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Senate Bill 186

(As Engrossed March 2, 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

Senate Bill 186 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-705 allows the ATRS Board to reduce the multiplier rate for contributory service. There is a division between the first ten years of service and post-ten-years of service. Under current law, the Board may only reduce the multiplier for post-ten-year service if the ATRS actuary certifies to the Board that the unfunded liability amortization period is greater than 30 years at the current contribution rate. Senate Bill 186 would lower this threshold so that ATRS could reduce the multiplier if the amortization period exceeds 18 years if the Board determines the reduction were prudent to maintain actuarial soundness.

Fiscal Impact

The ability to lower the multiplier is permissive within a range of rates. For that reason, we cannot give an absolute impact, because it would depend on the package of changes implemented by the ATRS Board. However, lowering the benefit multiplier for future service accruals would create a savings to the system. We estimated the savings to ATRS assuming the Board implemented a 0.10% decrease in the multiplier, holding other provisions constant. Such a decrease would take contributory accruals from 2.15% of salary to 2.05% and non-contributory from 1.39% to 1.29%.

	6/30/2016 Valuation (14% ER Contrib.)	If ATRS Board Implemented .10% Mult. Decrease	Savings
Unfunded Actuarial Liability (mil)	$3,573	$3,489	$ 84
Gross Normal Cost (% of Pay)	11.83%	11.59%	0.24%
Average Member Contribution	5.05%	5.05%	
Net Normal Cost	6.78%	6.54%	0.24%
Available to pay UAL	7.22%	7.46%	0.24%
Current Employer Rate	14.00%	14.00%	
Years to Amortize UAL	29.4	26.4	~3.0
Payoff UAL in 18 Years*	9.63%	9.40%	0.23%
Necessary Employer Rate*	16.41%	15.94%	0.47%
*Estimate for Reference			

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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. It is our understanding that the power to reduce contributory multipliers (as referenced in Senate Bill 186) has not yet been utilized.

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 Senate Bill 186 as currently engrossed.

Act 966 of 2013 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.

To our knowledge, reductions in future benefit accrual rates for current employees have never been implemented in Arkansas. We are not attorneys and do not offer legal opinions, but we would point out the possibility of a Contracts Clause challenge to any reduction for current employees. It is our understanding that a 1973 case, *Jones v. Cheney,* suggested that the General Assembly does have some power to make changes to a retirement system so as to render intact the actuarial soundness of the system (so long as the changes are not retroactive).

Sincerely,

Jody Carreiro

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Actuary