

House Bill 1325

Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 95th General Assembly

Provisions of the Bill

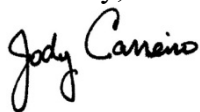
House Bill 1325 affects the provisions of the Arkansas Public Employees Retirement System (APERS) as it concerns reciprocal service with an alternate retirement plan (i.e. plans offered by state supported colleges and universities). The alternate plans are defined contribution plans typically qualified under a different part of IRS code, 403(b). The typical rules are that once a nonvested employee leaves employment, that after a period of time, the employer contributions are forfeited to the plan. The employee may elect to withdraw their own contributions (in cash or rollover). House Bill 1325 would require APERS to use “each year of employment” as service to meet eligibility requirements for retirement.

It is worth noting that in a 403(b) plan that is using the appropriate rules to forfeit an employer’s contributions for a former non-vested employee, if the employee came back to employment for this employer, they would not have any service credit.

Fiscal Impact

The situation addressed in House Bill 1325 is a fairly narrow set of circumstances. Therefore, not very many people would be assumed to be able to take advantage of this provision. In particular, this is advantageous mostly to an APERS member with 27 years of service trying to retire or DROP one year earlier. In present value terms, for someone around 60 years old, this is a roughly 5% increase in present value of benefits. Therefore, for the individual this makes a significant increase in present value of benefits, but there should be so few in this category of people that it would not have a significant impact to APERS and its contribution rate.

Sincerely,



Jody Carreiro, ASA MAAA, EA, FCA
Actuary