

House Bill 1347

(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 1347 affects the Arkansas Public Employees Retirement System (APERS). This bill changes the annual redetermination of benefits, usually referred to as the COLA, from 3% per year to the lesser of 3% and the CPI-U for the previous calendar year for members hired on July 1, 2022 and after. This wording was added to two different subchapters to cover both the old non-contributory and contributory members of the system.

Fiscal Impact

House Bill 1347 does not immediately impact the funding of the system since it impacts future members only. House Bill 1347 will reduce the cost of the system.

The table below shows the effect of House Bill 1347 (in \$millions):

	Current Provisions	After House Bill 1347	Cost Impact
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 0.80% 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 1.5 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.

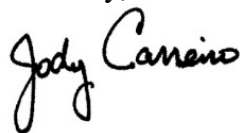
	<u>Current Provisions</u>	<u>After 3 House Bills</u>	<u>Cost Impact</u>
Actuarial Accrued Liabilities (\$Million)	\$11,513.0	\$11,513.0	\$ 0.0
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Expected Employee Contribution	-3.71%	-3.71% *	0.00%
Total Expected Employer	15.32%	15.32%	0.00%

*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