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House Bill 1262

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 1262 affects the Arkansas Public Employees Retirement System ("APERS") and the Arkansas Teacher Retirement System ("ATRS").

The first few sections of the bill affect APERS. The first change, in section 1, adds a subsection which says that if a members returns to work within 6 months of retirement, the annuity reserve shall be transferred from the retirement reserve account back to the member's deposit account and the employer's accumulation account.

Section 2 has several changes related to termination for retirement purposes. "Full-time" is defined as employment requiring 20 or more hours of work per week, and "reemployment" is defined as service after retirement in exchange for compensation.

The section also introduces changes for re-employment for members both retired and in the Deferred Retirement Option Plan ("DROP"). Under the changes, retirees may not earn additional service credit if they are reemployed by: a different public retirement system, APERS six months after retirement, or APERS under DROP. Also, retirees reemployed by an employer which is covered by the system at least six months after retirement shall have their benefit temporarily cease until reemployment ends.

Under the bill, if a retiree is reemployed within six months on a full-time basis, APERS will cancel the retirement and reinstate the member with active status, effective the next month following reemployment. Such a member must work at least two full years in order to have his or her benefit recalculated. Any retiree reemployed within six months on a *less* than full-time basis is allowed to earn, without penalty, compensation up to the maximum amount permitted by the federal Social Security Act. A 25% benefit suspension is imposed if the retiree receives compensation in excess of this amount. Further, any employer employing someone failing to receive service credit under these provisions must contribute the amortized rate for the employee to APERS.

The benefit recalculation, for an eligible member who is reemployed, is split and weighted based on the formulas in effect at both initial and subsequent retirement dates. "Retirement date" is defined to be the date the member terminated covered retirement and became eligible for benefits or the date he or she entered DROP.

The next section effectively restates what was described above for retirees in the section of code by adding a section entitled Reemployment of a retiree. Notably the section does not seem to apply to persons in elected positions.

Section 4 and section 5 of the bill basically mirror the effects of section 2 and 3 for ATRS and T-DROP.

Fiscal Impact

Provisions provided in House Bill 1262 are developed to provide a member the ability to return to work, stop the monthly benefit, and accrue additional benefits. These types of provisions are in general cost efficient for the system. But, it is our opinion that the machinations involved in this bill would cause administrative overhauls of both systems to the extent that any possible savings would be more than erased.

Other

There are several provisions in House Bill 1262 that appear to conflict with various definitions in federal law, such as retirement age and a significant termination of employment needed to define retirement. It appears that there is significant work that would need to be done to make some definitions consistent with the body of retirement code for these systems.

Related Legislation

House Bill 1186 also considers reemployment provisions. Senate Bill 41 would require those receiving "two for one" service credit under §24-4-521 to wait one year before returning to work.

Some provisions of House Bill 1262 add back something like the rescission of retirement that was repealed by House Bill 1135 (now Act 224).

Sincerely,

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