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House Bill 1336

(As Amended #1, March 27, 2025)
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 1336 affects several sections of code that governs the Arkansas State Police Retirement System (ASPRS). Section 2 makes the normal form of benefit a joint and 50% survivor annuity (75% if there are dependent children) increased from a life only benefit. Section 3 increases the death benefit for an active Tier 2 member to 50% of the benefit earned payable immediately (75% if there are dependent children). Section 4 increases the amount being deposited to the DROP accounts of Tier 2 members from 72% to 100%. Section 5 introduces an increase in the accident report fee from $10 to $25 per report to be used to pay for these benefits.

Fiscal Impact

We have reviewed the provisions of House Bill 1336 and there are these are significant benefit increases. The table below highlights the changes that are estimated to be made if House Bill 1336 were to become law.

	Current Provisions	After House Bill 1336	Cost Impact
Actuarial Accrued Liabilities ($Million)	$ 569.9	$ 591.4	$ 21.4
Actuarial Value of Assets	449.0	449.0	0.0
Unfunded Actuarial Accrued Liability (UAAL)	$ 120.9	$ 142.3	$ 21.4
Amortization Period (from 7/1/25)	15.0	15.0	(0.0)
Funded Ratio	78.8%	75.9%	(2.9)%
Employer Contribution Rate (% of Payroll)			
Employer Normal Cost	28.13%	30.59%	2.46%
Payoff of UAAL	23.87%	28.10%	4.23%
Expected Employee Contribution	-0.00%	-0.00%	0.00%
Total Expected Employer	52.00%	58.69%	3.47%
Expected Payroll beginning 7/1/2025 (Does not include 2025 Legislative changes)	$ 44.2	$ 44.2	$ 44.2
2025-26 Employer Contribution needed	$ 23.0	$ 26.0	$ 3.0

We made various calculations based on the provisions of this amendment and they were consistent with the calculations made by the system's actuary which have been provided to the committee. We chose to report using their numbers since we are in general agreement and to reduce confusion that having two sets of cost impact numbers could create.

These results are based on using the same assumptions that were found in the July 1, 2024 valuation report where the contribution rate for the 2025-2026 fiscal year were calculated. It is reasonable to argue that changes of this significance could cause changes in member behavior that would further increase the reported costs.

These amounts attempt to calculate the cost impact of all of the changes contained in the bill. But it is often the case in situations where there are several changes that final changes is greater than the sum of the individual effects. For example, Act 415 of 2021 increased the multiplier for Tier 2 and reduced retirement eligibility to 28 years and the estimated cost was about 3.5% of payroll. The act contained a provision to increase the budgeted contribution from Arkansas State Police (ASP) from 22% to 26% (a 4% increase). Normal cost was estimated to increase to 24.4%. Normal Cost as seen above is now over 28%. This has not been completely analyzed but a part of the explanation is the multiplicative effect discussed here.

Two risk factors that are discussed in the valuation report are the ratio of the number of actives to the number of beneficiaries, which is 0.7, and, the ratio of market value of assets to payroll. These factors point to the difficulty of dealing with a single bad year. For example, if the assets earned 0% instead of 7% during this year, the plan would have an actuarial loss of about 31.4 million where payroll is $44.2 million. This would ultimately increase the contribution rate by 8% of payroll (about $2.7 million). One bad investment year could push the balance of financing of the plan.

Funding Difficulties

One of the difficulties for ASPRS is that the funding structure is not the same as the benefit structure. That is, everything is based on having a plan cost calculated as a level percentage of payroll basis. But, the underlying funding of the plan is partly percentage of payroll and partly reliant on fairly level sources. ACA §24-6-209 defines the funding of the employer contributions. In 2024, the employer contribution of 56.59% of covered payroll (about $42.3 million), which is about $24 million. $11 million came from the 26% employer budget, $1.6 million from license reinstatement fees and another $11.4 million from the Fire and Police Pension Premium Tax fund. The premium tax piece is only to pay for Tier 1 unfunded from the time of establishment of Tier 2.

