



March 21, 2013

Mr. Larry Dickerson
Executive Secretary
Arkansas State Highway
Employees Retirement System
PO Box 2261
Little Rock, AR 72203

Re: Estimated Actuarial Impact of HB1228 (Amendment #1) – Window to Allow Members to Reinstate Forfeited Service at Less than Actuarial Cost

Dear Larry:

You have requested that Gabriel Roeder Smith & Company (GRS) determine the estimated actuarial cost impact of HB 1228 (as amended by Amendment #1), a bill that would create a 3-month window to allow members of the Arkansas State Highway Employees Retirement System (ASHERS) to reinstate previously forfeited service at a price that is less than the actuarial cost of the reinstatement. The proposal would create a window that would be effective from July 1, 2013 through September 30, 2013.

Background

Before July 1, 2011, former members of ASHERS who had forfeited their service could reestablish that forfeited service when they returned to work for ASHERS by repaying the amount of their refunded contributions plus interest on the refunded amount. This is a common practice in public employee retirement systems, but it comes at a cost to the system.

In 2011, legislation was enacted to charge a member the full actuarial cost of reinstating forfeited service.

Cost Analysis

It is somewhat difficult to estimate the impact of the bill because there is very little data regarding how many current employees of ASEHRS have forfeited service that could be reinstated. According to ASHERS's staff they receive a couple of requests each month for the cost of reinstating forfeited service (however, most employees are unwilling to pay the full actuarial cost of reinstating their forfeited service). Based on this information we have decided to estimate the cost impact of the bill by assuming that during the window period 50 employees would request to reinstate their forfeited service and that on average these employees would have 5 years of forfeited service.

The following table summarizes the estimated cost impact on the System of the modifications in the Supplement, as described above. Our analysis includes the estimated change in the present value of future benefits (PVFB), the unfunded actuarial accrued liability (UAAL), the funding period, the funded ratio, and normal cost rate.

<u>Cost Item</u>	<u>2012 Valuation</u>	HB 1228 <u>Reinstatement of</u> <u>Forfeited Service</u>	<u>Change</u>
PVFB	\$1,530,246,546	\$1,532,679,450	\$2,432,904
UAAL	\$143,958,620	\$146,391,524	\$2,432,904
Funding Period	43.8 years	46.8 years	3.0 years
Funded Ratio	89.5%	89.2%	(0.3)%
Normal Cost %	13.63%	13.63%	0.00%
30-year ARC	13.81%	13.94%	0.13%

As shown in the above table, this proposed bill produces an estimated increase in the funding period and the 30-year ARC. The UAAL increases by \$2.4 million. The normal cost percentage did not change since this is a window and not a permanent change to the statute.

Data and Assumptions

Our analysis is based on the actuarial data and financial information as of June 30, 2012 and all assumptions and methods used for the June 30, 2012 actuarial valuation. Because no data is available regarding the number of employees with previously forfeited service (or the total years of forfeited service) we have had to make an educated guess at the possible impact of the bill. To the extent that the number of employees taking advantage of the window exceeds or is less than 50, or if the average number of years is significantly more or less than 5 or, to the extent that the members reinstating their service do not resemble the overall population of the system, the costs shown above could be considerably higher or lower.

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience. Our calculations are also based upon proposed plan provisions that are described above.

Joe Newton is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

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If you have any questions regarding this estimated impact statement, please don't hesitate to contact us.

Sincerely,



Lewis Ward
Consultant



Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

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