

House Bill 1203

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 1203 affects the Arkansas Public Employees Retirement System (“APERS”).

House Bill 1203 would allow current members to purchase past service credit based on their municipal service. This may be purchased in a prorated amount by rolling over a 401(k) account.

Fiscal Impact

The fiscal impact caused by House Bill 1203 on APERS is negligible. APERS allows purchases of service credit. This would allow a pro-rata portion to be purchased instead of only one year increments.

We are assuming this is a sister bill to House Bill 1202 and would affect the city of Little Rock. The impact to the members of the current plan should be considered. We have reviewed the actual accounts of the members of the primary Little Rock pension plan (there is an old defined benefit plan, and there are a couple of other money purchase plans). The amounts held in the city plan accounts would be enough to purchase about 40% of the service that has been rendered. That is, a member of the Little Rock plan with 10 years of service would have a balance that would buy about 4 years of service in APERS. If the city decided to make up this difference, they would need another \$60 million in addition to the \$40 million in their plans.

Other Information

All references to service in APERS law are to months of service credit. Current law only allows for the purchase of a year of service credit. House Bill 1203 allows for a pro-rata purchase of service credit. But, this could mean smaller units of service credit purchase than months.

There is a reference in the bill to the type of plan, a 401(k) plan, from which service purchases can be made. We would suggest wording similar to “a plan established under section 401(a) of the Internal Revenue Code, 26 U.S.C. §401(a).” This is suggested since a 401(k) plan is generally not allowed for governmental entities. Also, plans qualified under section 401(a) covers most types of qualified pension plans. If the sponsor intended to allow money from deferred compensation plans to be used, there would need to be a separate reference to section 403(b) or 457 depending on the type of deferred compensation available.

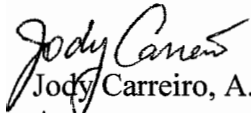
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Related Legislation

House Bills 1202 and 1203 appear to be companion bills. The same issue is dealt with and consolidated under House Bill 1259. House Bill 1202 and 1203 would not be necessary if House Bill 1259 was passed.

Sincerely,

A handwritten signature in cursive script that reads "Jody Carreiro".

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

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March 11, 2011