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Senate Bill 218

(With Proposed Amendment No. 1)
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 218 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-401(c) allows the ATRS Board to increase the required employer contribution rate above the current 14% of salary. These increases can only be 0.25% per year and the ultimate employer contribution cannot exceed 15% of salary. Senate Bill 218, with Proposed Amendment No. 1, would change the trigger granting the authority to ATRS from a liability amortization period of 30 years to an amortization period of 18 years. If the amortization period is below 18 years at a contribution rate of 14%, then the contribution rate must return to the 14% level. Senate Bill 218 allows the ATRS Board to make these changes.

Fiscal Impact

The ability to increase the employer contribution would come in increments of 0.25% over a period of years. We measured the effect of an initial increase of 0.25% of salary (from 14% to 14.25% of salary). An increase of this size would increase the contributions to ATRS by about $7 million annually. Such an increase in employer contributions would reduce the payoff period by about 1.5 years under current assumptions; this would result in, approximately, a 28 year amortization period.

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 increase employer contributions above 14% (as referenced in Senate Bill 218) 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 218 as currently engrossed.

Act 1446 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.

Act 1399 of 2013 also added subsection (e)(8) to this section. This subsection says that any increase in the employer rate above 14% of salary shall be paid from funds appropriated to the Department of Education for the purpose of paying ATRS employer contributions. This subsection remains unchanged, and at this time we have no knowledge of any such additional appropriation.

Sincerely,

Jody Carreiro

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