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# Senate Bill 183

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 88th General Assembly

## Provisions of the Bill

Senate Bill 183 affects the Arkansas State Police Retirement System ("ASPRS"). This letter summarizes my testimony before the Retirement Committee on February 7, 2011.

The State Police Retirement Systems has had various financial difficulties over the years. This has been addressed by the introduction of a Tier 2 of benefits in the 1997 session which helped levelize future costs. During the 2009 session, two things were done to help ASPRS. First, the assets of ASPRS were merged with APERS. This helped to ease the cash flow issues for the system. The cash flow issue is that the system has paid out $5 to $6 million per year more than what the contributions have brought in during the past several years. The other item from the 2009 session was the infusion of $9 million of general improvement funds. The unfunded liabilities of ASPRS remain very high due to the benefit structure of Tier 1 and the past several years of investment results.

Senate Bill 183 creates a new stream of income to ASPRS. This stream of income is based on increasing two title fees. This stream of income would produce about $4.6 million per year based on experience of the existing fees for the past several years. This new stream of income would, in effect, pay down the unfunded liability "mortgage" faster than the current contribution rates.

## Fiscal Impact

The current contribution rate is 44.67% of active payroll. This is made up of about 22% normal cost and 23% to pay off the unfunded liabilities created by Tier 1. This will also mean that since one current source of income is not increasing as fast as salaries, the need to get money from the premium tax formula will continue to increase. **If Senate Bill 183 is NOT passed, this 45% of payroll contribution rate will remain relatively constant over the next 10 years, assuming all other actuarial assumptions are met.**

If Senate Bill 183 is passed, this additional income will decrease the unfunded liabilities of ASPRS by about 1/3 over the next ten years. This will decrease dependence on other sources of income. This will decrease the overall contribution rate from about 45% to about 35% of salary over the next 10 years.

## Other Comments

As part of the 2009 legislation, a committee was formed to investigate long term funding issues. Our firm served that committee. The three items we thought were worth exploration were to increase the statutory 22% from the state over a period of time; to work to have more regular influxes of new employees over time, that is, more regular trooper schools; and, to find a new source of extra funding to reduce the liabilities. Senate Bill 183 will address this third area and will be a long term solution to this long term problem.

## Actuarial Assumptions

We have assumed that the assumptions in the most recent actuarial valuation are met. In addition, we have assumed that the driver's license replacement fines and fees will continue and grow by about 2% per year. We also assumed that the new fee stream of income would increase by 2% per year.

Sincerely,

Jody Carreiro

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Actuary