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Senate Bill 104

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

Provisions of the Bill

Senate Bill 104 affects the Arkansas State Highway Employees Retirement System (ASHERS). Current law defines the average compensation used in the benefit formula to be the highest annual compensation paid during any 36 consecutive months of service. Senate Bill 104 would change this definition to be the highest annual compensation paid during any 60 months of service. Senate Bill 104 provides provisions that would ensure that no accrued benefit earned would be reduced by this change. The bill also defines the compensation to be the compensation earned from the Arkansas Department of Transportation and not any other state service.

Fiscal Impact

Senate Bill 104 will reduce the cost of the system.

The table below shows the effect of Senate Bill 104 (in $millions):

	Current Provisions	After Senate Bill 104		Cost Impact
Actuarial Accrued Liabilities ($Million)	$1,742.0	$1,734.7		$(7.3)
Actuarial Value of Assets	1,434.5	1,434.5		0.0
Unfunded Actuarial Accrued Liability (UAAL)	$ 307.5	$ 300.2		$(7.3)
Amortization Period	39.5	35.0		(4.5)
Funded Ratio	82.4%	82.7%		0.3%
Employer Contribution Rate				
Employer Normal Cost	11.82%	11.53%		-0.29%
Payoff of UAAL	10.08%	10.37%	*	0.29%
Expected Employee Contribution	-7.00%	-7.00%		0.00%
Total Expected Employer	14.90%	14.90%		0.00%

*This would need to be 11.48% to pay off the UAAL in 30 years.

Other Information

The Arkansas Teachers Retirement System (ATRS) adopted a similar provision in the 2017 session. Arkansas Public Employees Retirement System (APERS) has House Bill 1346 which may bring them closer to a five year final average compensation.

Related Legislation

The Arkansas State Highway Employees Retirement System (ASHERS) has a group of five bills that are being proposed to improve the funding of the system (Senate Bills 102, 103, 104, 105, and 106). The table below shows the combined impact of these five bills.

	Current Provisions	After the Five Bills	Cost Impact
Actuarial Accrued Liabilities ($Million)	$1,742.0	$1,725.1	$(16.9)
Actuarial Value of Assets	1,434.5	1,434.5	0.0
Unfunded Actuarial Accrued Liability	$ 307.5	$ 290.6	$(16.9)
Amortization Period	39.5	21.6	(17.9)
Funded Ratio	82.4%	83.2%	0.8%
Expected Employer Contribution ($Million)			
Employer Normal Cost	$18.8	$18.3	$(0.5)
Payoff of UAL – from Active Salaries	16.0	16.5	0.5
Payoff of UAL – from DROP Salaries	0.4	4.4	4.0
Expected Employee Contribution	(11.1)	(11.1)	0.0
Total Expected Employer	$24.1	$28.1	$4.0

Sincerely,

Steve Osborn, EA, FSA MAAA, FCA
Actuary