

House Bill 1158

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

Provisions of the Bill

House Bill 1158 affects the provisions of the Arkansas Teachers Retirement System (ATRS). House Bill 1158 amends ACA §24-7-1308 which describes how the Teacher Deferred Retirement Option Plan (TDROP) balance is distributed. During the TDROP participation period a portion of the retirement benefit earned at the time of election is accumulated into a TDROP account. At the end of the TDROP participation that account can be distributed as a lump sum (rollover or cash) or an monthly annuity benefit which is added to their regular monthly annuity. House Bill 1158 allows a member who makes an TDROP account annuity election a two-month window in which to change the TDROP account annuity option that was elected. This provision is similar to the two-month window a member has to change their TDROP participation agreement (ACA §24-7-1302). If there is a change to the TDROP account annuity option made, then any difference in benefit amounts must be paid back to the system. House Bill 1158 does not affect the election of the primary retirement annuity option.


Fiscal Impact

We have reviewed the provisions of House Bill 1158. This change would allow for some adverse selection (see below) which would be an increase in cost to the system. After discussion with system personnel, we believe the small number who will use this option and the short window available would mean that the cost increase would be insignificant to the system. Therefore, it is our opinion that there would be no significant fiscal impact on the system created by House Bill 1158.

Other Considerations

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 unusual in pension plans. A short window (as we see in this bill) does allow to correct honest mistakes and misunderstandings without creating an opportunity to get more from the system using new information.

Sincerely,



Jody Carreiro, ASA MAAA, EA, FCA
Actuary