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House Bill 1199

(As Engrossed April 9, 2013)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 89th General Assembly

Provisions of the Bill

House Bill 1199 affects the Arkansas Teacher Retirement System (ATRS).

House Bill 1199 appears to be an addition to Senate Bill 162 in that it repeats much of that language and then makes some significant additions. The key additions made by House Bill 1199 are:

- Any increase in employer (state) contribution would be made in 0.25% increments. The maximum increase remains at 1.00% of payroll.
- The employer contribution has a provision to automatically return to 14% of payroll, but the condition is that the 14% of payroll contribution is sufficient to fund a 30 amortization of the unfunded actuarial liability on a "smoothed or unsmoothed" basis.
- The system's actuaries would provide a report to show that the savings from employee benefit changes and employee contribution increases equal or exceed the amount asked for in employer contribution changes.

House Bill 1199 does not replace all of the language of Senate Bill 162. To achieve the desired effect, both bills would need to become law, and, House Bill 1199 would need to become law after Senate Bill 162.

Fiscal Impact

The total fiscal impact on ATRS of House Bill 1199 would be dependent upon the points mentioned above. Since this bill is a complement of Senate Bill 162, it would be best to understand its effect by beginning with the table that was a part of the report on Senate Bill 162. That table is as follows:

	6/30/2012 Valuation (14% ER Contrib.)	If Senate Bill 162 Implemented at 15% Permanent.	Savings
Unfunded Actuarial Liability (millions)	$4,655	$4,655	$ 0
30 year amortization of UAL	$280	$280	
Amount available to pay UAL	$192	$219	$27
Years to amortize UAL at stated employer contribution	>100	51	>49
Total Employer Rate	14.00%	15.00%	1.00%
Net Normal Cost	6.93%	6.93%	0%
Available to pay UAL	7.07%	8.07%	1.00%

The change illustrated by this example would not be sufficient to put the plan back on a 30 year amortization path by itself. If no other changes were made and all other assumptions were met, the UAL would continue to grow. House Bill 1199 makes the implementation of this increase incremental. If the implementation is incremental instead of immediate, then we estimate about $40 million of payments to reduce the UAL would be postponed. The UAL has already been incurred, so it must be paid; House Bill 1199 just postpones some of this payment.

Policy Consideration

There are four Acts: 602 (SB123), 603 (SB130), 966 (HB1194), and 967 (HB1200) that give certain authority to the ATRS board to set benefits and contribution rates. There are two other Acts: 605 (SB163) and 606 (SB164) that establish benefit changes that should generate measurable savings. House Bill 1199 would allow the ATRS board to modify the employer contribution after the savings generated by these other Acts. Most other retirement systems allow the boards, in consultation with their actuaries, to establish the appropriate employer contribution.

House Bill 1199 would also make it clear that the increase in employer contributions would be the first of this group of reforms to be returned to the previous level. When the system can sustain a 30-year amortization of UAL at a 14% of salary employer contribution rate after various changes and experience, then the contribution rate reverts to the 14% level.

Other

House Bill 1199 introduces the terms “smoothed” and “unsmoothed” to modify the basis of the 30-year amortization period (see page 2, lines 1-5). These terms are not used elsewhere in Arkansas retirement code. The primary use of smoothing in our retirement systems is the gains and losses in the assets are smoothed over several years. These terms will deserve additional clarification in board rule if enacted. The item due consideration is that it is not common actuarial practice to be able to choose whether to smooth asset values.

The cost savings assigned to various plan changes is described on page 2, lines 6 – 19 of House Bill 1199. These changes could be calculated at the point at which they are implemented. Our understanding is that these changes are cumulative for comparison purposes. Difficulty arises when you bring forward the value of a savings since the demographics change every year and other gains and losses change the initial value. This will again deserve clarification in board rule if enacted.

There are several items mentioned in this report that do deserve consideration. These should not cloud the primary consideration which is ATRS is about 2.80% of salary behind the contribution necessary to fund a 30-year amortization of Unfunded Actuarial Liabilities. The ultimate savings of this bill along with Senate Bill 162 will only provide about 1.00% of this shortfall. This step, along with others, needs to be taken to ensure the long term stability of ATRS.

Sincerely,

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