

Senate Bill 116

(As Engrossed February 19, 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

Senate Bill 116 affects the Arkansas Teacher Retirement System (ATRS).

Section one of Senate Bill 116 changes the calculation of final average salary ATRS uses in certain situations for members with reciprocal service. Currently, if a member last works with ATRS and retires, ATRS is to use the highest final average salary among all reciprocal systems for which the member worked. Senate Bill 116 intends to change this so that if the highest reciprocal final average salary does not have the years of service (currently 3) to calculate final average salary for ATRS, then ATRS would add together years between the two systems. The effect would be a form of anti-spiking in that one high year in one reciprocal system would not be used by ATRS as the final average salary.

Section two of Senate Bill 116 allows limited concurrent service in ATRS. The language is limited so that it, in general, allows a firefighter or policeman who drives a bus part-time to receive some credit from ATRS. The credit received would not be reciprocal, i.e. one would NOT get 2 years toward eligibility for retirement in one calendar year.

Fiscal Impact

There would be some cost savings when the provisions of section one are applicable to a member. This is not likely to be very often and therefore would not create a significant cost savings. There is not sufficient information about reciprocal service available since the various systems often do not know about reciprocal service until the member's retirement.

Section two of Senate Bill 116 would cause a slight increase in cost. System officials of both LOPFI and ATRS estimate that there only 10 or 15 of these cases are expected to develop based on history. This would increase cost since you are giving credit where none exists now, but it would not be significant enough to change the funding status or amortization period of ATRS.

Other

Final average salary for all reciprocal systems is addressed in ACA §24-2-402(4)(B). Senate Bill 116 would change how final average salary for reciprocal systems is treated for members last serving in ATRS, but not the other reciprocal systems.

The ATRS board is considering using their authority to extend the 3 year final average salary calculation to 5 years. If they did make this change, there would be more situations where Section one of this bill would be applicable.

ACA §24-2-408 deals with concurrent service for some reciprocal systems, but not ATRS. Also, ACA §24-7-601(b) states that a member may only receive one year of credit for one fiscal year, but does not clearly deal with reciprocal systems. Therefore, the situation addressed in Section Two of this bill is not clearly addressed in current code. Senate Bill 116 proposes a solution to this situation.

Finally, it is our opinion that the language on page 2 may not cover the situation where ATRS has the limited amount of high salary. We would suggest that it would be clearer to substitute lines 4-10 of page 2 as follows:

“(5) Beginning July 1, 2014, if the reciprocal system *that furnishes the highest final salary and* in which a member has service credit of less than the number of years of service credit required in *this* system’s formula for the calculation of final average salary for a member, then this system shall obtain the salary and service credit information from the *other* reciprocal system and use the combined salary and service credit information to calculate the member’s final average salary as if the salary and service credit has all been earned in this system.”

Sincerely,



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Actuary