Osborn, Carreiro & Associates, Inc.

ACTUARIES ● CONSULTANTS ● ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 2.072201
(501)376-8043 fax (501)376-7847

House Bill 1161

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 1161 affects the provisions of the Arkansas Teachers Retirement System (ATRS). The optional forms that the monthly retirement annuity payments can be made is described in ACA §24-7-706. House Bill 1161 amends subsection (e) of this section which describes how a member can change their option election within one year of retirement. House Bill 1161 rearranges certain language in this subsection and makes it clear that a member that uses this provision must pay back any difference in the monthly annuity benefit options made since the original retirement date.

Fiscal Impact

We have reviewed the provisions of House Bill 1161. The changes proposed by this bill improve the clarity of this section and should result in some administrative savings compared with current law. It is our opinion that any revocable election and in particular one this long exposes the system to some unnecessary risk (see paragraph below). It is our opinion that there would be no significant fiscal impact on the system created by House Bill 1161.

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. This is why revocable elections are unusual in pension plans. A shorter window could allow members to correct honest mistakes and misunderstandings without creating an opportunity to get more from the system using new information.

Sincerely,

Jody Carreiro

Jody Carreiro, ASA MAAA, EA, FCA
Actuary