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House Bill 1175

(As Engrossed March 18, 2011)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 88th General Assembly

Provisions of the Bill

House Bill 1175 affects the Arkansas Public Employees Retirement System ("APERS"). Under current law, participants in the Deferred Retirement Option Plan ("DROP") of APERS are credited interest on their deferred option accounts at the end of each fiscal year at a rate determined by the APERS board. House Bill 1175 would not allow the rate of interest to be changed for those members participating as of June 30, 2011. That is, the rate of interest credited would be locked in for current DROP participants.

Fiscal Impact

We are assuming the intent of House Bill 1175 is to continue to credit the current rate of 6% after July 1, 2011 (see Other Comments below) for persons on DROP at that date. Based on the amount in the DROP accounts as of the most recent valuation date, $114 million, not allowing the APERS board to set the rate at 3% will cost $3.4 million in the 2011-12 fiscal year. If the board wanted to keep rates at that level over the remaining lifetime of those DROP accounts, we estimate that House Bill 1175 would cost APERS approximately $12 million over that time.

Other Comments

We believe the intent of the bill is to lock in the rate of interest paid to DROP participants as of June 30, 2011 at the 6% rate which has been declared for the current year. However, as of February 16, 2011, the legal DROP interest rate declared by the APERS board is 3% beginning July 1, 2011. The wording is not completely clear if the current rate or the currently declared rate is what "shall not be changed."

We must point out that this would be a change in direction from legislation in recent years which has allowed boards to set rates more reflective of the market and the nature of the DROP.

The nature of the DROP account is that of a short term guaranteed type of investment vehicle. In this case, somewhere between a certificate of deposit and a 7 year Treasury bond. The current range for these vehicles is less than 1% to 2.75%. Therefore, 6% does not seem to reflect the nature of the DROP account in the current environment.

Sincerely,

Jody Carreiro

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Actuary