

EXECUTIVE DIRECTOR UPDATE
Week 6 of the 91st General Assembly
February 17, 2017

Overview of Week 6 of the 91st General Assembly
Holding Pattern and Negotiation Week

Week 6 was somewhat of a busy week. ATRS had four (4) bills for consideration by the Joint Retirement Committee on Monday, February 13, 2017. HB1304, HB1305, SB233, and SB193 were all voted out of the Committee "DO PASS" HB1304 concerns were resolved with an amendment to the bill that was filed late Friday afternoon, before the Joint Retirement Committee meeting on Monday. HB1304 is a clarification bill that does not substantively change policy or procedure.

Meetings and telephone calls with school officials, members of the General Assembly, ATRS members, and other school advocates are still occurring to discuss various issues with the 20 bill ATRS legislative package. ATRS is working on amendments to certain bills to reflect agreements and to further clarify language and intent. ATRS is always anxious to address concerns and improve legislation.

CONCERNS ABOUT SB186 AND SB187

ATRS has heard many concerns this week regarding SB186 and SB187. As to SB186, the important thing to know is that the ATRS Board already has authority to reduce the multipliers for both non-contributory and contributory service. That authority has existed for several years and it has never been used. Under current law, anytime ATRS has an amortization period to pay off its unfunded liability of over 30 years, the multipliers for both non-contributory and contributory service can be reduced. For several years, ATRS had over a 30 year amortization period and the ATRS Board never adjusted the multipliers, although it had authority to do so by just passing a resolution at a board meeting.

The reason for the change to the existing authority to adjust the multipliers is that the actuaries have suggested ATRS attempt to reach about an 18 year amortization period instead of maintaining a 30 year amortization period as the target period. The 30 year period is no longer accurate as the goal. SB186 takes out the requirement for over a 30 year amortization and replaces it with a requirement that the Board may make the change, if needed, to maintain actuarial soundness. This less specific language allows the Board to adjust as standards and goals change. Even if this bill somehow failed, the ATRS Board already has authority to reduce the multipliers.

In regard to SB187, as with SB186, the ATRS Board already has authority to increase the member contribution rate. If the ATRS Board had wanted to increase the rate, the rate could easily have been increased. That authority has existed for several years and it has never been used. In fact, it has been 47 years since the member contribution rate has been increased. Under current law, if ATRS has an amortization period to pay off its unfunded liability of over 30 years, the contribution rate can be increased. For several years, ATRS was over a 30 year amortization period and the board never increased the rate, although it had authority to do so by just passing a resolution at a board meeting. The only change in authority for the board to change the contribution rate is that the actuaries have suggested ATRS attempt to reach about an 18 year amortization period instead of making a 30 year amortization period the target period. SB187 takes out the requirement for over a 30 year amortization and replaces it with a requirement more in line with current actuarial views that the Board may make the change, if needed, to maintain actuarial soundness. Even if this bill somehow failed, the ATRS Board already has authority to adjust the member contribution rate.

Next week, the regular Monday meeting of the Joint Retirement Committee has been cancelled since the House is not in session on Monday. This means that all the work will be on amendments, actuarial reports, and negotiations on bills. This is a good chance to catch up and clarify issues with legislators on the ATRS package.

Below is the list of COURAGEOUS and hard working legislators who are carrying the 20 bill package of the ATRS Board on behalf of ATRS members. Some members have mistakenly thought that the bills were attacking ATRS. In reality, the bills are actually designed to help ATRS navigate any future stormy financial markets and actuarial changes with the ability to restore any adjustments.

Senator Ronald Caldwell
Representative Bruce Coleman
Senator Eddie Cheatham
Representative Gary Deffenbaugh
Senator John Cooper
Representative John Maddox
Senator Bart Hester
Representative Johnny Rye
Senator Jeremy Hutchinson
Senator Bill Sample
Senator Bruce Maloch

As you read these weekly executive director updates and do not have time to read the entire update, you may want to look for any part of the update that is written in **red**. You may find **red wording** on both the Executive Director Update and on the Bill Summary attachment. **Red wording** indicates that ATRS staff believes the information is

important to know or of **concern**. Due to the nature of having 25-30 substantive bills that affect ATRS and its members in this session's updates, each update will tend to be very long. Each bill will have an explanation and a status update. To the extent your time is limited, the **red wording** will attempt to highlight what ATRS staff thinks may be of greatest interest or concern for ATRS employers and members to focus upon. ATRS also understands that some members will be focused on specific bills that may be of major interest but not highlighted. It is understood that the 20 bill package of ATRS is closely watched since it is designed to allow ATRS to react to market changes and new financial standards.

