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Senate Bill 187

(As Engrossed March 2, 2017)
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 187 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code §24-7-406 allows the ATRS Board to increase the member contribution rate for contributory service. Currently the contribution rate is 6% of pay, and the Board has the ability to set the rate between 6% and 7% in certain situations. Under current law, the Board may only increase the member contribution rate if the ATRS actuary certifies to the Board that the unfunded liability amortization period is greater than 30 years at the current contribution rate. Senate Bill 187 would lower this threshold so that ATRS could increase the contribution rate if the amortization period exceeds 18 years and the Board determines the reduction were prudent to maintain actuarial soundness. Additionally, the cap on the potential employee contribution rate (currently 7%) would be removed.

Fiscal Impact

The ability to increase the member contribution rate is permissive within a range of rates. For that reason, we cannot give an absolute impact, because it would depend on the package of changes implemented by the ATRS Board. However, increasing the future employee contribution rate would create a savings to the system. The impact for additional employee contributions is decreased (i.e. not a dollar-for-dollar savings to the system) because of the value of the return-of-contribution benefit paid to non-vested contributory employees.

To gauge the impact of Senate Bill 187, we estimated the savings to ATRS assuming the Board implemented a 1% increase in the employee contribution rate, holding other provisions constant. We estimate that such a change would result in a savings of approximately 0.78% of payroll to ATRS. This would be approximately equivalent to a reduction of five to six years in the current amortization period. The impact of a change in contribution rate would increase over time as more of the ATRS covered population becomes contributory. We would note that this estimate might not be additive with the effects arising from other potential benefit changes.

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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 increase the employee contribution rate (as referenced in Senate Bill 187) has not yet been utilized.

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 Senate Bill 187 as currently engrossed.

Act 602 of 2013 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.

We are not attorneys and do not offer legal opinions, but we would point out the possibility of a Contracts Clause challenge to any increase in the employee contribution rate for current employees. It is our understanding that a 1973 case, *Jones v. Cheney,* suggested that the General Assembly does have some power to make changes to a retirement system so as to render intact the actuarial soundness of the system (so long as the changes are not retroactive).

Sincerely,

Jody Carreiro

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Actuary