ARTRS
Arkansas Teacher Retirement System

Stellar Investment Returns of ATRS

- ATRS has averaged an **8.6%** annual return since **1986**.
- ATRS had the **Top Return** in the country in **2017** for public plans with over a Billion Dollars under management.
- The returns of ATRS are in the top tier of returns for all U.S. public plans with over a Billion Dollars under management over various time periods.
  - **Fiscal Year 2018 - TOP 1%**
  - **Fiscal Year 2017 - TOP RETURN**
  - **Last 3 years - TOP 1%**
  - **Last 5 years - TOP 1%**
  - **Last 10 years - TOP 2%**
  - **Last 32 years - TOP 1%**

Member Contribution Rate

When was the last time the **ATRS Member Contribution Rate** increased?

- **Winthrop Rockefeller** was Governor.
- School textbooks had to be bought by school children after 6th grade.
- **Neil Armstrong** had not walked on the moon.
- The year was **1969**.

Employer Contribution Rate

In 1985, the **ATRS Employer Contribution Rate** was **13.86%**. Today it is **14%**. In 33 years, the rate has only increased 14 basis points (.0014) and in several years the rate was actually lower. Said another way, the average increase in the ATRS employer contribution rate since 1985 is less than five one thousandths (5/1000) of a percent per year.

ATRS did not receive any employer contributions from public schools for the **1994 Fiscal Year**. At that time, the Department of Education paid employer contributions for public schools in arrears. The contribution for FY1994 was not paid in FY1995. This means that ATRS missed employer contributions for a fiscal year in addition to maintaining the stability of the contribution rates. The amount not paid at the time is understood to be about $130 million dollars. The value today based upon the historic returns of ATRS would be **$840 million dollars.**

The ATRS contribution rates and returns have established real life stress testing of ATRS in the worst of financial times and the rates have remained stable for almost 35 years.

The ATRS contribution rates for member and employers have been flat for almost 35 years. Yet, ATRS has weathered **7 recessions** since the last member contribution rate increase and absorbed the financial blows of:

- **The 1973 OPEC Oil Crisis**
- **Stagflation of the 1970s**
- **Black Friday market crash in 1989**
- **Bursting of the dot-com bubble**
- **The 9/11 market decline**
- **Bursting of the real estate bubble**
- **2008-2009 financial crisis**

Suggestions for Low Single Digit Return Assumptions Misjudge the Greatness of America

A well managed retirement system with diversified investments should not adopt such a narrow view of investment opportunities to assume a low single digit annual return in the United States and globally. American capitalism has proven for over 200 years that smart individuals and companies can always find opportunity in the U.S. and world economy. A public retirement system should not be viewed as a purchaser of CDs at a bank, but as a bank shareholder. If capitalists and entrepreneur expected a low single digit return on capital put at risk, the economy would fail because almost no investments would be made. The U.S. economy is strong. **For those who think that the new opportunity for returns on capital in the U.S. is now so impaired that low single digits returns are the norm, they misjudge America and its greatness.** When the U.S. economy hit one of its worse patches, Americans were told that the one thing to fear was fear. The strength of U.S. innovation and its capitalist spirit have always adjusted to the circumstance. Why should we doubt that American capability going forward? There are always times of recession and retrenchment. All these times have been followed by a resurgence in the economy and America capitalism. Based upon America and its greatness, along with innovation and capitalist spirit of the U.S. the projected long term return in the range of the ATRS assumed rate of return is reasonable and fair.

Current ATRS Processes to Review Assets, Liabilities, and Sustainability

In addition to complying with generally accepted accounting principles, ATRS also complies with numerous Governmental Accounting Standards Board (GASB) requirements. The ATRS actuaries comply with the standards for actuarial evaluations of public pension plans. In addition to these rules and best practices, ATRS regularly undergoes an **Experience Study** to do a deep review of its actuarial assumptions for both member behavior and financial results to ensure the assumptions are adjusted to remain current and accurate. ATRS also undertakes a regular **Asset Liability Study** that projects out over long periods of time to ensure ATRS has adequate liquidity, appropriate asset allocation, and understands potential stress in market downturns using a standard deviation process. These studies are used by ATRS to change assumptions and investment processes to ensure strength and sustainability.

Historical Market Disruption

While weathering the historic market disruptions of almost 35 years without any real contribution increases and missing a fiscal year of public school contributions, ATRS transformed member benefits into some of the best in the country to draw talent to the public schools.

