2021 PROPOSED LEGISLATION FOR ASHERS

All of the stakeholders in our Arkansas State Highway Employees Retirement System (ASHERS) including ARDOT, ARDOT active employees, ARDOT retirees and future ARDOT employees, need a sustainable system that can be counted on in the future.

Because ASHERS is a mature plan with approximately one active employee to every one retiree, it must be monitored and periodic changes made as needed. Over the last few years, the ASHERS's Board of Trustees has made strategic changes to bolster the sustainability of the System. In addition, the Board has made a focused effort to share the burden among all the stakeholders.

We have made progress. As of June 30, 2020, the annual actuarial valuation for ASHERS reflected an Unfunded Actuarial Accrued Liability (UAAL) of $307.5 million, a funded percentage of 82.35% and a funding period of 39.5 years.

To capitalize on the progress made, the legislative retirement package for the 2021 Session addresses three key areas: contribution policies, benefit calculations and eligibility requirements.

1. Increase employer contribution rate on DROP employees to 14.9%. No impact to current employees or retirees of ARDOT.

2. For individuals hired after June 30, 2021, increase the employee contribution rate while in the DROP to the contribution rate for active employees. This change impacts new hires only.

3. Allow the ASHERS Board, with Commission approval, to set the employer contribution rate based on actuarial calculations. No impact to current active employees or retirees.

4. Revise the retirement benefit calculation utilizing a high 5-year consecutive average salary rather than a high 3-year consecutive average salary. For all ARDOT employees, a benchmark of their high 3-year consecutive average salary will be calculated at June 30, 2021. At retirement or DROP enrollment, their high 5-year consecutive average salary will be calculated and compared to the benchmark. The higher of the two calculations will be utilized for establishing their retirement benefit. This change will be effective for employees retiring or joining the DROP after June 30, 2021.

5. Discontinue Health Care Offset for future DROP participants. Individuals with 10 or more years of service with ARDOT are eligible for a health care stipend. Currently, this amount is added to the annuity benefit when determining the monthly amount deposited into their DROP account. For current active employees enrolling in the DROP after June 30, 2021, they will be ineligible to receive the health care stipend until employment is terminated with the Department.

6. Revise the reciprocal service benefit calculation to use the ARDOT high salary to calculate the ASHERS benefit; rather than the "State" high salary. This change would affect anyone retiring or enrolling in the DROP as of July 1, 2021.

7. Reduce the marriage requirement for Option B from two years to one year. This change will provide consistency within ASHERS as well as bring the System in line with Social Security marriage requirements. The change would have minimal impact on current employees.

Adoption of this proposed legislation should result in a UAAL of $290.6 million, a funded percentage of 83.35% and a funding period of 21.6 years. In the future, these changes will provide for further improvement of funding to the System. ◆

[1] **UNFUNDED ACTUARIAL ACCRUED LIABILITY or UAAL**
An unfunded actuarial accrued liability or UAAL is the amount by which future obligations exceed the current value of funds available. Think of it like a mortgage for your home; you take out a 30-year loan because you cannot make a lump sum payment for your house. A review of your income and outstanding debts indicate that over time you have a stream of income that will allow you to pay off the loan. The loan amount is your unfunded liability.

[2] **Funding period**
The funding period is the length of time an employee and the Department contribute to the system, that when combined with the return on investments, insures the system has enough money to pay an employee's lifelong retirement benefit. The goal is for the system to have a funding or payoff period of between 15 to 20 years.

If you have any questions, please contact the ASHERS Office at **(501) 569-2411** or email Robyn Smith at **robyn.smith@ardot.gov**.