**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

# Senate Bill 185

(with Proposed Amendment #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

Senate Bill 185 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-505 allows the ATRS Board of Trustees to establish a voluntary buyout program to grant one-time lump sum payments to vested deferred participants in exchange for a cancellation of their membership and benefit rights. Senate Bill 185, with the proposed amendment, would tweak the language in §24-7-505 to allow the ATRS Board to extend, modify, or expand any buyout plan established by ATRS by board resolution.

## Fiscal Impact

The system has reported that one buyout program has been offered since 2013. That window allowed 2,147 deferred vested non-contributory participants to accept average lump-sums of $4,421. We have been told that this buyout plan resulted in approximately $22 million in savings to ATRS (as a result of the lump sums paid being less valuable actuarially than the deferred benefits that were cancelled).

If we assume that future buyout programs will similarly offer lump sums which are less valuable actuarially than the deferred benefits and that service purchase factors will not be affected if participants choose to repurchase their service, then future buyouts would also be expected to create savings for ATRS. The most recent actuarial valuation report suggests that there are just fewer than 13,000 deferred vested members who could receive future buyout offers. The aggregate impact would depend on the discount factors the ATRS Board chooses to calculate the lump sum offers, as well as the number of participants who choose to accept the buyout. If another buyout window resulted in $20 million in savings to ATRS, we would estimate a reduction in the amortization period of about 4 months.

We would make the point that acceptance rates for buyouts (and thus, impact on ATRS) would be expected to decline as more windows are offered, since those participants who are likely to accept a buyout offer would likely have accepted a lump sum payment in earlier windows.

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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. It is our understanding that the power to offer buyouts (as referenced in Senate Bill 185) has been utilized (in the form of the ATRS CASH program) in the past, but only non-contributory vested members were offered buyouts in the prior window.

The ability for the ATRS Board to offer buyout plans was established in Act 606 of 2013. There are several policy issues to consider. Even though these buyouts would be entirely elective, people tend to overestimate the value of a lump sum today relative to the long term value of a benefit or right. A member would often choose against his or her own best interest if the buyout program is structured as we understand ATRS envisions—such a buyout would be particularly damaging to low-income vested employees who would permanently forego their right to the stipend, lump sum death benefit and reciprocity rights by accepting such a payment. There is also a question as to whether the stipend and the lump sum death benefits are "accrued benefits" for these deferred vested members. Finally, there is the option to repurchase such released service. But, since the repurchase is at an actuarial equivalent rate, a discounted buyout would produce a large difference between the buyout amount and the repurchase cost.

In the private sector, lump sum offers with discounts to the actuarial value are not allowed. Any lump sum calculation has to be made according to strict rules aimed at ensuring a member receives an actuarial-equivalent value in exchange for foregoing their deferred benefit. These rules do not apply to public sector plans.

Sincerely,

Jody Carreiro

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