

Executive Director Update
November 29, 2011

**Reminder of the Upcoming Regional Meeting of the Joint Committee
on Public Retirement of the Arkansas General Assembly**

The next regional meeting of the Public Retirement Committee will be held in Jonesboro on Dec. 12 and 13, 2011. This update includes a information on some potential legislation along with a summary of the first two regional meetings of the Public Retirement Committee in Rogers and Arkadelphia earlier this fall.

The Public Retirement Committee has undertaken regional meetings throughout the state to hear from the public and members of the various retirement systems for input concerning the retirement plans and any issues of concern. The third in the series of regional meetings of the Public Retirement Committee is scheduled about two weeks from now. The meeting in Jonesboro has the following schedule:

December 12, 2011
4:30 – 6:30 p.m.

ASU Fowler Center – Riceland Hall
201 Olympic Drive
Jonesboro, AR

December 13, 2011
9:30 – 11:30 a.m.

Hilton Garden Inn
2707 Fair Park Blvd
Jonesboro, AR

This meeting will be much like the first two regional meetings of the Public Retirement Committee. The meeting, on Monday, December 12 from 4:30 to 6:30 p.m., is designed for brief statements by each of the executive directors of the retirement systems, along with the Director of Employee Benefits Division (EBD) of the Department of Finance and Administration. EBD administers the Arkansas Diamonds deferred compensation 457 plan and also public employees' health insurance. After each executive director speaks, people who have signed up to speak or ask questions are given an opportunity to ask questions of the executive director and the Committee. People who have signed up may also make statements and comments. In the first two meetings, members of the Arkansas Teacher Retirement System have been very active in both asking questions and making comments concerning ATRS and potential legislation.

The meeting on December 13, 2011, from 9:30 until 11:30 a.m. is more of a standard operating meeting of the Public Retirement Committee with less focus on questions and

comments from the public. However, questions and comments have been allowed at this second day meeting even though the main focus is upon a standard agenda.

The Committee is interested in hearing positions of the public and members on any issue that may impact or affect a retirement plan. In addition, potential legislation and the speakers' support or opposition to that plan is also welcome. The Co-chairs of the Public Retirement Committee, Representative Les Carnine and Senator Johnny Key are to be commended for providing members and the public this opportunity for forums to bring the legislative hearings throughout the state. The members of the Committee have also worked hard to be present in large numbers at all of these regional meetings.

ATRS, through the ATRS Board, has a goal of continuing to focus on cost cutting measures that do not affect basic benefits by eliminating loop holes and making appropriate adjustments where an opportunity for "anti-selection" exists for certain members at the cost of the membership as a whole. The ATRS Board has remained focused on preserving the **Three "R's"** of Teacher Retirement, that are **Recruitment**, **Retention** and **Reward** for those who spend their working careers in delivering the educational curriculum in the schools.

Some issues that have been under discussion and could arise as potential legislation in a future session have been previously highlighted by ATRS. To reiterate the position of the Co-chairs and members of the Committee who were at the Rogers meeting, legislators stated they are opposed to any attempt to change the retirement laws during the fiscal session that starts in February 2012. Based upon this strong opposition and the requirement for a two-thirds vote to undertake general legislation in the 2012 fiscal session, all the discussion and information should be for proposals to be first considered in the regular session that begins in January 2013.

ATRS staff has identified four potential issues that had been significantly discussed in the media and in meetings that could become potential legislation to be introduced in the regular session. The four issues are briefly restated here:

1. Reduce the ATRS 3% Simple Cost of Living Adjustment (3% COLA).

This 3% simple COLA is added to retirees' benefits each July 1. The increase is not on the total benefit but on the member's base benefit at the time of retirement. This COLA has been in place for a number of years.

Some have discussed reducing/eliminating the COLA in order to reduce the liabilities of ATRS and to save on expenses. The ATRS Board has voiced

opposition to this in the past. Many have made significant financial decisions such as annuitizing T-DROP balances, purchasing service, becoming contributory, and similar financial decisions based upon the existence of the 3% simple COLA. The ATRS Board has historically opposed any proposal that would cut the ATRS COLA.

2. Restrict/prohibit working retirees in public retirement systems.

Over the last few years, a lot of discussion has occurred about working retirees in the various retirement systems. In the last session, legislation was introduced that would have required certain working retirees to forfeit their pension benefits while working for a public employer. Discussions have also occurred that working retirees should be prohibited. ATRS has had contact with enough legislators to know that legislation is extremely likely to be introduced on this subject in the next regular session. The exact details and structure of any proposal is unknown and is likely to be impacted by public input and discussion.

ATRS currently has about 4,240 working retirees, working at various employers throughout the state. The breakdown of the type of employees is as follows:

Certified employees (teachers)	2,172	Total	51%	of working retirees
Classified (support personnel)	1,735	Total	41%	of working retirees
Administrators (management)	333	Total	8%	of working retirees

ATRS is 74 years old and has never prohibited a retiree from returning to work after any required separation. There have been various impacts on retirees, such as an earnings limitation before surrendering part of retirement benefits. However, even in that instance, there were waivers of the limitation due to the critical shortage of specialized teachers and others with skills available to provide educational services in rural and economically depressed areas.

