

House Bill 1259

(As Engrossed March 9, 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 1259 affects the Arkansas Public Employees Retirement System (“APERS”).

House Bill 1259 would require any municipality with a retirement plan and a population of over 100,000 to include newly hired employees and elected officials in APERS. At this time, Little Rock is the only such municipality in Arkansas, so House Bill 1259 would effectively make Little Rock’s new employees join APERS.

Additionally, House Bill 1259 would allow current employees and elected public officials to choose whether to remain in the municipal retirement plan or to join APERS. If choosing to join APERS, the member would be allowed to purchase past service credit based on their municipal service. This may be purchase in a prorated amount by rolling over a 401(a) or 401(k) account or by joining APERS “in a form determined acceptable by the system.”

Fiscal Impact

The fiscal impact caused by House Bill 1259 on APERS is negligible. Little Rock would be paying the employer contribution rate like any other employer, although the cost to the system is closer to the normal cost. But, since this only affects new hires, this will not be a significant cost savings to APERS.

The fiscal impact on the city of Little Rock would be notable. The current plan sponsored by the city has an employee contribution of 3.5% and a city contribution of 4.0% of salary. The APERS employer contribution rate beginning July 1, 2011 is 13.47%, meaning that the city of Little Rock would need to pay an additional 9.47% of salary more for each employee in APERS. Based on my estimate of \$1 to 2 million of payroll associated with new employees, the additional cost to Little Rock would be between \$100,000 and \$200,000 in the first year and ultimately would be over \$3 million per year.

The impact to the members of the current plan should also 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

There are several policy questions that the committee should consider as they make a decision. The first concerns why this is appropriate for only one city in the state and not all cities.

One of the basic premises of the Arkansas retirement plans is that the employer is who is the participating entity and not individual employees. That is, if my employer is part of APERS, then all employees (or all new employees) are in APERS, the employee does not have a choice. Page 2 of the bill has a provision allowing individual employees in the previous plan to elect to join APERS. The person whose circumstances make it worthwhile to use their account balance will become a member of APERS, but another who needs to keep that account separate will not be a member.

Another issue to consider concerns the members with less than one year of service at the time of implementation. The Little Rock plan has a one year waiting period before participation, so people in this situation may likely not participate in either APERS or the current Little Rock plan.

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 1259 allows for a pro-rata purchase of service credit. But, this could mean smaller units of service credit purchase than months.

There are two references in the bill to the type of 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.

Related Legislation

House Bills 1202 and 1203 both deal with this issue. It appears that House Bill 1259 is a combination of these two bills and they would not be necessary if House Bill 1259 was passed.

Sincerely,



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Actuary