

Senate Bill 79

Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 95th General Assembly

Provisions of the Bill

Senate Bill 79 affects the provisions of the Arkansas Public Employees Retirement System (APERS) and the Arkansas State Police Retirement System (ASPRS). A new section of code would be added by this bill which would allow a retired member to change their retirement election under certain conditions:

1. A noncontributory member (the bill is silent but apparently) of either system,
2. Continuous service in either system,
3. Retired from both systems when coverage changed from one system to the other,
4. Retirement from “most recent employer was in error”, and
5. Within the later of six months from retirement or six months from enactment of bill.

Upon filing an affidavit stating that the retirement was in error, the member can “unretire” from APERS.

Senate Bill 79 also changes the DROP code of APERS, ACA §24-4-803, to allow a one time change in the member’s selection of a retirement annuity from their DROP account. This appears to be open to all within six months of the enactment.

Other Concerns

This legislation raises various other concerns for us not related to the cost of the system, including:

1. This narrow qualification seems unfair to many other retirees who have made erroneous elections in the past. All similarly situated members (based on age and service) should be treated the same.
2. The narrow qualification could be considered special interest legislation.
3. Sets a precedence for others who want to change their elections.
4. Revocable elections are subject to adverse selection. Adverse selection means that a member has or gains additional information and selects to benefit themselves, adversely to the system. That is why revocable elections are nonexistent (or very unusual) in pension plans.
5. The last section of the bill concerning DROP would appear to give an opportunity for a wider group to change their DROP elections. The cost of the DROP is dependent on making some choices irrevocable.
6. Page 3, line 11, appears to mean to say “member’s selection” not “member’s section”.

Fiscal Impact

We have reviewed the provisions of Senate Bill 79. We do not know how many individuals would be affected by this legislation, but with the narrow definition described, it is not likely there are many. Any change of this nature would be a cost to the system, but since there are not many in this situation the total cost would be negligible. It is our opinion that Senate Bill 79 will create additional costs to the system but would not make a significant change to the actuarially determined cost of APERS or ASPRS.

Sincerely,



Jody Carreiro, ASA MAAA, EA, FCA
Actuary