

House Bill 1200

Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 94th General Assembly

Provisions of the Bill

House Bill 1200 affects the Arkansas Teacher Retirement System (ATRS). The bill changes three sections of code having to do with free military service or certain service purchases. The change is from allowing only active members access to these purchases to allowing for any member access to these types of purchases before retirement. Section 1 deals with federal service credit. Section 2 deals with contributory service credit. Section 3 makes a similar change for military service credit during a time of federal military draft and makes some other wording changes to that subdivision of the code.

Fiscal Impact

All service purchases including upgrades from noncontributory service to contributory service credit are based on paying the actuarial equivalent of the member benefits. The exception is the free military service credit described in ACA §24-7-602(a) which deals with military service during a period where there is a federal military draft. A federal military draft has not existed in many years, so the number would be insignificant. Since all other service purchases are tied to the actuarial equivalent the system by definition gets an amount that would be equivalent to the impact. There is always an element of anti-selection with service purchases, that is, only those who judge it will be to their advantage will spend the significant cost of a service purchase. Based on discussion with ATRS staff, there are very few service purchases of any type in recent years since they all require the payment of the actuarial equivalent cost of the service.

ATRS staff states that the primary purpose is to make all types of service purchases have the same wording and that their intent is to administer all types of purchases consistently. It is our opinion that House Bill 1200 will not have a significant fiscal impact on ATRS.

Sincerely,



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Actuary