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March 9, 2017

Mr. George Hopkins
Executive Director
Arkansas Teacher Retirement System
1400 West Third Street
Little Rock, Arkansas 72201

Re: Senate Bill 205

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 205 as it relates to the Arkansas Teacher Retirement System (ATRS).

Under current Arkansas Code §24-7-601, in the case of an ATRS participant who has service in both ATRS and one or more reciprocal systems, service credit in all reciprocal systems is combined for purposes of determining eligibility for an ATRS benefit. The ATRS benefit actually payable is based upon the highest final average salary among all of the reciprocal systems and the actual ATRS service credit, including the portion of ATRS service that was concurrent with the reciprocal system or systems.

Current statutes do not provide an ATRS participant with an option to waive the portion of service that is concurrent with the reciprocal employer. At least in the case of APERS, this results in the final average salary (FAS) always being the final average salary from the ATRS employment. In some instances the waiver of ATRS service would have no impact on FAS and in other instances it might. The impact would really just depend on when the service was earned and the salary that applied. In all instances when FAS is affected, it only allows what would have been allowed anyway, but for a member who was willing to work two jobs instead of one that happened to be in two different systems.

There could be a few rare cases of ATRS participants who would receive a greater ATRS benefit if the member were able to waive the concurrent service. An example would be an ATRS member who has a few years of service that is concurrent with both ATRS and APERS and whose final average salary from the APERS service would be higher than the final average salary from the ATRS service. In such a case, waiving the concurrent service would allow the APERS final average salary to be applied to the calculation of the ATRS benefit, which could result in a higher ATRS benefit for the person. We understand from ATRS staff that this type of situation is extremely rare.

SB 205 adds a new subdivision to Arkansas State Code Section §24-7-601(g) concerning members who earn concurrent service through ATRS and a reciprocal system. §24-7-601(g)(3) allows a member to waive all or part of the concurrent service credited to the member in ATRS if the member acknowledges that the waiver is a voluntary surrender of the member’s concurrent service in the system and cancels the concurrent service with ATRS. It also requires that the member’s employer-accrued contributions and employee-accrued contributions remain with ATRS.

A waiver of concurrent service could increase the benefit from one system and decrease the benefit from the other, in a way that the total is increased, thereby benefiting the member. The ability to waive concurrent service allows an ATRS member to choose between the benefit that would be provided by present statutes, and a benefit that is based upon less actual ATRS service, but a potentially higher Final Average Salary (from the reciprocal employer) and therefore a potentially higher ATRS benefit. To the extent that the waiver acts to increase the ATRS benefit, the waiver would add cost to ATRS. There could also be cases where the waiver reduces the ATRS benefit, but increases the benefit from the reciprocal system, either due to increased Final Average Salary, or for some other reason. Such cases, to the extent they occur, would actually reduce cost to ATRS. In either case, when an ATRS member waives concurrent service Senate Bill 205 requires that related member and employer contributions remain with ATRS.

There is currently no data available to us regarding members who have concurrent service or are likely to earn concurrent service in the future and, therefore, we must use approximate methods to estimate the financial effects of this bill on ATRS. If such data could be made available, we would be glad to revise our estimate.

We understand from discussion with staff that there are likely to be very few cases wherein the waiver can increase the ATRS benefit, but that in those cases, the increase is likely to be on the order of $50 per month. If, for example, 5 ATRS members per year execute a waiver, and if, by doing so, they are each able to improve their ATRS benefit by $50 per month the increased cost to ATRS from that activity would be on the order of less than 0.01% of payroll or less than one amortization month. This cost would be reduced by savings generated from people who waive concurrent service and actually reduce or eliminate their ATRS benefit. (People would do this because in some cases it would increase their total benefit from all reciprocal systems combined). Therefore, in our judgement, and based upon staff input, the cost, if any, associated with SB 205 would be too small to measure.

We hope this analysis meets your needs.

Please review this letter carefully to ensure that we have understood the bill properly. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill. Our analysis relates only to the plan changes described in this correspondence. In the event that other plan changes are being considered, it is very important to remember that the results of separate actuarial analyses cannot generally be added together to produce a total. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

We did not review this bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions nor did we attempt to determine whether these changes would contradict or negate other related State, or local laws or legislation currently under consideration. Such a review was not within the scope of our assignment.

Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

Judith A. Kermans

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