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# Senate Bill 63

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 88th General Assembly

## Provisions of the Bill

Senate Bill 63 affects the Arkansas Teachers Retirement System ("ATRS").

Current law defines the payment into the Teachers' Deferred Retirement Option Plan (TDROP) as a percentage of the benefit if the member had retired; in general, 70% of regular benefit for 30 years of service. This percentage is then reduced by 6% per year if a member enters TDROP between their 28th and 30th year of service. Current law does not include reciprocal service in the calculation of the reduction. This means that a member with 5 years ATRS service and 25 years of reciprocal service could have a 95% TDROP contribution as opposed to 70% if they had exclusively ATRS service. Another example would be that a member with 23 years ATRS service and 5 years reciprocal service would receive 67.7% as opposed to 63.3% with only ATRS service. As the examples show, current law has created an advantage for having reciprocal service. Senate Bill 63 would treat all service the same in calculating the reduction.

Senate Bill 63 also allows a portion (25%, 50%, or 75%) of the TDROP account to be taken as a lump sum and the remainder annuitized. Current law only allows a total lump sum or complete annuitization.

## Fiscal Impact

Recent information from ATRS shows that about 3% of the active membership has reported reciprocal service. As members elect TDROP, there would be a savings to the system on those who have reciprocal service, dependent upon the amount they possess. We have estimated that as this group enters TDROP, the bill would ultimately reduce liabilities. The current payoff period for unfunded liabilities at the 14% contribution rate is 52.4 years. The reduction in liabilities would reduce this payoff period by about ½ year to just less than 52 years.

The partial annuitization portion of the bill would not have a direct fiscal impact since the present value of either option is the same. It would have an indirect benefit by reducing the cash flow constraints of a very high percentage of members taking the total lump sum amount.

Sincerely,

Jody Carreiro

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Actuary