Update on Four Substantive Bills Affecting ATRS Law

At this time, **four (4)** additional bills have been filed (**not part of the ATRS package**) with substantive language that would change laws affecting ATRS and its members. HB1355 is a technical correction bill on behalf of the Code Revision Commission that only clarifies language such as changing "the system" to the "Arkansas Teacher Retirement System" and has no operational or fiscal impact.

Of the remaining three (3) bills, SB11 by Senator Hester would require ATRS to monitor its investments and hire a consultant to determine if any company in the ATRS stock portfolio has taken certain positions against Israel. This bill is still under review and analysis by ATRS.

HB 1290 by Representative Tosh has language that Representative Tosh and ATRS worked together on that allows an additional exception in the five (5) year lookback law (statute of limitations) for under-reported service of a member upon which all contributions were paid at the time. This bill is well on the way to being a law. ATRS is neutral on this bill. ATRS does appreciate Representative Tosh working with ATRS to reach a fair compromise.

Last is HB1336 by Representative Tosh. Representative Tosh is working with ATRS and the other retirement systems to address concerns. This bill has not been amended yet, but the work is underway to amend the bill to prevent a person who intentionally causes the death of a retirement system member from receiving benefits that become available due to the member's death. This is also often called a "slayer statute". ATRS has no objection to adopting a slayer statute provision.

An Explanation About Shell Bills and a Shell Bill Update

The GOOD NEWS is that no shell bill has been amended to impact ATRS. ATRS constantly monitors bills to quickly address the issue and to notify members if the

content might adversely impact members. The mission on shell bills is to ALWAYS STAY PREPARED!

Shell bills are bills that without an amendment would have no impact on the law. Legislators may introduce a shell bill intending to amend it later in the session to address a specific issue. At other times, members may introduce a shell bill to be helpful in order to assist a retirement system or the General Assembly to address an issue that **might** arise later in the session. A typical shell bill will have wording like "a bill to amend the law regarding the Arkansas Teacher Retirement System".

There are 2 kinds of shell bills, a **specific subject matter** shell bill and a **generic** shell bill. A **specific matter** shell bill has indication within its title that the shell bill will only be used to make a change in a specific area such as benefits, board composition, investment policy, or operations. If a shell bill has a specific subject matter, the shell bill is limited to be used for that purpose only due to constitutional standards. A **generic** shell bill is written without a specific subject matter and potentially could impact any or all parts of ATRS.

A shell bill is like **a race car without an engine**. Unless an engine is placed in it, it sits there and does nothing. An engine can be quickly placed in a shell bill. An amendment can make that inoperative race car into **a rocket powered race car**. A bill can go from a shell bill to a substantive bill in **a day**. ATRS always carefully monitors all shell bills to ensure that a shell bill that becomes substantive is evaluated and properly addressed by ATRS on behalf of its employers and members. Shell bills can be very **helpful** and potentially very **hurtful**. That is why ATRS will list each shell bill that could be amended to impact ATRS each week in the weekly executive director update.

This session, ATRS asked **Senator Bruce Maloch** to introduce two (2) generic shell bills on behalf of ATRS to be held in the event an unexpected issue is discovered that needs to be addressed by a change in ATRS law that cannot be amended into an existing ATRS package bill. Six (6) additional **specific subject matter** shell bills were introduced that name the Arkansas Teacher Retirement System in the title. The subject matters on the 6 bills are **employment of retired members, Board of Trustees, investment practices, benefit payments, accounting and auditing, and administration**.

Five (5) additional **generic** shell bills were filed that could impact ATRS. One is specific as to ATRS with a generic title. Four (4) shell bills are with titles that could impact all retirement systems or employee groups that include an employee group of ATRS.