There is attached a schedule to this letter showing an illustration of how the changes of House Bill 1336 along with the new fee income in section 5 of the bill would work together. This table assumes all assumptions are met every year. First notice that Total Employer Contribution Increase column is not a level amount but an increasing amount. Next note that the level fee income will not even pay the Normal Cost Increase by year 20 in this illustration. The next to last column shows how the new Unfunded Accrued Liability amount should be amortized if paid as a level percentage of payroll. The last column shows the project unfunded if the fees as proposed are used to cover a portion of the increased cost. At the end of the 15 years, the amount of Unfunded Accrued Liaiblity would be about double what it is at the current time.

Policy Considerations

A joint and 50% survivor benefit is about a 12% increase over a straight life annuity. The ASPRS pays a benefit that is more valuable than any of the other systems. This is a policy decision that can be defended for several reasons. But at some point this advantage would seem excessive to others not part of ASPRS. Also, this makes the value of benefits to a married member considerably more valuable those of a single member.

There were several items that made Tier 1 unsustainable in 1997 when Tier 2 was created. This bill would reinstate two of the items most mentioned at that time: the automatic survivor benefits and the 100% into the DROP program.

When Tier 2 was established, life expectancy at retirement was about 3 years less than it is now. We are now at a point that if House Bill 1336 was passed a member would work 28 years and on average be about 55, with a life expectancy of nearly 85. So we would begin to provide benefits that on average last longer than the time of service to the state.

Our Opinion

There are many other considerations that should be given attention with an increase this significant. It is my opinion that House Bill should not move forward until those are addressed. It is my opinion that this needs to be studied and revisited in the next session to ensure that the fund can remain sustainable.

Sincerely,

Jody Carreiro

Jody Carreiro, ASA MAAA, EA, FCA
Actuary

House Bill 1336 (As Amendment #1, 3/27/2025)
Cost Impact with Fee Income Offset

Fiscal Year	Years from Passage	Expected Salary	Additional Normal Cost	Additional Unfunded Payment	Total Employer Contribution Increase	New Fee Income 25	New UAL piece if paid as Calculated	New UAL Piece if paid With Fee Income
			2.46%	4.22%	6.68%	1,300,000	21,409,293	21,409,293
2026	1	44,307,453	1,089,963	1,868,888	2,958,852	1,950,000	20,908,233	21,987,704
2027	2	45,747,445	1,125,387	1,929,627	3,055,014	1,950,000	20,307,108	22,644,508
2028	3	47,234,237	1,161,962	1,992,340	3,154,302	1,950,000	19,596,802	23,386,423
2029	4	48,769,350	1,199,726	2,057,091	3,256,817	1,950,000	18,767,490	24,220,679
2030	5	50,354,354	1,238,717	2,123,947	3,362,664	1,950,000	17,808,592	25,155,054
2031	6	51,990,870	1,278,975	2,192,975	3,471,950	1,950,000	16,708,710	26,197,912
2032	7	53,680,574	1,320,542	2,264,247	3,584,789	1,950,000	15,455,576	27,358,246
2033	8	55,425,192	1,363,460	2,337,835	3,701,294	1,950,000	14,035,983	28,645,725
2034	9	57,226,511	1,407,772	2,413,814	3,821,586	1,950,000	12,435,721	30,070,742
2035	10	59,086,373	1,453,525	2,492,263	3,945,788	1,950,000	10,639,500	31,644,465
2036	11	61,006,680	1,500,764	2,573,262	4,074,026	1,950,000	8,630,874	33,378,895
2037	12	62,989,397	1,549,539	2,656,893	4,206,432	1,950,000	6,392,160	35,286,925
2038	13	65,036,552	1,599,899	2,743,242	4,343,141	1,950,000	3,904,343	37,382,402
2039	14	67,150,240	1,651,896	2,832,397	4,484,293	1,950,000	1,146,982	39,680,199
2040	15	69,332,623	1,705,583	2,924,450	4,630,033	1,950,000	0	42,196,286
2041	16	71,585,933	1,761,014	3,019,495	4,780,509	1,950,000	0	44,947,811
2042	17	73,912,476	1,818,247	3,117,628	4,935,875	1,950,000	0	47,953,182
2043	18	76,314,631	1,877,340	3,218,951	5,096,291	1,950,000	0	51,232,158
2044	19	78,794,857	1,938,353	3,323,567	5,261,921	1,950,000	0	54,805,948
2045	20	81,355,690	2,001,350	3,431,583	5,432,933	1,950,000	0	58,697,308