Osborn, Carreiro & Associates, Inc.

ACTUARIES ● CONSULTANTS ● ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501)376-8043 fax (501)376-7847

House Bill 1169

(As Engrossed March 15, 2021)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 93rd General Assembly

Provisions of the Bill

House Bill 1169 affects the Arkansas Teachers Retirement System (ATRS). Currently the regular retirement eligibility for ATRS (and for T-DROP) is age 60 with 5 years of service or 28 years of service. A member who has more than 25 years of service or more and is less than age 60 may elect early retirement with a reduction to reflect that early retirement. That reduction is in effect 10% per year before regular retirement eligibility. House Bill 1169 would reduce this early retirement reduction for certain individuals from 10% to 5%. This enhanced early retirement benefit would be provided to an active member who

(a) Is an employee of a public school;
(b) Has attained a full year of service credit for the 2020-2021 school year;
(c) Has a combined total of twenty-seven (27) or more years of actual and reciprocal service; and
(d) Is not eligible for under §24-7-701 [the regular retirement eligibility mentioned above].

Fiscal Impact

When an early retirement option exists, some people will elect it which will increase costs. House Bill 1169 will provide a larger early retirement benefit in certain cases than they othersie would have received. There could be long term behavior changes due to this bill, but we have not assumed any. It is our opinion that there will be a one-time increase in the Unfunded Actuarial Liability of about $10 million, which would increase the amortization period by about 3 months, from 27 years to 27.25 years.

Policy Issues

Here are some policy issues that the Committee may want to consider:

1. This would seem to us to be a long term administrative issue to track the people in this cohort until they all retire.
2. This does create a long-term cost increase. All of the systems have tried to do things to continue to move the systems closer to full funding and this goes the wrong direction.

3. This is trying to solve a short term legitimate concern with a long term cost.
4. The title purports this bill to be for those who were employed by a covered employer during 2020-2021. There are about 67,000 active members in the most recent valuation. According to research done at ATRS, only about 60,000 of them are on track to meet the full year and public school requirements. There are also about 5,500 members who have already met the regular retirement eligibility and would not benefit from this bill.
5. The TDROP is very popular with the ATRS members. This bill does not change the eligibility for TDROP and will only be useful for those who wish to retire early.
6. There is a strong tendency to follow the trend of other members in all systems, but it is very strong in ATRS. Our concern is that a tendency would begin for early retirement which is not (and should not be) a good economic choice for many members. This bill would make it a good choice for some members. If the trend was started it could start a change in behavior that would not be good economically for teachers and worse for the system.

Sincerely,

Jody Carreiro

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