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February 20, 2013

Mr. Larry Dickerson
Executive Secretary
Arkansas State Highway
Employees Retirement System
PO Box 2261
Little Rock, AR 72203

Re: Estimated Actuarial Impact of HB 1124 – Prorating Health Care Offset for Members with Service in a Reciprocal System

Dear Larry:

You have requested that Gabriel Roeder Smith & Company (GRS) determine the estimated actuarial cost impact of HB 1124, a bill that would prorate the Health Care Offset paid by the Arkansas State Highway Employees Retirement System (ASHERS), for members who are also participant in a reciprocal retirement system. The proposal would be effective for members who retire after the effective date of the legislation.

Background

Under current ASHERS's statutes, the Board of Trustees has the discretion to prorate the Health Care Offset for members who are also receiving retirement benefits from a reciprocal retirement system (as defined in Arkansas Code §24-2-401. However, it is our understanding that the Board has never acted on this discretion. The bill would remove the discretion and require the Board to prorate the Health Care Offset for ASHER retirees who are also receiving a retirement benefit from a reciprocal retirement system (the bill would only apply to members who retire after the effective date of the legislation).

The bill does not specify how the Board should prorate the Health Care Offset. For the purposes of this analysis we have assumed that the proration would be calculated using a ratio of the years of service credit with ASHERS divided by the sum of all years of service credit with the reciprocal systems.

Cost Analysis

The following table summarizes the estimated cost impact on the System of the modifications in the Supplement, as described above. Our analysis includes the estimated change in the present value of future benefits (PVFB), the unfunded actuarial accrued liability (UAAL), the funding period, the funded ratio, and normal cost rate.

Cost Item	2012 Valuation	HB 1124 Proration of Health Care Offset	Change
PVFB	$1,530,246,546	$1,529,959,535	($287,011)
UAAL	$143,958,620	$143,671,609	($287,011)
Funding Period	43.8 years	43.6 years	-0.2 years
Funded Ratio	89.5%	89.5%	(0.0)%
Normal Cost %	13.63%	13.63%	(0.00)%
30-year ARC	13.81%	13.79%	(0.02)%

As shown in the above table, this proposed bill produces a small estimated decrease in the funding period and the 30-year ARC. The UAAL decreases by slightly less than $0.3 million. The normal cost percentage did not change as we do not assume that new hires will have service in the reciprocal systems.

Data and Assumptions

Our analysis is based on the actuarial data and financial information as of June 30, 2012 and all assumptions and methods used for the June 30, 2012 actuarial valuation.

Our calculations are based upon assumptions regarding future events, which may or may not materialize. Please bear in mind that actual results could deviate significantly from our projections, depending on actual plan experience. Our calculations are also based upon proposed plan provisions that are described above.

Other Comments

As stated above, the bill does not provide a method for prorating the Health Care Offset. We have described the method we used for the cost analysis, but there are other methods that could be used as well, such as the ratio of the actual retirement benefits from each system. We suggest the authors of the bill include the proration method to eliminate any ambiguity.

Joe Newton is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions regarding this estimated impact statement, please don't hesitate to contact us.

Sincerely,

Lewis Ward
Consultant

Joseph P. Newton, FSA, MAAA, EA
Senior Consultant

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