

House Concurrent Resolution 1004

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 Concurrent Resolution 1004 affects the 135 members of the General Assembly.

Beginning in 1951, state and local governments could voluntarily apply for Social Security coverage under what is called a Section 218 agreement. Generally, in Arkansas, all employees of the state and county governments and schools are covered by Social Security. Almost all city governments are covered except for firefighters and police officers. The fire and police coverage varies and just fewer than half of those individuals are covered by Social Security. The General Assembly is also an exception, in that they are not covered by Social Security.

HCR 1004 is a necessary first step to applying for coverage under a Section 218 agreement. This resolution calls for the State Social Security Administrator (which is housed at APERS) to conduct a referendum to determine if the group wishes to be covered by Social Security. This will affect Social Security retirement and disability only. All members of the General Assembly are already covered by (and pay for) Medicare.

Fiscal Impact - State

There would be no actuarial cost associated with this resolution.

If the referendum that is called for by the resolution passes, the state would then have to begin to pay the 6.2% of covered payroll to Social Security. The payroll amount is about \$5.4 million, so the state would pay about \$335,000 per year to Social Security. It should be noted that once an entity agrees to enter the Social Security system, it may not exit the system. Therefore, this annual amount would continue unless federal law were to change.

Fiscal Impact - Individual

If the General Assembly elected to participate in Social Security, then the members would have to pay their matching 6.2% of payroll as well. For the current salary of \$39,500, this new withholding would be \$2,449 per year or \$204 per month. For reference, over a two year term, that is \$4,898 withheld; over a sixteen year service \$39,184 would be withheld.

Benefits

The benefits from Social Security are based on a sliding scale depending on the amount of your Average Indexed Monthly Earnings (AIME). The AIME is an average of earnings over your career that has been indexed by changes in average wages over time since earned. The formula generates your Primary Insurance Amount (PIA), which is generally the Social Security monthly benefit at your full retirement age.

| AIME before any Legislative Salary | Increase in Monthly PIA Serving for Two Years At \$39,500 Salary | Increase in Monthly PIA Serving for Sixteen Years At \$39,500 Salary |
|---|---|---|
| \$ 0 | 169 | 994 |
| 20,000 | 60 | 482 |
| 40,000 | 60 | 482 |
| 60,000 | 60 | 283 |
| 80,000 | 28 | 226 |
| 100,000 | 28 | 226 |

The figures in the above table are estimates, but they should show the general effect of adopting coverage. If you are already receiving Social Security benefits, the impact will be different. The best way to understand on an individual basis would be to visit the Social Security website and look at your account. You can then use the calculator to make various estimates. It would be advisable for everyone to review their own account to receive accurate estimates. Visit www.ssa.gov/myaccount/ for all of your personal information.

Other

There were other questions that have been asked that we address below.

Do I continue to pay Social Security taxes if I am already drawing Social Security benefits? You continue to pay taxes on your covered employment as long as you continue to work. Your current year earnings may be larger than some of the earnings years included in your Average Indexed Monthly Earnings, and, if so, your benefits would be increased.

Is my Social Security benefit affected if I continue to work? You can get Social Security retirement benefits and work at the same time. However, if you are younger than full retirement age (between 65 and 67, depending on your birth year) and make more than the yearly earnings limit, your benefit will be reduced. Starting with the month you reach full retirement age, your benefit will not be reduced no matter how much you earn. The annual limit in 2016 was \$15,720.

What if I earn more than the Taxable Wage Base? The Social Security law sets a Taxable Wage Base that is indexed. This amount is the maximum amount upon which you can have taxes withheld and the maximum upon which your retirement benefit is calculated. The Taxable Wage Base for 2017 is \$127,200. Your various employers must withhold and pay the 6.2% of payroll and their matching 6.2% of payroll. At the end of the year, you can be refunded on your taxes for any amount over the Taxable Wage Base that has been withheld. The employer's portion is not refunded.

Sincerely,

A handwritten signature in cursive script that reads "Jody Carreiro".

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