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Senate Bill 48

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 90th General Assembly

Provisions of the Bill

Senate Bill 48 affects the Arkansas Teacher Retirement System (ATRS).

Arkansas Code Annotated §24-7-704 contains language that provides for a benefit when a member becomes disabled. The definition in this section of disability is a total and permanent condition that does not allow the member to continue in their current job. This is referred to as an "own occupation" definition of disability. The code does have provisions that allow ATRS to reaffirm the status of the disability, that is, has it remained and does it continue to prevent the member from performing the job which they once held.

Senate Bill 48 would add another way to ensure that the disability is total and permanent. Senate Bill 48 requires the disabled retiree to provide a copy of a Social Security determination of disability within 36 months of the beginning of disability benefits. Those already receiving benefits as of July 1, 2015 would have 36 months from that point to provide this documentation. Members over age 57 currently drawing a disability benefit or members who become disabled after reaching age 57 would not be required to provide this documentation. This exception exists since three years after age 57, the member would be age 60 and eligible for normal retirement. The bill also includes the ability to extend the deadline under certain conditions.

The Social Security disability definition is a total and permanent condition. The Social Security definition also includes being unable to work in any gainful occupation. This is referred to as "any occupation" definition of disability and is stronger than the current ATRS definition.

The member who cannot provide the determination within 36 months will have their disability benefits discontinued. Since they have earned the right to a deferred benefit in order to qualify for a disability benefit, this would mean that the benefit would be discontinued until age 60, at which time the deferred accrued benefit earned at the point of leaving employment would begin.

Fiscal Impact

ATRS has averaged about 150 members qualifying for disability benefits each year the past five years. These members have an earned disability benefit of about $1,000 per month. ATRS has 2,566 disabled members as of July 1, 2014. These members draw an average current annuity of $1,165 per month. A review of the disabled members in the system shows that about 75% of disabilities occurred before attained age 57. The average age of disability of all disabled participants is about 52. The average age of members disabled before age 57 is about age 50.

We estimate that that between 10% and 30% of those disabled under age 57 and current disabled participants still under age 57 would not be able to meet this additional requirement and would have their benefits discontinued until age 60. The reduction in liability would be fully realized over 3 years since the new provision requires reporting within three years of July 1, 2015. Therefore, we estimate that the total plan liabilities would be reduced between $6 and $19 million over this period. This would reduce the required contribution amount by between 0.02% and 0.05%. In other words, the years needed to payoff the unfunded liability would be reduced between 0.1 and 0.5 years.

Sincerely,

Jody Carreiro

Jody Carreiro, EA, ASA, MAAA
Actuary