Osborn, Carreiro & Associates, Inc.
ACTUARIES ● CONSULTANTS ● ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501)376-8043 fax (501)376-7847

House Bill 1123

(As Engrossed February 8, 2013)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 89th General Assembly

Provisions of the Bill

House Bill 1123 affects the Arkansas Public Employees Retirement System ("APERS").

Current law credits most elected officials with 2 years of credited service for each year worked. This is usually referred to as "2 for 1" service credit. Current law limits this type of credit to 10 years for those elected after July 1, 1999 or those participating in the contributory plan. Act 563 of 2011 instituted a change regarding this credit, requiring the payment of 5.00% of payroll in addition to the regular contribution for noncontributory members. This credit is paid for with 2.5% from the employer and 2.5% from the affected employee. House Bill 1123 would extend this change to all elected officials, which would include contributory members. This would only be effective for those beginning to serve in elected office in a covered contributory position for the first time on or after January 1, 2014.

Fiscal Impact

In our 2011 analysis of House Bill 1146, which became Act 563 of 2011, our understanding was that the bill covered contributory positions. As such, the conclusions remain valid for the new language. In total, we believe that House Bill 1123 combined with Act 563 of 2011 would ultimately increase contributions to the system by $1,500,000 per year over a period of time. Using membership data, we estimated that approximately $1,000,000 of new payroll would be subjected to the surcharge each year, so that contributions would increase approximately $50,000 per year the first few years after implementation.

We have attached our previous memo regarding House Bill 1146 of 2011 for reference.

Other

We found two section numbering issues and a wording issue that we have communicated to staff and the sponsor that should be addressed before leaving committee.

Sincerely,

Jody Carreiro

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

Osborn, Carreiro & Associates, Inc.

ACTUARIES · CONSULTANTS · ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501) 376-8043
FAX (501) 376-7847

House Bill 1146

(With Amendment #3)
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 1146 affects the Arkansas Public Employees Retirement System ("APERS"). Current law credits most elected officials with 2 years of credited service for each year worked. This is usually referred to as "2 for 1" service credit. Current law limits this type of credit to 10 years for those elected after July 1, 1999 or those participating in the contributory plan. House Bill 1146 does not change the "2 for 1" service credit, but it requires the payment of 5.00% of payroll in addition to the regular contribution rate. This would be paid with 2.5% from the employer and 2.5% from the effected employee. This would only be effective for those beginning to serve in elected office for the first time on or after July 1, 2011.

Fiscal Impact

Based on the current members of the system with elected service, House Bill 1146 would ultimately increase contributions to the system by $1,500,000. This would happen over several years as new elected officials become members. Using the current members with elected service, we estimate that about $1,000,000 new payroll would be subject to the surcharge per year, so that the increase in contributions would be about $50,000 each year the first several years of implementation.

Other Information

The surcharge from the previous version of this bill (8.25%) was determined based on the additional normal cost and change in accrued liability. A 5% surcharge will approximately cover the change in normal cost. So although, it would not offset the total cost, it is a better allocation of cost. Amendment #3 splits the cost between employer and employee. From an actuarial standpoint, the additional 5% is good, wherever it comes from. The question for the committee is what the best allocation.

Related Legislation

House Bill 1019 also deals with "2 for 1" service credit. That bill would eliminate the additional service credit for future elected officials. If either House Bill 1019 or House Bill 1146 passes, the other bill would not be necessary.

Sincerely,

Jody Carreiro

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