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February 23, 2011

Ms. Gail H. Stone
Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: Actuarial Analysis of Senate Bill 41

Dear Ms. Stone:

Senate Bill 41 amends one section of Arkansas Code, namely § 24-4-520(b). Our analysis of the proposed change to the section follows.

Currently, a member is not terminated for retirement purposes if the person returns to employment in a position covered under the system within 180 days. The proposed change to the section extends the period of time from 180 days to one (1) year, effective upon enactment of this legislation. The proposed legislation affects members with service credit under § 24-4-521, that is members who earn service credit at a rate of two (2) or more years for each year of actual service.

Let us consider how the proposed change would affect a member currently considering retiring and then returning to work 181 to 365 days from the member's effective date of retirement:

(1) If the member does not change the decision (i.e., initially retires and then returns to work between 181 and 365 days from then), the member would repay any benefits received back to APERS and would be covered by APERS once again. The member begins to receive additional service credit and a potentially higher final average compensation resulting in a higher retirement benefit, but APERS is paying this higher retirement benefit to the member for a shorter period of time. Generally, any action that results in delaying retirement is a savings to the system. In addition, APERS is receiving contributions on the member's payroll to help finance the unfunded actuarial accrued liabilities of the system.

(2) The member decides not to terminate his employment in the first place, knowing that if he returns to work between 181 and 365 days from termination of employment, he will be considered "unretired." The savings to the system is the same as in (1). In addition, there is some small administrative cost savings due to the fact that retirement processing by staff does not have to be done twice.

A review of the data files shows that there are less than 1,000 active members who qualify for the two for one service credit and who would thus be affected by this legislation. Data to do a more detailed analysis is not available. It is our opinion that this legislation will result in an overall (albeit small) savings to APERS.

One or more of the undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please feel free to contact us with additional questions or comments.

Respectfully submitted,

Norman L. Jones

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DLH:MDD:mdd

cc: David Hoffman (GRS)
Shannon Walsh (GRS)