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

House Bill 1256

(As Engrossed March 18, 2019)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 92nd General Assembly

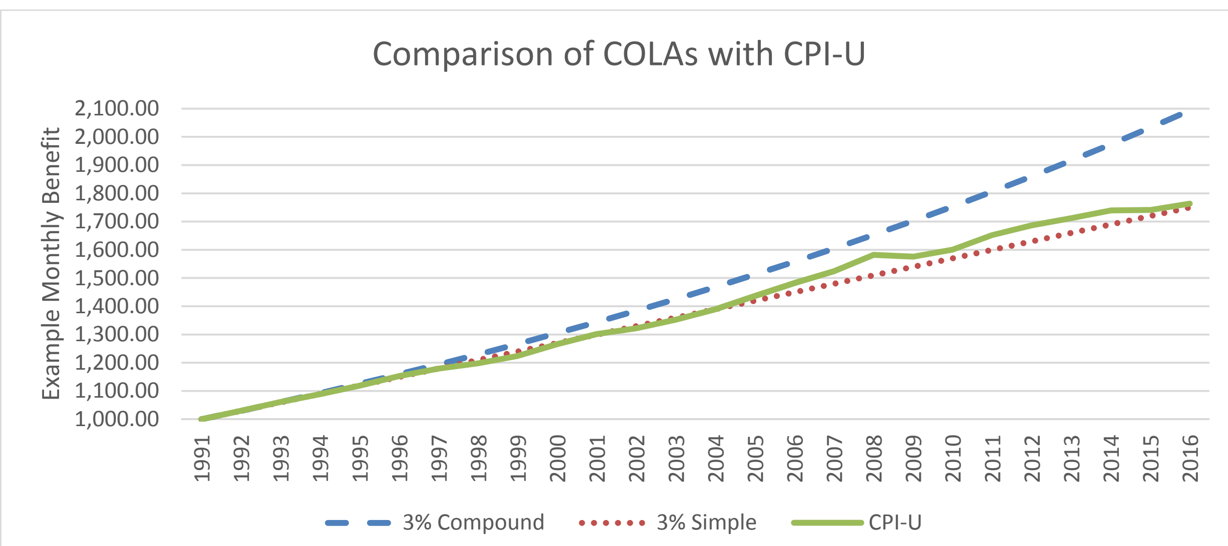
Provisions of the Bill

House Bill 1256 affects the Arkansas Public Employees Retirement System (APERS). Current law provides a redetermination of the monthly benefit each year by providing a cost of living adjustment (COLA). The current method is a 3% compound COLA. House Bill 1256 changes the COLA to "no more than" a 3% simple COLA. The base amount would be the current benefit received or the initial retirement benefit after July 1, 2019.

Effect of Cost of Living Adjustments (COLA)

House Bill 1256 would change the COLA applied by APERS from a compound COLA to a simple COLA. A simple COLA just adds the same amount each year to the benefit. For example, a $1,000 per month benefit with a 3% simple COLA would pay $1,030 in the second year and add $30 to the benefit every year. So, after ten years, the member in the example would have a $1,300 benefit.

A compound COLA multiplies the previous year's benefit by one plus the rate. Using the same example, a 3% compound COLA would increase the $1,000 benefit by 1.03, yielding $1,030 (this is the same as the simple in year 1). The second year would be $1,030 times 1.03, which is $1,060.90 and after the tenth year the benefit would be $1,343.92. The chart below compares these two examples with the CPI-U for the past 25 years.



This chart illustrates what would have happened with the example given compared to the actual cost of living reflected in the CPI-U. The dashed line shows the 3% compound, the dotted line shows the 3% simple. The solid line is the CPI-U which interestingly enough is very close to a 3% simple COLA over this 25 year period.

Fiscal Impact

House Bill 1256 would affect the COLA adjustments to benefits beginning July 1, 2019. The table below shows the savings that would be generated assuming a 3% simple COLA. If the APERS board chose a lower COLA as allowed by the bill, the savings would be greater.

	Current Provisions	Results of HB1256	Impact
Actuarial Accrued Liabilities	$10,694.3	$10,255.2	$(439.1)
Actuarial Value of Assets	8,416.4	8,416.4	
Unfunded Actuarial Accrued Liability	$ 2,227.9	$ 1,788.8	$(439.1)
Amortization Period (continuing current rate)	26	17	- 9
Funded Ratio	78.7%	82.1%	3.4%
Employer Contribution Rate			
Employer Normal Cost	7.89%	7.29%	(0.60)%
Amortization of UAAL	7.43%	5.66%	(1.77)%
Total Employer Rate	15.32%	12.95%	(2.37)%

Assumptions

The assumptions from the June 30, 2018 valuation were used. Based on the funding policy of APERS, we amortized the change in UAAL over 20 years. It is our understanding that their policy is to continue the employer contribution at the current level and based on that the amortization period would be reduced as shown.

Other

House Bill 1256 provides the APERS board with flexibility in the amount and the categories of members eligible for this COLA. If enacted, the APERS board would need clear, precise procedures to ensure that benefits are "definitely determinable".

Sincerely,

Jody Carreiro

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

Additional Disclosures on file with BLR