

House Bill 1348

(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 1348 affects the Arkansas Public Employees Retirement System (APERS). This bill will increase the employee contribution amount for contributory member from 5% to 7% of payroll in 0.25% increments beginning July 1, 2022.

Fiscal Impact

House Bill 1348 does not immediately impact the funding of the system but will be realized over the next nine years. Because of the refund of contributions provisions, there is a slight increase in Normal Cost as well so that the ultimate impact will not be 2.0% but about 1.90%. House Bill 1348 will reduce the cost of the system.

The table below shows the effect of House Bill 1348 (in \$millions):

	Current Provisions	After House Bill 1348	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 increase the Employee Contribution by 2.0%, but increase Normal Cost by 0.10% for a net effect of 1.90% which will be recognized gradually over 9 years. If the total Employer Contribution continues at 15.32% over time the amortization period would be reduced by 4.6 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.

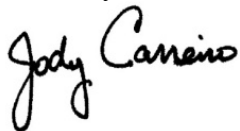
	<u>Current Provisions</u>	<u>After 3 House Bills</u>	<u>Cost Impact</u>
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*This group of bills would ultimately reduce the Normal Cost by 1.14% of payroll which will gradually be recognized over about 25 years and a net increase in expected Employee 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