Currently, ATRS has a separation period that is typically six (6) months in length and, thereafter, a member may return to work and also draw full benefits. ATRS receives a 14% employer contribution on all working retirees' salaries, which has significantly benefited ATRS. ATRS retains the full contribution without additional liability since a retiree cannot obtain additional retirement credit with ATRS. In addition, these 4,200 working retirees often provide important and vital services throughout Arkansas in areas where teacher shortages, skilled employee shortages (CDL bus drivers), and the like, would greatly impact the ability to

deliver educational services if the working retirees make a decision to stop working due to a prohibition or penalty.

3. Modification/elimination of the T-DROP program.

ATRS has used the T-DROP program to retain experienced educators and others who help deliver educational services to the public schools for a longer period of time before final retirement. Some feel the program has a cost to ATRS and the elimination or modification to T-DROP could help ATRS financially. Others feel the T-DROP program has not achieved an intended outcome and should be shortened or potentially eliminated.

The ATRS Board has expressed a strong belief that the T-DROP program is, at least, cost neutral. Based upon previous studies and cost reductions in T-DROP over the last several years, the ATRS staff is confident that the T-DROP program saves ATRS money. The 14% contribution on T-DROP salary and members receiving full benefits as much as ten (10) years later than they otherwise could, are examples of the savings aspect of T-DROP.

The ATRS Board also believes that T-DROP provides a strong recruitment and retention tool to bring people into and keep them in the public education career track. The ATRS Board has made some cost saving cuts in T-DROP without affecting the basic benefit structure for members who participate in T-DROP. The T-DROP program is seen by the ATRS Board as a mechanism to allow a career educator to build a significant nest egg to protect their family's economic stability in retirement. The ATRS Board believes T-DROP is a quality program that does not cost the system any money and provides a quality benefit for career educators.

4. Disclosure of individual member benefit information (retiree privacy).

There have been discussions in the media and by others that the freedom of information (FOI) exemption currently granted to retirement systems' individual retirement records should be eliminated. Depending upon the scope of the change, this would allow disclosure of a member's T-DROP balance, reserve balance, monthly benefit, designated beneficiaries, and similar information. Unless and until a proposal is introduced, the exact scope of the potential disclosure is unknown.

ATRS has concerns about potential fraud and privacy issues for retirees. Obviously, active members' salaries and certain information are open for public disclosure. However, at the time a member retires and various elections and decisions are made in retirement, unless the balance of public need for the information is offset by a member's privacy rights, the record should remain closed. At this time, ATRS has not seen any compelling public interest need to require disclosure of information such as the monthly benefit for approximately 32,000 retirees. Further, ATRS has not seen any compelling reason to require disclose of the balance in approximately 4,500 members' T-DROP accounts. As members age, their ability to protect themselves from unscrupulous people and potential pressure from friends and relatives become more difficult. ATRS staff believes extremely compelling information would be required to justify any change to the Freedom of Information Act. ATRS also feels that allowing public access to retirement account information for individual members will impact the ability to recruit and retain the most qualified people into public education.

Standard Format of Public Input at the Regional Meeting

If you are a member of the public receiving this, or a member of ATRS, the Public Retirement Committee would welcome you to provide input on any issue of concern to you. The four issues outlined above are only four issues and many others may exist which would concern you even more. Further, you have a right to speak either for or against changes, these changes or any other issue. The Public Retirement Committee welcomes any kind of input on any retirement issue.

The meeting on Monday, December 12, 2011, at 4:30 p.m. is the meeting primarily designed for public questions and input. You can submit written comments and may also make oral comments. Questions are also welcomed. The Committee typically maintains a sign-in sheet for members of the public who wish to speak or ask questions. Usually a staff member for the Committee will have the sign-in sheet available for you to use. However, the Committee may vary the process from meeting-to-meeting. I am attaching some information from the staff member of the Public Retirement Committee to this update which gives additional details.

Summary from Meetings in Rogers and Arkadelphia

The Rogers and Arkadelphia meetings were well attended by the public and ATRS members. The Committee heard the comments from many members

about the retirement systems. A constant theme was that the system was effectively achieving its intended goal of helping maintain quality education so "if it's not broke, don't fix it". Several personal stories of ATRS members with over twenty-five (25) years of service, and making less than \$40,000, were given. Many said the opportunity that T-DROP would provide to them and their families at the time of eligibility was a major incentive for them to continue teaching and focusing their efforts on a career in public education. Some retirees outlined how important the benefits were to them and how it helped them maintain a good quality of life in retirement. Overall, the Committee heard that members are very concerned about any changes to their benefits, members seek reasonable privacy in their retirement benefits, the service provided by working retirees and the ability of a retiree to return to work was important and should be maintained. Overall a constant theme was that the public greatly appreciated the Public Retirement Committee for holding these regional meetings.

Future executive director update – 2011 actuarial valuation coming soon

The ATRS Board of Trustees meets on December 5, 2011, and will receive the actuarial valuation prepared by the ATRS actuaries for June 30, 2011. Previous updates have made it clear that the amortization period for ATRS will increase. Within a couple of days after the ATRS Board of Trustee meeting, I plan to send out an executive director update to provide ATRS members and employers full information about the actuarial valuation. I can say there were no surprises in the valuation and ATRS remains strong in its overall financial status.