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Senate Bill 164

(As Engrossed February 13, 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 164 affects the Arkansas Teacher Retirement System (ATRS).

Senate Bill 164 would allow the ATRS Board of Trustees to establish a voluntary buyout program which would allow a member, surviving spouse, or alternate payee to accept a one-time, lump sum payment in exchange for cancellation of their member's rights and retirement benefit rights in ATRS. The buyout plan may be offered periodically and shall specifically identify the buyout formulas and eligible groups of participants. In particular, a member may be eligible to participate if he or she is eligible for deferred retirement and has been inactive for at least one year and received at least a quarter-year of service credit. A surviving spouse or alternate payee may be eligible if he or she is eligible for a future retirement benefit and has not yet received a retirement benefit from the system. If a member receives a buyout and subsequently returns to active service, he or she will be allowed to repurchase his or her previously credited contributory service as if the service had been private school service (i.e. at an actuarial equivalent rate).

Fiscal Impact

We believe the intent of the bill is to allow the ATRS board to make lump sum buyout offers whose value is less than the actuarial liability associated with the accrued benefits or accrued service. If this is the case, then such a program would save ATRS money. There are currently over 12,000 deferred vested participants with almost $500 million in associated liabilities of which $88 million is the member contribution balance. Some portion of these liabilities would be reduced as a result of a system-advantageous buyout program.

The actual savings depends on the buyout program and the percentage of members who elect the buyout. For example, if all of the deferred vested members were bought out at 20% less than actuarial liability value plus member contributions, the total savings would be about $80 million. That would translate to about a 0.18% of payroll savings.

Other

Senate Bill 164 is one of several bills proposed by ATRS to generate savings based on ATRS board implementation.

There are several policy issues to consider. Even though these buyouts would be entirely elective, people tend to overestimate the value of a lump sum today relative to the long term value of a benefit or right. A member would often choose against his or her own best interest if the buyout program is structured as we understand ATRS envisions—such a buyout would be particularly damaging to low-income vested employees who would permanently forego their right to the stipend and reciprocity rights by accepting such a payment. There is also a question as to whether the stipend and the lump sum death benefits are "accrued benefits" for these deferred vested members. Finally, there is the option to repurchase such released service. But, since the repurchase is at an actuarial equivalent rate, a discounted buyout would produce a large difference between the buyout amount and the repurchase cost.

Sincerely,

Jody Carreiro

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