

Senate Bill 240

(As Engrossed April 2, 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

Senate Bill 240 affects the Arkansas Local Police and Fire Retirement System (LOPFI). Senate Bill 240 provides for the conditions under which a retired member or retired DROP member can be reemployed by a LOPFI employer. A member that desires to be reemployed must have been retired for 180 days and waive their right to future benefit accruals. The member would not be required to pay employee contributions, but the employer would pay an employer contribution.

The changes engrossed into Senate Bill 240 on April 2, 2019 removed the word “voluntarily” that could have proven confusing. It also added that a retiree cannot return to work for covered employer that contributed to their retirement. So, if a member worked for three LOPFI employers in their career, they could not be reemployed by any of those three employers under this bill. Finally, the provisions of this bill would become effective on January 1, 2020.

Fiscal Impact

The continuation of employer contributions should compensate the system for any cost of a member who is reemployed. Our concern from a fiscal impact standpoint is whether this would cause members to change their retirement or DROP patterns. If members start entering the DROP earlier, this would create a cost to the system. We have no data available to know how many people this would effect immediately. There is no data available to know if retirement patterns would change, except that every other system in the state that has loosened the penalty of electing DROP with some type of return to work option has seen DROP election rates move earlier. The safeguards in Senate Bill 240 would reduce these issues and there is likely not a significant fiscal impact.

Other

There are a few items that the sponsor may want to clarify. First, the apparent purpose of the bill is to continue retirement benefits during reemployment. It would seem that the phrase “and continue receiving retirement benefits” should be included in line 27 of page 1.

Line 31 of page 1 states “any benefit accrual” and I believe the intended meaning is “any future benefit accrual”.

Senate Bill 240 conflicts with §24-10-706 which states that a member at the end of their DROP period must terminate employment with all covered employers.

There is also a theoretical issue with DROP participants. The DROP, as confirmed by various Attorney General opinions, is an act of retirement. The member has made their retirement election which includes the risk that they are offered a better deal or get a promotion and do not get the benefit of that in their benefit. This takes a lot of the “risk” out of a DROP election.

As we have seen many times in Arkansas with reemployment issues, these provisions are typically effectively available only to those at the higher end of the pay scale. Even though it is available to all employees, it is effectively only used by a certain few.

Sincerely,



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