

## **Senate Bill 162**

### Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 89th General Assembly

#### **Provisions of the Bill**

Senate Bill 162 affects the Arkansas Teacher Retirement System (ATRS).

Senate Bill 162 modifies §24-7-401, concerning the employer contribution rate for ATRS. The current statutory rate is 14% which is all paid by the employers. Senate Bill 162 would allow the ATRS Board to increase the contribution rate up to a maximum of 15% if the actuarial valuation shows that the 14% will not be sufficient to pay off the Unfunded Actuarial Liability in 30 years or less. The additional maximum of 1% would be paid directly to ATRS from the Arkansas Department of Education. The rate must be adjusted back to 14% when an actuarial valuation shows that 14% will support a 30 year amortization of Unfunded Actuarial Liability.

#### **Fiscal Impact**

Senate Bill 162 allows the ATRS board to implement an employer contribution rate increase based on current results, we would not be able to know the impact until the ATRS board determined a certain level of increased contributions. In the table below, we show the effect of implementation of the maximum 1% increase in employer contributions (to 15%) allowable by the bill. When measuring the effect of this increase, the assumption is made that the new contribution rate is permanent. If a permanent rate is not used, then the years to amortize the Unfunded cannot be calculated.

	6/30/2012 Valuation (14% ER Contrib.)	If Senate Bill 162 Implemented at 15% Permanent.	Savings
Unfunded Actuarial Liability (millions)	\$4,655	\$4,655	\$ 0
30 year amortization of UAL	\$280	\$280	
Amount available to pay UAL	\$192	\$219	\$27
Years to amortize UAL at stated employer contribution	>100	51	>49
Total Employer Rate	14.00%	15.00%	1.00%
Net Normal Cost	6.93%	6.93%	0%
Available to pay UAL	7.07%	8.07%	1.00%

**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 savings generated by a full implementation of this bill are not sufficient to support the payment of a 30 year amortization of the Unfunded Actuarial Liabilities. There are other bills considered, and the effect of these bills may not always be additive in nature; that is, the final result of all legislation may not be the sum of the individual pieces.

Sincerely,

A handwritten signature in black ink that reads "Jody Carreiro". The signature is written in a cursive, flowing style.

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