

House Bill 1283

(As Engrossed March 2, 2021)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 93rd General Assembly

Provisions of the Bill

House Bill 1283 affects the Arkansas Public Employees Retirement System (APERS). House Bill 1283 would change the composition of the APERS board. The composition of the APERS board was last changed by Act 311 of 2017. The table below shows the current structure compared to the proposed structure under House Bill 1283.

	<u>Current</u>	<u>House Bill 1283</u>
1	Auditor of State	Auditor of State
2	Treasurer of State	Treasurer of State
3	Secretary of DFA	Secretary of DFA
4	State (Governor)	State (Governor)
5	State (Governor)	State (Governor)
6	State (Governor)	State (Governor)
7	Non-State (Governor)	Non-State, County Judge (Governor)
8	Non-State (Governor)	Non-State, Mayor (Governor)
9	Non-State (Governor)	Non-State (Governor)
10		Retired State (ASEA)
11		Retired County (AAC)
12		Retired Municipal (AML)
13		Retired Law Enforcement (House Speaker & Senate Pro Tem)

Only one of positions 4, 5, and 6 may be retired. Only one of position 7, 8, and 9 may be retired. House Bill 1283 does not change those requirements.

Fiscal Impact

There is not a direct cost impact to a plan based on board composition. However, studies show there is a correlation between good board governance and investment return. Part of that measurement of governance is board composition. In our opinion, there is no cost impact on APERS of House Bill 1283.

Policy Issues

There are two policy areas to consider: Board Member Composition and Board Size.

Board Member Composition


Existing research has identified two key elements of board composition related to effectiveness: 1) the appropriate skill sets and experience; and 2) adequate stakeholder representation. The current and proposed composition is focused on the stakeholder representation side of this equation. As of 2018, Public pension boards averaged about 55% plan participants, 15% ex-officio, and 30% general public. Adequate stakeholder representation, from all areas, contributes to board efficacy by promoting board legitimacy to the various stakeholders.

Board Size

Public pension boards range from 5 to 19 members according to recent data, with an average of about 10 members. Many experts recommend a board of about 8-10 members but recognize that it depends on the complexity of the system and stakeholders. The GFOA recommends 7 to 13 members depending on the size and complexity of the system.

These policy comments reference “Does Public Pension Board Composition Impact Returns?” from Center for Retirement Research (2019). We also reference current data available from National Association of State Retirement Administrators (NASRA).

Sincerely,



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Actuary