

House Bill 1125

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 1125 affects the Arkansas State Highway Employees Retirement System (ASHERS).

Under current law, a member of ASHERS, upon termination, may receive service credit for accrued leave in calculations of retirement benefits, and they potentially may include associated lump-sum payments for calculation of final compensation. House Bill 1125 would change this to disallow the inclusion of lump-sum payments of “leave, salary, or other compensation” for the calculation of average earnings and time of service in ASHERS.

For example, a 65 year old with 20 years of service and 2 months of unused annual leave, which is eligible for lump sum payment, retires. Under current law, this extra payment increases his service by 2 months; and, if those 2 months’ salaries are higher than his salary 3 years ago, this could also slightly increase his final average pay. House Bill 1125 would stop this lump sum payment from having this effect on benefits.

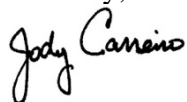
Fiscal Impact

Eliminating this provision would result in a cost savings, over time, to ASHERS. As no assumption is currently made in the system’s valuation regarding lump-sum payments or service credit resulting from unused vacation leave, the historical costs of this provision have been reflected in the system’s actuarial gains and losses. The system does not maintain information regarding banked leave at retirement; however, we estimated the impact of the bill assuming non-DROP retirees typically added an additional month to an additional three months of service credit resulting from accrued leave. We estimate the bill would save the system (in the form of reduced actuarial losses in the future) between \$100,000 and \$300,000 annually.

Other

The change in House Bill 1125 would bring the ASHERS law, in these situations, in line with the law and practice of the other state supported systems.

Sincerely,



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