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House Bill 1213

(As Engrossed March 8, 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 1213 affects the Arkansas State Highway Employees' Retirement System ("ASHERS").

Current law allows the purchase of service under different circumstances in ASHERS. The cost is placed on the member, who must pay for the past credited service at an interest rate proscribed by the board. House Bill 1213 would instead require an actuarial equivalent cost to be charged for all service purchases except in cases where the Uniformed Services Employment and Reemployment Rights Act (USERRA) would supersede it. The bill also repeals a section containing old language regarding refunds for surviving spouses.

Fiscal Impact

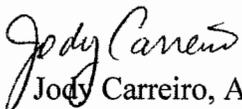
A review of the actuarial cost compared to the current law formula cost suggests that the system is receiving only about half of the actual change in system accrued liability after the purchases. If this situation holds true in all years, there would be a loss equivalent to about 0.15% of payroll each year. The effect of this bill would be to reduce this extra cost to about 0.00% of payroll.

The actuarial cost to a member is dependent on the age, service, and current salary of that member. For example, the actuarial cost to a member for one year of service assuming a member age 50, with 20 years of service and a salary of \$50,000 would result in an increase of \$16,000 to \$20,000 per year purchased relative to the current formula. This is a significant cost to the member, but it does reflect the increased cost to ASHERS.

Related Legislation

House Bill 1212 (now Act 69) reflects a similar change in purchase price for credit in the Arkansas Teacher Retirement System. An actuarial equivalent cost more accurately reflects the cost to the system of the year of credit.

Sincerely,



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

House Bill 1213 (As Engrossed March 8, 2011)
March 10, 2011