

House Bill 1336

(As Amended #2, April 1, 2025)

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

Provisions of the Bill

It is our understanding that Amendment #2 will be introduced which would remove the first 3 sections of the current bill. This note reflects that change.

House Bill 1336 affects several sections of code that governs the Arkansas State Police Retirement System (ASPRS). Section 4 (will be 1) increases the amount being deposited to the DROP accounts of Tier 2 members from 72% to 100%. Section 5 (will be 2) introduces an increase in the accident report fee from \$10 to \$25 per report to be used to pay for these benefits.

Fiscal Impact

We have reviewed the provisions of House Bill 1336 and there are these are benefit increases. The table below highlights the changes that are estimated to be made if House Bill 1336 were to become law.

	Current Provisions	After House Bill 1336	Cost Impact
Actuarial Accrued Liabilities (\$Million)	\$ 569.9	\$ 574.1	\$ 4.2
Actuarial Value of Assets	449.0	449.0	0.0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 120.9	\$ 125.1	\$ 4.2
Amortization Period (from 7/1/25)	15.0	15.0	(0.0)
Funded Ratio	78.8%	78.2%	(0.6)%
Employer Contribution Rate (% of Payroll)			
Employer Normal Cost	28.13%	28.64%	0.51%
Payoff of UAAL	23.87%	24.70%	0.83%
Expected Employee Contribution	-0.00%	-0.00%	0.00%
Total Expected Employer	52.00%	53.34%	1.34%
Expected Payroll beginning 7/1/2025 (Does not include 2025 Legislative changes)	\$ 44.2	\$ 44.2	\$ 44.2
2025-26 Employer Contribution needed	\$ 23.0	\$ 23.6	\$ 0.6

We made various calculations based on the provisions of this amendment and they were consistent with the calculations made by the system's actuary which have been provided to the committee. We chose to report using their numbers since we are in general agreement and to reduce confusion that having two sets of cost impact numbers could create.

These results are based on using the same assumptions that were found in the July 1, 2024 valuation report where the contribution rate for the 2025-2026 fiscal year were calculated. It is reasonable to argue that changes like this could cause changes in member behavior that would further increase the reported costs.


Two risk factors that are discussed in the valuation report are the ratio of the number of actives to the number of beneficiaries, which is 0.7, and, the ratio of market value of assets to payroll. These factors point to the difficulty of dealing with a single bad year. For example, if the assets earned 0% instead of 7% during this year, the plan would have an actuarial loss of about 31.4 million where payroll is \$44.2 million. This would ultimately increase the contribution rate by 8% of payroll (about \$2.7 million).

Funding Difficulties

One of the difficulties for ASPRS is that the funding structure is not the same as the benefit structure. That is, everything in the valuation is based on having a plan cost calculated as a level percentage of payroll basis. But, the underlying funding of the plan is partly percentage of payroll and partly reliant on fairly level sources. ACA §24-6-209 defines the funding of the employer contributions. In 2024, the employer contribution of 56.59% of covered payroll (about \$42.3 million), which is about \$24 million. \$11 million came from the 26% employer budget, \$1.6 million from license reinstatement fees and another \$11.4 million from the Fire and Police Pension Premium Tax fund. The premium tax piece is only to pay for Tier 1 unfunded from the time of establishment of Tier 2.

There is attached a schedule to this letter showing an illustration of how the changes of House Bill 1336 along with the new fee income in section 5 of the bill would work together. This table assumes all assumptions are met every year. First notice that Total Employer Contribution Increase column is not a level amount but an increasing amount. The next to last column shows how the new Unfunded Accrued Liability amount should be amortized if paid as a level percentage of payroll. The last column shows the projected unfunded if the fees as proposed are used to cover the increased cost. The additional fee income will pay for the increased liability by the end of year 3 of this illustration and will then strengthen the total plan. Therefore, House Bill 1336 with Amendment #2 will not cause any funding issues for ASPRS.

Sincerely,



Jody Carreiro, ASA MAAA, EA, FCA
Actuary

House Bill 1336 (As Amendment #2, 4/1/2025)

Cost Impact with Fee Income Offset

Fiscal Year	Years from Passage	Expected Salary	Additional Normal Cost	Additional Unfunded Payment	Total Employer Contribution Increase	New Fee Income	New UAL piece if paid as Calculated	New UAL Piece if paid With Fee Income
			0.51%	0.83%	1.34%	25		
						1,300,000	4,195,322	4,195,322
2026	1	44,307,453	225,968	366,573	592,541	1,950,000	4,096,762	2,644,280
2027	2	45,747,445	233,312	378,486	611,798	1,950,000	3,978,555	992,524
2028	3	47,234,237	240,895	390,787	631,682	1,950,000	3,838,912	0
2029	4	48,769,350	248,724	403,488	652,211	1,950,000	3,675,904	0
2030	5	50,354,354	256,807	416,601	673,408	1,950,000	3,487,454	0
2031	6	51,990,870	265,153	430,140	695,294	1,950,000	3,271,325	0
2032	7	53,680,574	273,771	444,120	717,891	1,950,000	3,025,110	0
2033	8	55,425,192	282,668	458,554	741,222	1,950,000	2,746,215	0
2034	9	57,226,511	291,855	473,457	765,312	1,950,000	2,431,851	0
2035	10	59,086,373	301,340	488,844	790,185	1,950,000	2,079,017	0
2036	11	61,006,680	311,134	504,732	815,866	1,950,000	1,684,485	0
2037	12	62,989,397	321,246	521,136	842,381	1,950,000	1,244,784	0
2038	13	65,036,552	331,686	538,072	869,759	1,950,000	756,181	0
2039	14	67,150,240	342,466	555,560	898,026	1,950,000	214,665	0
2040	15	69,332,623	353,596	573,615	927,212	1,950,000	0	0
2041	16	71,585,933	365,088	592,258	957,346	1,950,000	0	0
2042	17	73,912,476	376,954	611,506	988,460	1,950,000	0	0
2043	18	76,314,631	389,205	631,380	1,020,585	1,950,000	0	0
2044	19	78,794,857	401,854	651,900	1,053,754	1,950,000	0	0
2045	20	81,355,690	414,914	673,087	1,088,001	1,950,000	0	0