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 1343

(As Amended #1 March 12, 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 1343 affects the Arkansas State Police Retirement System (ASPRS). A Tier One member currently may retire at any age with 30 years of service and the multiplier is 1.55% (effectively 2.325%). A Tier Two member currently may retire at any age with 30 years of service and the multiplier is 2.475%. [There are other eligibilities, please see the valuation report, but the 30 year is the focus of the bill.] House Bill 1343 would reduce the eligibility for full retirement to 28 years for both Tiers. The multipliers would also change to 1.66% and 2.65%. This means that a Tier Two member that retires at 28 years of service would now receive 74.2% of final average pay (28 X 2.65%) which is about the same amount they would have received at 30 years before House Bill 1343, 74.25% of final pay (30 X 2.475%). House Bill 1343 also increase the base contribution amount that must be contributed by the employer from 22% to 26%.

## Fiscal Impact

The effect of House Bill 1343 will be to increase the cost of the plan to be able to maintain the current 19-year amortization period. The table below shows a summary of the effect of House Bill 1343 (in $millions):

| | Current Provisions | After House Bill 1343 | Cost Impact |
|---|---|---|---|
| Actuarial Accrued Liabilities ($Million) | $ 472.9 | $ 481.5 | $ 8.6 |
| Actuarial Value of Assets | 352.1 | 352.1 | 0.0 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 120.8 | $ 129.4 | $ 8.6 |
| Amortization Period | 19.0 | 19.0 | (0.0) |
| Funded Ratio | 74.4% | 73.1% | (1.3)% |
| | | | |
| Employer Contribution Rate | | | |
| Employer Normal Cost | 22.82% | 24.37% | 1.55% |
| Payoff of UAAL | 27.03% | 28.95% | 1.92% |
| Expected Employee Contribution | -0.00% | -0.00% | 0.00% |
| Total Expected Employer | 49.85% | 53.32% | 3.47% |

The additional 4% employer contribution is more than the increase in the estimated cost. This is important because the other sources of income to the system are fixed.

**Change in Assumptions**

This type of benefit change will likely cause some changes in behavior. We do not know exactly how participants will react, but we know from experience they are likely to retire earlier. The estimate of when eligible participants leave employment (they may DROP before these dates) that are in the valuation and are used in this cost estimate are as follows:

| Years of Service | Valuation | This Cost Study |
|---|---|---|
| 28 | - | 20% |
| 29 | - | 10% |
| 30 | 25% | 10% |
| 31 | 15% | 10% |
| 32 | 15% | 10% |
| 33 | 20% | 20% |
| 34 | 35% | 35% |
| 35 | 40% | 40% |
| 36 & Over | 100% | 100% |

For the purpose of this cost study, Tier Two members who are eligible to retire under the service based rates are assumed to have one year of credited service in addition to the credited service that is report for valuation purposes. It is assumed that members eligible to enter the DROP will do so to maximize the value of their benefits.

**Related Legislation**

There was one bill that was requested by the ASPRS board to be considered by the legislature. House Bill 1350 was approved by this committee and clarified that reciprocal service could be used to meet eligibility requirements.

**Risk and Maturity Measures**

The valuation report has a full discussion of the risk and maturity measures facing this plan. Two items, in particular, will be affected by House Bill 1343. The ratio of actives to retirees is 0.7 and will decline. The ratio of liabilities to payroll is 14.2 and likely increasing, making variations in investment return much longer to payoff. All risk measures should continue to be monitored.

Sincerely,

Jody Carreiro

Jody Carreiro, EA, ASA, MAAA, FCA
Actuary

Additional Disclosures on file with BLR