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Senate Bill 141

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 91st General Assembly

Provisions of the Bill

Senate Bill 141 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-736 concerns the calculation of final average salaries used for computing benefits in ATRS. Currently, a member's three highest years of pay are used in the calculation, and under current law, only increases up to 20% between the years are counted for calculation purposes (unless an increase is less than $5,000; increases less than $5,000 are always recognized in full). This is what is sometimes referred to as an "anti-spiking" provision. Senate Bill 141 would give the ATRS Board the ability to modify the current 20% increase cap to be anywhere between 5% and 20% per year, and it would allow the Board to modify the current $5,000 threshold to be anywhere between $1,250 and $5,000 per year.

Fiscal Impact

The current 20% cap is intended to limit the impact of late-career "spikes" in salary from creating large increases in liability to ATRS; the $5,000 exclusion is present to protect lower-paid employees who receive raises or promotions from the full impact of the 20% limit. The impact of Senate Bill 141 would depend on the reductions ultimately implemented by the ATRS Board.

Actuarially, on a year-by-year projection basis, members are not assumed to receive 20% annual increases in salary. Therefore, the effect of the cap is not currently reflected in the normal cost presented by the ATRS actuary. However, when such a raise does occur, the system would experience an actuarial loss which would be reflected in an increased unfunded liability. Put another way: Senate Bill 141 is dealing with a problem which is not anticipated by the system's actuarial model. Instead, the effect of Senate Bill 141 would be seen by a reduction of future actuarial losses over time, primarily by lowering the calculated final salaries of higher-paid employees who receive raises or promotions at the ends of their careers.

If the net effect of changes arising from Senate Bill 141 resulted in a 0.10% reduction in liability due to lower average calculated final average salaries, we estimate that the impact would be a savings (in the form of future actuarial loss reductions) equivalent to a two month reduction in the unfunded liability amortization period.

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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.

We have concerns that a reduction in the caps/exclusion limits could create year-to-year reductions in accrued benefits for some members. It is our opinion that the ATRS system would be better protected from challenges to this authority if Senate Bill 141 included language which explicitly stated that a member's accrued benefit could not be reduced as a result of an adjustment to the final average salary formula.

Sincerely,

Jody Carreiro

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