

House Bill 1136

(As Engrossed February 4, 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

House Bill 1136 affects the Arkansas Teacher Retirement System (ATRS).

House Bill 1136 modifies §24-7-704 to require five years of actual service for disability benefits, rather than the combined five years between actual and reciprocal service required currently. Subsection (a)(1)(B) is amended to state that an active member otherwise eligible for retirement is not eligible for disability retirement. It is our understanding that this change fixes an inequitable treatment of credited service for members who are eligible for voluntary retirement but file for disability retirement.

House Bill 1136 also adds a new subsection which amends the effective date for disability retirement to be the date the disability application is filed and the member is no longer employed by an employer; currently, disability retirement is effective the beginning of the month following the month of termination. House Bill 1136 also adds paragraph (a)(3), which disallows members who are employed by a system-covered employer or indirectly employed by a system-covered employer through certain third parties in which the member has “substantial control of the employer-employee relationship” from receiving disability benefits.

Fiscal Impact

House Bill 1136 should create a small cost savings for ATRS. The slightly more restrictive service requirements would produce a small savings, and benefits for eligible disability retirees who delay filing an application for benefits would potentially be reduced. The system reports that, in some circumstances, retirees waited a period of time after termination before filing for benefits—under current law, back payments would be required, but this would not be the case under House Bill 1136. Additionally, the bill would reduce the number of members eligible to receive disability benefits from the language added in paragraph (a)(3). We would estimate that these small savings would not result in a material impact on the funding ratio or contribution rates of ATRS.

Other Issues

The connection of the start date with the application date is good retirement practice that is seen in many public and private plans. A similar provision was included in Senate Bill 105 for Arkansas Public Retirement System. This will also be consistent with the provision of House Bill 1135 requiring application before the effective date.

The provision detailed on lines 29-36 of page 2 of the bill is consistent with definition of disability on lines 11-24 of the same page. Our concern of note is the use of “substantial control.” This level of detail seems to tell disabled members how to structure their agreements so that they can continue to receive disability benefits. Based on the definition of disability, it is our opinion that this provision would be more effective if the period was after the word “employer” on line 33. In other words, if you qualify for a disability benefit you should not be physically able to come back as a consultant, regardless of who owns or controls the consulting business.

Sincerely,



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