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House Bill 1373

(With Proposed Amendment No. 1)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 91st General Assembly

Provisions of the Bill

House Bill 1373 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-713 deals with the cost of living adjustments (COLA) and the stipend amount under ATRS. The current stipend amount adds $75 per month to all current and future retirees. This amount has historically been subject to the COLA. House Bill 1373 clarifies that the stipend is a part of the base amount upon which COLAs are calculated. House Bill 1373 also allows the ATRS Board to remove the stipend from the COLA calculation for current and future retirees. It also allows the ATRS Board to reduce the stipend. The ATRS Board has authority to reduce the stipend under current law when the amortization period exceeds 30 years. House Bill 1373 changes the 30 year threshold to 18 years and allows the Board to phase in any decreases.

Fiscal Impact

The ability to reduce the stipend is permissive within a range. For that reason, the actual impact will depend on the package of changes implemented by the ATRS Board. We are providing an estimate for the savings to ATRS assuming the Board reduces the benefit stipend from $75 to $50 per month. This estimate also reflects an estimate of the stipend no longer being included in the COLA calculation.^ The results are in the table below:

	6/30/2016 Valuation (14% ER Contrib.)	If ATRS Board Implemented Reduction Described^	Savings
Unfunded Actuarial Liability (mil)	$3,573	$3,338	$ 235
Gross Normal Cost (% of Pay)	11.83%	11.66%	0.17%
Average Member Contribution	5.05%	5.05%	
Net Normal Cost	6.78%	6.61%	0.17%
Available to pay UAL	7.22%	7.39%	0.17%
Current Employer Rate	14.00%	14.00%	
Years to Amortize UAL	29.4	24.8	~4.6
Payoff UAL in 18 Years*	9.63%	9.00%	0.63%
Necessary Employer Rate*	16.41%	15.61%	0.80%
*Estimate for Reference			

We would note that the estimates described might not be additive with the effects arising from other potential benefit changes that the ATRS Board may implement.

Policy Considerations / Other

There are a total of eight bills (SB 141, SB 185, SB 186, SB 187, SB 218, HB 1286, HB 1373, and HB 1374) that alter the authority granted to the ATRS board to set benefits and contribution rates. Benefits and contribution rates historically had been set by the legislature, and the ATRS board adopted policy to implement them. In 2013, several Acts granted expanded authority to the ATRS Board in certain situations. Act 603 of 2013 granted similar authority to the ATRS Board to reduce the stipend amount. It is our understanding that this authority has not been used.

Originally many of these bills contained language which suggested that benefits may be altered based on current and future actuarial assumptions. We had concerns about potential issues with IRC 401(a)(25) if this wording were present; we are more comfortable with the wording present in House Bill 1373 with Amendment No. 1.

The group of 2013 Acts created the language in question with the 30-year threshold. The 18-year number is an approximation for the amortization period at which the system will *at least* pay the interest on its unfunded liability. Many public plan pension actuaries consider this a best-practice for systems using a level percentage-of-payroll amortization of liabilities.

Sincerely,

Jody Carreiro

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Actuary