



February 26, 2021

Mr. Duncan Baird, Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol Avenue, Suite 400
Little Rock, Arkansas 72201

Re: HB 1275 Dated 01-21-2021 (Transfer of Administration)

Dear Mr. Baird:

We are providing our analysis of HB 1275 dated 01-21-2021 as it relates to the Arkansas Public Employees Retirement System (APERS), Arkansas State Police Retirement System (ASPRS), and Arkansas Judicial Retirement System (AJRS).

The Bill adds Section §24-2-101 related to a transfer of administration of monthly benefits, modifies Section §24-2-402 related to deferred annuity eligibility and adds Section §24-2-409 related to concurrent employment.

The Bill adds Section §24-2-101 related to a transfer of administration of monthly benefits. Section §24-2-101(a) of the Bill states that a person may transfer the administration of his or her monthly benefits received from a public retirement system to another public retirement system provided that the person has credited service in the public retirement system to which the administration of the monthly benefits will be transferred and the board of trustees of the transferring public retirement system and the board of trustees of the receiving public retirement system determine that the transfer is actuarially sound.

Section §24-2-101(b) of the Bill states that if a person elects to transfer the administration of his or her monthly benefits under subsection (a), the public retirement system from which the person retired shall transfer the following to the public retirement system selected by the person to administer his or her monthly benefits: (A) Contributions paid by the person to the transferring public retirement system; and (B) Contributions paid by the person's covered employer to the transferring public retirement system. In addition, the receiving public retirement system may require the person to pay to the receiving public retirement system interest and any other cost necessary to make the transfer actuarially sound before the transfer is initiated. A transfer of the administration of monthly benefits under subsection (a) of this section is irrevocable.

The proposed legislation allows the system administering the benefit to require a payment that will make the transfer “actuarially sound.” This term is not defined; if we assume that this requires a calculation that results in a cost-neutral transfer then there will be no effect on the system administering the benefit. Note however that the sum of the employee and employer contributions are not indicative of the individual member costs being transferred, it will almost certainly be less than the value of the benefits. If there is any shortfall in assets not paid for by the individual then the system administering the benefit will be negatively affected.

We have no indication of the number of individuals who would choose to make this election and the benefit of doing so is not obvious. We, therefore, believe that there would be no measurable actuarial cost impact on the system that ultimately administers the benefit. However, there could be significant administrative complexities added to each of the Arkansas public employee retirement systems affected by the proposed legislation. In essence, a “receiving” system (i.e., the system that the member transfers to) may have to administer the benefit provisions of multiple Arkansas public employee retirement systems.

We also note that there may be issues in that the actual timing of monthly benefit payments may differ between systems and is not addressed in the proposed legislation.

Section §24-2-402 clarifies who is eligible for a deferred annuity and allows an employee who has concurrent employment resulting in concurrent membership in two reciprocal systems to be eligible for a deferred annuity, provided the employee is not covered under the Arkansas Local Police and Fire Retirement System.

Section §24-2-409 is added to clarify that a person who has concurrent employment resulting in concurrent membership in two or more reciprocal systems is eligible to receive reciprocal service credit in any of the reciprocal systems. The person shall select the reciprocal system to which his or her reciprocal service credit shall apply. A selection made under this section is irrevocable.

No increase in benefits will result due to the proposed changes in Section §24-2-402 and Section §24-2-409 and, therefore, no increase in employer costs will occur.

Please review this letter carefully to ensure that we have understood the Bill properly. The analysis in this letter should not be relied upon if there is doubt about our understanding of the Bill. Our analysis relates only to the plan changes described in this correspondence. In the event that other plan changes are being considered, it is very important to remember that the results of separate actuarial analyses cannot generally be added together to produce a total. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

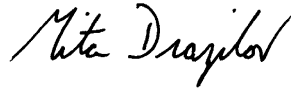
We did not review this Bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions nor did we attempt to determine whether these changes would contradict or negate other related State, or local laws. Such a review was not within the scope of our assignment.



Mita D. Drazilov and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

Respectfully submitted,



Mita D. Drazilov, ASA, FCA, MAAA



David L. Hoffman



Heidi G. Barry, ASA, FCA, MAAA

DLH/MDD/HGB:bd