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Senate Bill 130

(As Engrossed January 31, 2013)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 89th General Assembly

Provisions of the Bill

Senate Bill 130 affects the Arkansas Teacher Retirement System (ATRS).

Senate Bill 130 modifies §24-7-713, which defines the additional monthly stipend. This stipend, added in the 1999 session, began at $50 and was later increased to $75 per month. Senate Bill 130 would allow the ATRS board to change this amount anywhere in the range from $1 to $75 per month. A reduction must be based on a recommendation of the actuary to the system. We assume the ATRS board could increase the amount back up to $75 per month.

Fiscal Impact

Since Senate Bill 130 allows the ATRS board to implement based on current results, we would not be able to know the impact until the ATRS board chose a certain level of reduction. In the table below, we show the effect of a reduction of the stipend by $1 per month and then the effect of the maximum reduction of the stipend of $74 per month.

	6/30/2012 Valuation	$1 Stipend Decrease	$74 Stipend Decrease
Unfunded Actuarial Liability (millions)	$4,655	-$6.6	-$488.4
30 year amortization of UAL	$280	-$0.4	-$29.6
Years to amortize UAL at 14% contribution	>100	>100	48
Net Normal Cost	6.93%	-0.005%	-0.39%
Change using 30 year amortization as a percent of payroll		-0.02%	-1.48%

Policy Consideration

There are a total of six bills (SB123, SB130, SB162, HB1194, HB1198, HB2000) that give certain authority to the ATRS board to set benefits and contribution rates. Benefits and contribution rates have historically been set by the legislature and the ATRS board adopts policy to implement them. This would be a change to that practice.

Other

The nature of the stipend (a flat amount for all retirees) means that if this change were implemented, the lowest paid retirees would realize the biggest percentage reduction in benefits.

The system actuary made a point in their report of February 6, 2013 concerning certain wording which appears to make the actuary recommend changes in benefits. Actuaries typically make cost recommendations and value the change in benefits; they typically do not recommend particular changes in benefits. We would concur with the suggested wording change.

Sincerely,

Jody Carreiro

Jody Carreiro, A.S.A, M.A.A.A.
Actuary