

## **Senate Bill 237**

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

#### **Provisions of the Bill**

Senate Bill 237 affects the Arkansas Judicial Retirement System (AJRS). This smaller plan only covers Circuit, Appellate, and Supreme Court Judges in Arkansas (about 141 active members). The 1999 General Assembly made changes to the formula to create a Tier Two of AJRS for judges elected after that Act. A Legislative history, finding and intent about that decision is in §24-8-701.

Currently, neither Tier One or Tier Two has a provision for a service credit purchase. In fact, there is not a service credit purchase between systems available in any of our statewide plans. Tier Two is built to be an actual service pension plan and so it has limited provisions for reciprocal service. Senate Bill 237 would allow a service credit purchase in Tier One and Tier Two. It would maintain limited reciprocal service credit in Tier Two.

#### **Fiscal Impact**

We have reviewed the proposed changes in Senate Bill 237 and have discussed them with the AJRS staff. We understand that six AJRS active members have General Assembly service credit that could be purchased if Senate Bill 237 is passed. The addition of one year of accrual at the 3.2% multiplier of Tier Two would add about \$5,500 per year to the benefit of a member. More importantly, it would allow that member to retire at an earlier time, which in our example of one year, the average annual benefit for a retiree right now is \$100,000 per year. Any service time purchased would cause a loss to the system and it would be expensive to the member. The calculation in Senate Bill 237 would come close to covering the value of the increased benefit but would not be enough to fund the cost of the additional year of benefit payments. Even the limited reciprocal service in Tier Two of the system is a concern to us. We understand that over one-third (52 out of 141) of the active members have service credit in APERS. The combination of reciprocal and purchased service could significantly impact the funding structure of AJRS.

**Other Information**

Current law prohibits concurrent service, that is, more than one year of service earned for 12 months worked in ACA §24-2-306. Therefore, it is our understanding that if a member did make a service purchase as defined in Senate Bill 237, then they would forfeit their APERS service for that time.

AJRS has a comparatively rich benefit due to the nature of the employees that are covered. Therefore, it has relatively strict benefit eligibility rules that purposefully did not include any additional service. Senate Bill 237 would conflict with the intent written in §24-8-701(c) which states: “It is found and determined by the General Assembly that the legislative history of the development of the Tier Two Actual Judicial Service Benefit Plan demonstrates that the purpose of this subchapter is to provide a fair retirement plan based on actual service and to provide for graduated benefits for retired judges and justices. Therefore, any future attempt to add credited service into this plan would run contrary to the legislative history of this act and the agreements that resulted in the adoption of this plan, and would constitute a major breach of a negotiated change in judicial retirement that balanced the removal of credited service provisions with provisions to allow judges and justices to have graduated benefits and earlier benefit rights.”

Sincerely,



Jody Carreiro, EA, ASA, MAAA, FCA  
Actuary