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House Bill 1200

(As Engrossed February 13, 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 1200 affects the Arkansas Teacher Retirement System (ATRS).

The cost of living adjustment (COLA) for an ATRS member is not compound; that is, the benefit increases 3% of a "base" amount. From time to time in the past, the ATRS Board of Trustees has enabled a "compounding" of the COLA. In practice, a compounding resets the "base" benefit amount to be the current benefit at the point in time the "compounding" occurs.

House Bill 1200 grants the ATRS Board the ability to reverse a compounding of the COLA for all retirees and participants in the Teacher Deferred Retirement Option Plan (TDROP). In a year in which the compounding is reversed, a simple cost of living adjustment will be used instead, and the reversal will be effective at the start of the fiscal year. Additionally, a member's future benefits will not be reduced to recover any additional benefits paid from the date before such a reversal. Furthermore, the bill gives the board the power to change the compounding of the COLA by resolution, and the compounding shall remain in effect until adjusted or reversed by the board. A reversal may not occur unless the system's actuary certifies that the amortization period of unfunded liabilities exceeds 30 years.

Fiscal Impact

The fiscal impact of House Bill 1200 would depend on the particular instances of compounding the ATRS Board chose to reverse. It is our understanding that there were compounding (or resetting of the base benefit) at July 1, 2001 and July 1, 2009. For our analysis, we assumed that every compounding was reversed, so that retiree benefits going forward would equal their current benefit amount with a simple 3% annual cost of living adjustment based on their original benefit. In this situation, we estimate that the liabilities of ATRS would be reduced by approximately $350 million. This calculation approximates the maximum possible impact of House Bill 1200. The following table summarizes the maximum effect:

	6/30/2012 Valuation	If House Bill 1200 Implements Full Rollback	Savings
Unfunded Actuarial Liability (millions)	$4,655	$4,305	$ 350
30 year amortization of UAL	$280	$259	$21
Amount available to pay UAL	$192	$192	
Years to amortize UAL at 14% contribution	>100	95	>5

Information from the system suggests that if just the most recent compounding in 2009 were reversed, then plan liabilities would be reduced by approximately $200 million. We concur with that estimate. The years to amortize UAL at a 14% contribution would continue to be over 100 years at that level of implementation.

Other

The nature of the change proposed by House Bill 1200 would have the greatest impact on members who have been retired for longer periods of time. These members have the greatest risk of having lost significant purchasing power of their retirement benefit.

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.

Sincerely,

Jody Carreiro

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Actuary