

House Bill 1346

(As Engrossed February 25, 2021)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 93rd General Assembly

Provisions of the Bill

House Bill 1346 affects the Arkansas Public Employees Retirement System (APERS). This bill will increase the years used to determine final average compensation from three (3) years to five (5) years for members hired on July 1, 2022 and after.

Fiscal Impact

House Bill 1346 does not immediately impact the funding of the system since it impacts future members only. House Bill 1346 will eventually reduce the cost of the system.

The table below shows the effect of House Bill 1346 (in \$millions):

	Current <u>Provisions</u>	After House <u>Bill 1346</u>	Cost <u>Impact</u>
Actuarial Accrued Liabilities (\$Million)	\$11,513.0	\$11,513.0	\$ 0.0
Actuarial Value of Assets	9,090.4	9,090.4	0.0
Unfunded Actuarial Accrued Liability (UAAL)	\$2,422.6	\$2,422.6	\$ 0.0
Amortization Period	24.2	24.2	(0.0)*
Funded Ratio	79.0%	79.0%	0.0%
Employer Contribution Rate			
Employer Normal Cost	11.48%	11.48%	* 0.00%
Payoff of UAAL	7.55%	7.55%	0.00%
Expected Employee Contribution	-3.71%	-3.71%	0.00%
Total Expected Employer	15.32%	15.32%	0.00%

*This bill would ultimately reduce the Normal Cost by 0.29% of payroll which will be recognized gradually over about 25 years. If the total Employer Contribution continues at 15.32% over that time the amortization period would be reduced by 0.6 years.

Related Legislation

The Arkansas Public Employees Retirement System (ASHERS) has a group of three bills that are being proposed to improve the funding of the system (House Bills 1346, 1347, and 1348). The table below shows the combined impact of these three bills.

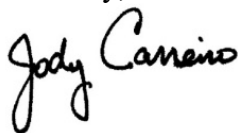
	<u>Current Provisions</u>	<u>After 3 House Bills</u>	<u>Cost Impact</u>
Actuarial Accrued Liabilities (\$Million)	\$11,513.0	\$11,513.0	\$ 0.0
Actuarial Value of Assets	9,090.4	9,090.4	0.0
Unfunded Actuarial Accrued Liability (UAAL)	\$2,422.6	\$2,422.6	\$ 0.0
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Expected Employee Contribution	-3.71%	-3.71% *	0.00%
Total Expected Employer	15.32%	15.32%	0.00%

*This group of bills would ultimately reduce the Normal Cost by 1.14% of payroll which will gradually be recognized over about 25 years and a net increase in expected Employee Contributions of 1.90% realized over the next 9 years. If the total Employer Contribution continues at 15.32% over that time the amortization period would be reduced by 5.6 years.

Additional Assumptions

The cost of living adjustment change in House Bill 1347 requires an assumption on the amount of the COLA. Based on the inflation assumption of 2.5%, we assumed that the COLA would effectively be 2.2% per year. All other assumptions from the valuation remain the same.

Sincerely,



Jody Carreiro, EA, ASA, MAAA, FCA
 Actuary