

Senate Bill 179

(As Engrossed March 28, 2023)

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

Provisions of the Bill

Senate Bill 179 affects the benefits of certain law enforcement officers in the Arkansas Public Employees Retirement System (APERS). A law enforcement officer is defined and eligible to receive the additional benefits provided by this bill if they have satisfied the Arkansas law enforcement certification defined in §12-9-106 and is serving as a certified law enforcement officer for the period covered. As of the June 30, 2022 valuation report, there would have been about 2,453 members eligible for this benefit with a covered compensation of about \$118 million.

Senate Bill 179 provides an additional 0.25% multiplier per year of service as a certified law enforcement officer. The base APERS multiplier is 2.00% for contributory members. The member covered under this bill would pay an additional 1.25% of the member's compensation during the period of time they receive this additional benefit credit. The benefit and additional contribution are only effective for service beginning July 1, 2024.

Fiscal Impact

Senate Bill 179 will increase benefits, and so, increase costs to the system. But, it also increases the contributions. The question will be is the 1.25% of compensation in increased contribution from members receiving this additional benefit be expected to fully cover the increased cost without further expected contributions from the other employers.

We independently made these calculations based on the listing of law enforcement officers as of June 30, 2022 provided by APERS. Our calculations were consistent with the amounts calculated by the APERS actuary. The differences in the amounts were not significant. Therefore for ease of discussion, we concur and are reporting the same numbers that were included in the GRS actuary report to APERS.

The valuation results for the employer contributions rate is below. This is the current valuation results for the group of law enforcement officers only.

APERS – Law Enforcement Only

	Due to Senate <u>Bill 179</u>
Employer Contribution Rate	
Employer Normal Cost	1.50%
Payoff of UAAL	0.40%
Expected Average Employee Contribution	<u>-1.25%</u>
Total Expected Employer	0.65%

The additional Unfunded Actuarial Accrued Liability (UAL) that is created by this change is \$4.6 million which is what the 0.40% of covered payroll would be used to pay. This means that the 1.25% of additional payroll contribution does not cover the cost of this change and another 0.65% of payroll would be needed to balance the benefits and contributions. If this was spread over the entire APERS system, the employer contribution is estimated to increase by 0.04% of payroll.

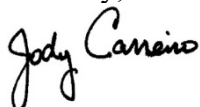
Bottom line, the employers of these members would also need to pay about 0.65% of payroll.

Other Considerations

There are two items that we believe deserve additional consideration as this bill is deliberated. First, we did not increase the retirement rates in making these calculations. Although this change is intended to improve retention of employees, which it should, it has the potential to increase retirement rates in later years. Since the amount to fully fund is paid off over the next 15 years, this should not increase the total cost over a number of years. But, it is worth consideration.

The other consideration concerns the recruitment of new employees. The affected members in APERS participate in Social Security. The member contribution rate for APERS will be 7% in a couple of years. This bill will add another 1.25% contribution. So a new employee being recruited would need to contribute almost 16% for various retirement plans.

Sincerely,



Jody Carreiro, ASA, MAAA, EA, FCA
Actuary