- Retirement eligibility reduced from **35 years** to **28 years**.
- **Contributory** Multiplier increased from **1.25%** to **2.15%**.
- **Noncontributory** Multiplier increased from **1%** to **1.39%**.
- **Vesting** years decreased from **10 years** to **5 years.**
- Established **3% Simple COLA** (Cost of Living Adjustment).
- Established **$10,000, tax free, Lump Sum Death Benefit.**
- Among the **Best Survivor Benefits** in the Country.
- Established the monthly **benefit stipend** for eligible retirees (received by **42,313 of 48,326** retirees).
- Established **T-DROP** Program.
- **Today, ATRS has no plans to increase benefits, but to build reserves for sustainability.**

ATRS Board focused on Member Service, Quality Returns, and Sustainability

The ATRS Board of Trustees has pushed cost cutting and focused on sustainability. The Board:

- Kept operational costs over the last 5 years to less than a 1% total increase while managing more assets and paying more benefits to more members.
- Has ability to adjust benefits in the short term to absorb market disruptions.
- Focused on moving to 100% funding. (away from the old process of increasing member benefits each time the amortization fell below 30 years)

11 of the 15 member Board are elected by the ATRS membership. That connection helps foster member confidence when tough decisions have to be made by the ATRS Board.

ATRS Purpose

ATRS is committed to assist Arkansas in the constitutional duty to provide the school children of Arkansas with the opportunity for a high quality education. ATRS helps ensure that quality educators and support staff are available in every region and in every school in Arkansas.

While school children are focusing on the 3Rs of education, ATRS is focused on the 3Rs of helping deliver a safe and high quality learning opportunity to these students.

RECRUIT – Quality teachers and school employees.

RETAIN – Quality teachers and school employees

REWARD – Career educators with a quality of life with dignity in retirement.

All ATRS benefits and benefit adjustments are focused on member retention throughout Arkansas and sustainability of benefits for the future.

MEMBER DATA

Active Members in FY2019	**78,749**
Retirees and Survivors *(including 1,514 new July 1, 2018 retirees)*	**48,420**
Monthly Benefits Paid per Month in FY2019	**$ 94,681,891**
Projected Annual Benefits to be Paid in FY2019	**$1,136,185,692**
Average Monthly Benefit Paid	**$ 1,955**
T-DROP Participants *(including 675 new July 1, 2018 participants)*	**3,782**
Accumulated Account Balances in T-DROP	**$ 341,231,909**
Lump Sum Death Benefits Paid *(FY 2017-18)*	**946**
Total Value of LSDB Paid	**$ 8,617,318**

MEMBER DATA

TOTAL Employer/Employee Contributions *(FY 2017-18)* . . .	**$ 557,710,652**
Active Employer Contributions – 14%	$ 372,907,298
Active Employee Contributions – 6%.	$137,069,624
T-DROP Employer Contributions – 14%	$ 32,185,217
Working Retiree Employer Contributions – 14%	$ 15,548,513

Actuarial Assumption Changes in 2017

New Actuarial assumptions were adopted by the ATRS Board to maintain a conservative actuarial position for ATRS.

- New actuarial mortality tables were adopted to reflect that members may live longer and may have even longer life spans over time;
- The ATRS Board lowered the system's assumed rate of return from 8% to 7.5%; and
- The combined impact of these 2 changes means that ATRS had to absorb a $1.25 billion dollar increase in new liabilities.

The ATRS Board had proactively prepared to address the impact of changes like these during the last several legislative sessions.

- The various benefit and contribution adjustments made by ATRS absorbed the entire impact without major changes in benefit accruals or retirement payments.
- ATRS maintains additional mechanisms to absorb economic downturns and public market variations in the future.

The new, more conservative assumptions were absorbed by several changes including the following:

1. Reducing the benefit stipend
2. Adjusting the T-DROP interest rate
3. Reducing the noncontributory multiplier to 1.25% beginning FY2020
4. Increasing the member contribution rate over 4 years beginning FY2020.
5. Implementing first 10 year of service retirement multipliers for future service earned.
6. Adopting Five (5) year final average salary with 3-year protected benchmark for current members.
7. Adjusting annuitization in T-DROP to reflect market interest rate through a phase-in period.
8. Increase the reduction for early retirement in line with longer life spans.
9. Adjusted option factors to reflect new rates of return.
10. Adopted a new anti-spiking formula to lessen unfair salary spiking.

SPECIAL RETIREE MEMBER DATA

Number of Retirees 90-99 Years of Age. 904
(Female. . . . 742) *(Male. . . .162)*

Number of Retirees 100 Years of Age or older. 27
(Female. . . . 24) *(Male. . . .3)*

Oldest ATRS Retiree is age. **113**
(Female)