

## **House Bill 1202**

### Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 90th General Assembly

#### **Provisions of the Bill**

House Bill 1202 affects the Arkansas Judicial Retirement System.

Arkansas Code Annotated §24-8-215 concerns mandatory retirement ages for judges and justices who participate in the Arkansas Judicial Retirement System. Under current law, judges and justices over age 70 who are eligible to retire at the end of their term in office must retire or they face losing retirement benefits under the system (i.e. a mandatory retirement age of 70). Based on information provided, we know of no one who has lost benefits under this section. The system does not collect the reasons why a judge chooses not to run again, so there is no information to know if the mandatory age has affected participant behavior.

House Bill 1202 would alter the language in §24-8-215 and related sections to increase this “mandatory retirement age” to 72.

#### **Fiscal Impact**

Typically, later retirement ages create cost savings for a retirement system; especially when dealing with septuagenarians, the cost of paying benefits for a longer period of time usually outweighs the cost of the participant accruing another year of service. However, if the benefit is based on “final pay,” as is the case with the Arkansas Judicial Retirement system, one must be wary of substantial pay increases prior to retirement. In the context of House Bill 1202, any pay increase granted between ages 70 and 72 would apply to all prior years of service—not just the two additional years. This should be kept in mind with the Independent Citizens Commission’s potential recommendation for substantial increases in judicial salaries.

Since this is not a large group, the age at entry of new judges has a significant effect. We do not know if this will affect the decisions of those interested in serving. We also have no information with which to determine if the electorate will want to elect older judges.

In isolation, House Bill 1202 will generate a small overall cost savings to the Arkansas Judicial Retirement System in our opinion.

**Other**

As discussed above, the Independent Citizens Commission is currently considering significant increases in salary for judicial positions in the state. Any increase would impact the liabilities of the system as the definition of final salary for benefit calculation purposes is “the annual salary for the last judicial office held.” All active liabilities would be impacted—not simply those associated with judges affected by House Bill 1202. As the Arkansas Judicial Retirement system is funded by certain sources of revenue, rather than as a percentage of active member payroll, the legislature might have to explore devoting other streams of revenue to fund the increased cost.

There are also 18 retirees and survivors that were in the system before June 30, 1983. The cost of living adjustment for those members is based on the salary of the last judicial office held, not the usual 3% increase from the previous year’s benefit. This would be another source of cost stemming from significant salary increases.

Sincerely,



Jody Carreiro, EA, ASA, MAAA  
Actuary