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House Bill 1286

(As Engrossed March 16, 2017)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 91st General Assembly

Provisions of the Bill

House Bill 1286 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-702 sets the requirements and the reductions for early retirement under ATRS. An ATRS member may retire before regular eligibility if they have 25 or more years of service but have not yet reached age 60. Subsection (b) sets the reduction based on the amount of time until the member would reach age 60 or when they would have 28 years of service. House Bill 1286 allows the ATRS Board to increase the amount of early retirement reduction when the actuary certifies that the amortization period is over 18 years. Section 2 of the bill deals with §24-7-1314 which sets the reduction to the TDROP amount if service at entry is less than 30 years. House Bill 1286 allows the board, by resolution, to increase this reduction from 0.5% up to a level no more than 1.0% for each month entry into TDROP precedes 30 years of service.

Fiscal Impact

The ability to increase the reductions is permissive within a range of rates. For that reason, the actual impact will depend on the package of changes implemented by the ATRS Board. We estimated the savings to ATRS assuming the Board implemented a 1% increase in the reduction (from 5% to 6% per year early) and an increase from 0.5% to 0.6% per month that TDROP begins before 30 years of service.^

	6/30/2016 Valuation (14% ER Contrib.)	If ATRS Board Implemented Reduction Described^	Savings
Unfunded Actuarial Liability (mil)	$3,573	$3,568	$ 5
Gross Normal Cost (% of Pay)	11.83%	11.82%	0.01%
Average Member Contribution	5.05%	5.05%	
Net Normal Cost	6.78%	6.77%	0.01%
Available to pay UAL	7.22%	7.23%	0.01%
Current Employer Rate	14.00%	14.00%	
Years to Amortize UAL	29.4	29.2	~0.2
Payoff UAL in 18 Years*	9.63%	9.61%	0.02%
Necessary Employer Rate*	16.41%	16.38%	0.03%
*Estimate for Reference			

Additional Disclosures on file with BLR

We would note that the estimates described might not be additive with the effects arising from other potential benefit changes that the ATRS Board may implement.

Policy Considerations / Other

There are a total of eight bills (SB 141, SB 185, SB 186, SB 187, SB 218, HB 1286, HB 1373, and HB 1374) that alter the authority granted to the ATRS board to set benefits and contribution rates. Benefits and contribution rates historically had been set by the legislature, and the ATRS board adopted policy to implement them. In 2013, several Acts granted expanded authority to the ATRS board in certain situations. The increase in early retirement reductions was not part of the 2013 package, but it is included in this group of changes.

Originally many of these bills contained language which suggested that benefits may be altered based on current and future actuarial assumptions. We had concerns about potential issues with IRC 401(a)(25) if this wording were present; we are more comfortable with the wording present in House Bill 1286 as currently engrossed.

The group of 2013 Acts created the language in question with the 30-year threshold. The 18-year number is an approximation for the amortization period at which the system will *at least* pay the interest on its unfunded liability. Many public plan pension actuaries consider this a best-practice for systems using a level percentage-of-payroll amortization of liabilities.

Sincerely,

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Actuary