers not yet available) Please note - everyone involved is trying to do the best thing they can for the future of APERS. I believe the motives are good from all sides, but there are very different opinions of what will work best. We will do our best at AAC to communicate actions in a timely manner. On another APERS note, former legislator and current state budget administrator Duncan Baird was selected yesterday by the APERS Board of Trustees as their new Executive Director. We have worked for many years with Duncan at the AAC and look forward to continuing a good relationship with him in his new role. Chris Villines Executive Director Association of Arkansas Counties 1415 West Third Street Little Rock, Arkansas 72201 (501) 372-7550 fax (501) 372-0611 www.arcounties.org

If you would like to contact your representative (for both the House and Senate), click on the links below. If you don't know who your representative is, there is a search section to the right.

These are CURRENTLY only being considered in the House……so I would start with them ☺ - if it passes the House, then it will move to Committee and eventually to the Senate…..So if you’re going to call (or e-mail), I would contact your State Representative first, then your State Senator.

Arkansas State Representatives: https://www.arkansashouse.org/representatives/members

Arkansas State Senate: http://www.arkansas.gov/senate/

NOTE: the individual APERS proposals are in the ATTACHMENTS section of this e-mail….along with many others ☺ Even though it’s long, it would be in your best interest to read ALL of the information here. It really does affect your future!