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Senate Bill 123

(As Engrossed February 19, 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 123 affects the Arkansas Teacher Retirement System (ATRS).

Senate Bill 123 modifies §24-7-406, concerning the contribution rate for the contributory members of ATRS. There are about 49,000 of the 71,000 active members (69%) that are contributory members. The other 22,000 members (31%) do not contribute, and this bill would not affect those members. Senate Bill 123 allows the ATRS board to increase the contribution rate above 6% to a maximum of 7%. Any change would be effective during a fiscal year. The increase can only be made if the system's actuary certifies that the amortization period exceeds 30 years, which it does at the present time.

Fiscal Impact

Since Senate Bill 123 allows the ATRS board to implement a contribution rate increase based on current results, we would not be able to know the impact until the ATRS board determined a certain level of increased contributions. In the table below, we show the effect of implementation of the maximum 1% increase in employee contributions (to 7%) allowable by the bill. One notes that the net savings in normal cost is actually less than 1%—this is due to the fact that not all employees are contributory and that employees are due a return of employee contributions if they terminate before being vested.

	6/30/2012 Valuation (6% Contrib.)	If Senate Bill 123 Implemented at 7% Contrib.	Savings
Unfunded Actuarial Liability (millions)	$4,655	$4,655	$ 0
30 year amortization of UAL	$280	$280	
Amount available to pay UAL	$192	$211	$19
Years to amortize UAL at 14% contribution	>100	59	>41
Net Normal Cost	6.93%	6.23%	-0.70%

Policy Consideration

There are a total of six bills (SB123, SB130, SB162, HB1194, HB1198, HB1200) 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 savings generated by a full implementation of this bill are not sufficient to support the payment of a 30 year amortization of the Unfunded Actuarial Liabilities with the current statutory 14% employer contribution. There are other bills considered, and the effect of these bills may not always be additive in nature; that is, the final result of all legislation may not be the sum of the individual pieces.

Sincerely,

Jody Carreiro

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