Osborn, Carreiro & Associates, Inc.

ACTUARIES · CONSULTANTS · ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501) 376-8043
FAX (501) 376-7847

House Bill 1174

(As Engrossed March 18, 2011)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 88th General Assembly

Provisions of the Bill

House Bill 1174 affects the Arkansas Public Employees Retirement System ("APERS").

Current law allows a municipality to elect to join APERS. But, all employees of that employer must participate in APERS beginning the effective date of that election. House Bill 1259 would allow a municipality with a retirement plan to include newly hired employees and elected officials in APERS. Additionally, House Bill 1174 would allow current employees and elected public officials to choose whether to remain in the municipal retirement plan or to join APERS. If choosing to join APERS, the member would be allowed to purchase past service credit based on their municipal service. This may be purchased in a prorated amount by rolling over a 401(a) or 401(k) account or by joining APERS "in a form determined acceptable by the system."

Fiscal Impact

The fiscal impact caused by House Bill 1174 on APERS is negligible. Municipalities would be paying the employer contribution rate like any other employer, although the cost to the system is closer to the normal cost. But, since this only affects new hires, this will not be a significant cost savings to APERS.

The impact to the members of the current plan should also be considered. A municipality could make this election to provide better benefits to their employees. But, if the benefits are better under APERS, then the value of the current benefits would likely not be enough to purchase all years of service. In other words, a member may have worked for a city for 20 years, but only be able to purchase 10 or 12 years.

Other Information

House Bill 1174 appears to be on the election of the municipalities based on the "may" on page 1, line 23. This could be made more apparent if this were expanded to read "may, upon election of the municipality on a form provided by the system."

One of the basic premises of the Arkansas retirement plans is that the employer is who is the participating entity and not individual employees. That is, if an employer is part of APERS, then all employees (or all new employees) are in APERS, the employee does not have a choice. House Bill 1174 has a provision allowing individual employees in the previous plan to elect to join APERS. The person whose circumstances make it worthwhile to use their account balance will become a member of APERS, but another who needs to keep that account separate will not become a member.

All references to service in APERS law are to months of service credit. Current law only allows for the purchase of a year of service credit. House Bill 1174 allows for a pro-rata purchase of service credit. But, this could mean smaller units of service credit purchase than months.

There are two references in the bill to the type of plan from which service purchases can be made. We would suggest wording similar to "a plan established under section 401(a) of the Internal Revenue Code, 26 U.S.C. §401(a)." This is suggested since a 401(k) plan is generally not allowed for governmental entities. Also, plans qualified under section 401(a) include most types of qualified pension plans.

Related Legislation

House Bills 1202, 1203 and 1259 all deal with this issue as it relates to municipalities with over 100,000 citizens. House Bill 1174 deals with all municipalities and is elective.

Sincerely,

Jody Carreiro

Jody Carreiro, A.S.A, M.A.A.A.
Actuary