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 1194

(As Engrossed February 20, 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 1194 affects the Arkansas Teacher Retirement System (ATRS).

House Bill 1194 makes several changes involving the benefit multiplier for both contributory and non-contributory service. In particular, the bill provides that:

- Service earned through June 30, 2013 will be subject to the present 2.15% (contributory) or 1.39% (non-contributory) multipliers.
- The flat dollar amount minimum benefit guarantees are repealed.
- The ATRS Board will be allowed, by resolution, to adjust the contributory multiplier between 1.75% and 2.15% and the non-contributory multiplier between 0.5% and 1.39%. The multiplier rate remains in effect unless adjusted by the board.
- Any increase or decrease to a multiplier applies to a complete fiscal year. Once a multiplier is earned for a given year, the multiplier may be retroactively increased, but not decreased.
- The Board may leave a lower multiplier in effect for previous years even if the multiplier is increased for future years.
- The Board may set a special multiplier for the first 10 years of service credit (between 1.75% and 2.15% for contributory service); this special multiplier must be lower than the multiplier which would be used in future years.
- The Board cannot apply this special decreased multiplier retroactively; however, after 10 years of service have been rendered, the Board may retroactively apply the standard (larger) multiplier to the first 10 years of service.
- The Board is not allowed to reduce the contributory service multiplier unless the system's actuary certifies that the amortization period for payoff of unfunded liabilities exceeds 30 years.

House Bills 1194 and 1198 both allow the ATRS Board to make similar changes to the benefit multiplier. House Bill 1194 has the potential to affect all current and future active members, whereas House Bill 1198 would only affect new hires.

Fiscal Impact

The total fiscal impact on ATRS of House Bill 1194 would be dependent upon the decisions made by the ATRS Board.

If all of the options laid out in House Bill 1194 were fully implemented, then the cost savings would likely meet or exceed the current 2.80% of payroll shortfall. There are many combinations which could be valued, so we chose an illustrative example. The table below shows an example of a 0.25% reduction in multipliers for current members from this point forward and for all new hires, resulting in 1.90% contributory and 1.14% non-contributory multipliers.

	6/30/2012 Valuation (14% ER Contrib.)	If House Bill 1194 Implemented .25% Mult. Decrease	Savings
Unfunded Actuarial Liability (millions)	$4,655	$4,733	$ - 78
Gross Normal Cost (% of Pay)	11.73%	10.60%	1.13%
Average Member Contribution	4.80%	4.80%	
Net Normal Cost	6.93%	5.80%	1.13%
Payoff UAL in 30 Years	9.87%	10.04%	-0.17%
Needed Employer Rate	16.80%	15.84%	0.96%
Current Employer Rate	14.00%	14.00%	
Available to pay UAL	7.07%	8.20%	1.13%
Years to Amortize UAL	>100	61	>39

The change illustrated by this example would not be sufficient to put the plan back on a 30 year amortization path by itself. If no other changes were made and all other assumptions were met, the UAL would continue to grow.

Policy Consideration

There are a total of six bills (SB123, SB130, SB162, HB1194, HB1198, HB1200) that give certain authority to the ATRS board to set benefits and contribution rates. Benefits and contribution rates have historically been set by the legislature, and the ATRS board adopts policy to implement them. This would be a change to that practice.

Other

The same qualifier needed for the ATRS board to implement this bill remains an actuarial valuation that shows the current contribution cannot fund the UAL over 30 years or less. The exception in House Bill 1194 is that this requirement only seems to apply to the setting of the multiplier for contributory service over 10 years. The other multipliers, all non-contributory service and contributory service for members with less than 10 years, do not seem to require this qualifier.

The contributory and non-contributory multipliers have been established over the years to reflect the difference in total contribution rates. In fact, in reviewing the total gross normal costs rates of the two groups the difference is currently a little more than 6%. House Bill 1194 allows for a much greater reduction in the non-contributory multiplier relative to the allowable reduction in the contributory multiplier. It is our opinion that if difference in normal costs grew too far from the 6% contribution rate, that assumptions would need to be added to measure the rate of non-contributory members becoming contributory. This would tend to lessen the cost savings described.

One other concern on decreases in non-contributory multipliers should be considered. Many of those non-contributory members (about 18,000) are support staff, the lowest paid members of the system. Any reduction could endanger a sufficient total retirement income for this group.

House Bills 1194 and 1198, along with Senate Bill 163 could all have overlapping effects depending on how they are implemented. That is, the change from one bill could impact the savings from another bill. This would mean that the effects of these three bills might not be able to be added together and produce the combined result. All three of these bills would also be affected by any change in final average salary that is allowed under current law and being considered by the ATRS board.

Sincerely,

Jody Carreiro

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