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Senate Bill 163

(As Engrossed January 25, 2017)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 91st General Assembly

Provisions of the Bill

Senate Bill 163 affects the Arkansas State Highway Employees' Retirement System (ASHERS).

Act 1053 of 1997 created language in §24-2-502 which allowed members of any state-supported retirement system to purchase up to five years of prior military service. The requirement introduced in that legislation was that the member had to have five years of actual service with the retirement system to be able to purchase this service. The language currently in A.C.A. §24-5-123 was created by Act 455 of 1987, and it contains the ASHERS-specific rules for purchasing military service. This section required 10 years of creditable service with the retirement system to be able to purchase service, and it may (depending on interpretation) only apply to those who previously served with the state and returned to employment. ASHERS used the 10 year threshold for calculating service purchases, and required interest, even after the passage of Act 1053 of 1997. ASHERS has suggested that it would be appropriate to refund "overcharged" interest payments and allow a purchase window for those with between five and ten years of service with ASHERS. We understand that this corrective desire is the impetus behind Senate Bill 163.

Fiscal Impact

We have reviewed figures provided by ASHERS which show employees potentially eligible for purchasing service during this window, as well as those due refunds if Senate Bill 163 were to become law. If the employees are allowed to purchase service at the 18.9% combined contribution rate suggested by the system, we believe that the maximum impact would be interest refunds of just under $6,000 and forgiveness of up to $277,000 in interest not yet paid. In reality, the impact would likely be less than these figures – two employees due $5,932 would certainly be affected, with approximately 50 other employees possibly being impacted. Please note that this figure does not represent an actuarial cost to the system – this is simply the impact of forgiving approximately five years of 6% interest on the purchase costs. The 18.9% of salary is typically less than the actuarial equivalent cost for each service purchase on a case-by-case basis, but Senate Bill 163 does not attempt to amend the terms of the purchase other than the interest charged.

Other

Benefit enhancements are prohibited for systems whose funding amortization periods are longer than 30 years. The window created by Senate Bill 163 could be considered a benefit enhancement. It is our opinion that this change should be considered an error-correction with a cost and not a benefit enhancement.

We believe that future confusion might be avoided by amending §24-5-123(a)(1) in ASHERS code to require five years of creditable service so that it aligns with §24-2-502. Furthermore, we have some concerns that §24-2-502(d) and §24-5-123(a)(5) may conflict if these purchases were to ever be challenged. These issues deserve future review.

Sincerely,

Jody Carreiro

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