



February 28, 2019

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

Re: House Bill 1320 as Engrossed – Technical Corrections

Dear Mr. Rhoden:

You have asked us for our analysis of House Bill (HB) 1320 as it relates to the Arkansas Teacher Retirement System (ATRS). In connection with our report we have reviewed an engrossed version of the Bill dated 2/27/2019.

HB 1320 modifies various sections of Title 24 related to the Arkansas Teacher Retirement System.

Actuarial Opinion: In our opinion, this Bill is a technical corrections Bill that streamlines the Teacher Retirement Laws, eliminates obsolete language, and codifies existing practice and ATRS Board intent, including, but not limited to the practice related to the 18 year amortization limitation. In our opinion, it will not have any measurable fiscal impact on the operation of the system. The change to 18 years from 30 years will aid the system in achieving its funding objectives.

Actuarial Recommendation: There are several references to §24-1-101 et seq. in the sections described above. §24-1-101 et seq. reads that no legislated benefit enhancement shall be enacted if the amortization period for unfunded liabilities exceeds 30 years. We recommend that the drafters consider whether or not certain sections of §24-1 should be amended to provide an 18 year threshold, and also that the drafters consider whether or not it is possible to combine all of the sections describing limitations on benefit enhancements into a single section.

Actuary's Understanding of House Bill 1320. In this part of the report, we describe the provisions of the Bill as we understand them. Please review this information to ensure that our understanding of the Bill is correct. We have also made minor specific comments and recommendations regarding a few sections of the Bill.

Section 1 of the Bill removes obsolete language in §24-2-701(c)(1) related to Fiscal Years 2008 and 2009 and makes other wording changes in order to clarify meaning.

Section 2 of the Bill modifies §24-7-202(18) related to the determination of Final average salary (FAS). Current statutes provide that:

- The final average salary must be based on a period of not less than three nor more than five years in accordance with rules and regulations that the ATRS Board adopts.
- Before reducing the number of years in the FAS, the ATRS Board must file relevant information with the Joint Interim Committee on Public Retirement and Social Security Programs.
- If the member has less than three years of service, the FAS is based upon the salary paid during the total years of credited service.

HB 1320 removes all of these requirements from §24-7-202(18) so that this section becomes a generic definition of the term.

Actuary Comment: *Section 19 of the Bill reinstates related requirements in §24-7-736.*

Section 3 of the Bill modifies §24-7-202(25) related to the definition of “Nonteacher”. The change is a minor wording change.

Section 4 of the Bill modifies §24-7-202(30) related to the definition of “retirant”. The change defines that “retiree” and “retirant” are synonyms.

Section 5 of the Bill creates §24-7-202(43) in order to provide a definition of “Administrator”.

Section 6 of the Bill modifies §24-7-208 related to benefit enhancements. Current statutes provide that no benefit enhancement “provided for by this act” can be implemented if the amortization period for unfunded actuarial accrued liabilities exceeds thirty years, or if the benefit enhancement would cause it to exceed 30 years. HB 1320 changes the thirty year threshold to eighteen years. In other words, if HB 1320 is enacted, a benefit enhancement “provided for by this act” can only be implemented if, after accounting for the effect of the enhancement, the amortization period for unfunded actuarial accrued liabilities is eighteen years or less.

Actuary Comment: *We find the phrase “provided for by this act” (which occurs more than once in statute) difficult to interpret without a thorough review of statutory history.*

Section 7 of the Bill modifies §24-7-301(2)(C) related to Board composition. The modification revises the statute to use the term “administrator” as defined in new subsection §24-7-202(43).

Actuary Comment: *A review regarding whether or not this change actually affects Board composition was not within the scope of our assignment.*

Section 8 of the Bill deletes an unnecessary reference to July 1, 1985 in §24-7-406(b)(5).

Section 9 modifies §24-7-601(c)(2)(A) related to sick leave service credit. Present statutes provide that days of paid unused sick leave cannot be considered for service credit (except in the case of a death in service). HB 1320 provides that unused sick leave cannot be considered for service credit whether paid or not paid.



Section 10 modifies §24-7-605 related to concurrent service in the General Assembly and an ATRS covered position.

Actuary Comment: *It is our understanding that the changes to this section are meant to clarify treatment for both service and salary in the case of concurrent service and to codify current practice.*

Section 11 of the Bill modifies §24-7-608 related to benefit enhancements. Current statutes provide that no benefit enhancement “provided for by this act” can be implemented if the amortization period for unfunded actuarial accrued liabilities exceeds thirty years, or if the benefit enhancement would cause it to exceed 30 years. HB 1320 changes the thirty year threshold to eighteen years. In other words, if HB 1320 is enacted, a benefit enhancement “provided for by this act” can only be implemented if, after accounting for the effect of the enhancement, the amortization period for unfunded actuarial accrued liabilities is eighteen years or less.

Section 12 of the Bill modifies §24-7-610(c) related to military service. HB 1320 provides that the purchase may be made only once per year. It provides further that a “corresponding amount” of service can be purchased, rather than service on an exact one for one basis.

Section 13 of the Bill modifies §24-7-710(d) related to disposition of residue in the case of an active member death. HB 1320 provides that survivor annuities are an offset to the disposition of residue that would otherwise be payable to the estate of the member or to an alternate payee.

Section 14 of the Bill modifies §24-7-713(b) related to the benefit stipend. HB 1320 introduces new subparagraph b(1) that provides that ten years of actual service covered by the Arkansas Teacher Retirement System are required in order for a member to be eligible for a stipend, renumbers subsequent subparagraphs accordingly, and removes an obsolete reference to July 1, 2013. Finally, HB 1320 introduces new subparagraph b (7) that provides that if a member is eligible for a stipend, the stipend is to be applied to the monthly benefit of the member’s designated survivor and option beneficiary.

Actuary Comment: *It is our understanding that this change reinstates eligibility language that was inadvertently removed from statute in the past and codifies current practice.*

Section 15 of the Bill modifies §24-7-718(a) related to minimum financial conditions for benefit increases. Present statutes require that in order for a benefit increase to be effective, the amortization period must be 30 years or less based upon an employer contribution of 14% of pay or less and upon an investment rate assumption of 8%. HB 1320 changes the 30 year period to 18 years and changes the 8% investment rate assumption to the investment rate assumption recommended by the system’s actuary and set by the ATRS Board.

Section 16 of the Bill modifies §24-7-720 related to the lump sum death benefit. Present statutes require that in order for an increase in the lump sum death benefit to be effective, the amortization period must be 30 years or less and the benefit enhancement must not cause it to exceed 30 years. HB 1320 divides §24-7-720(e) into two subparagraphs and changes the 30 year period to an 18 year period.



Section 17 of the Bill modifies §24-7-725 related to the reduction factor for early voluntary retirement. Present statutes provide that the reduction factor must be between 5% and 15% (currently it is 10%) per year prorated monthly, and that the factor can be decreased only if the amortization period is 30 years or less and the decrease would not cause the period to go above 30 years. HB 1320 divides §24-7-725 into two subparagraphs and changes the 30 year period to an 18 year period.

Section 18 of the Bill modifies §24-7-736(c)(1) and (2) related to the determination of final average salary. Section 19 of Bill, when viewed together with Section 2 of the Bill, basically moves certain portions of the FAS calculation from §24-7-202(18) to §24-7-736(c). However, it does remove partial service years from the calculation.

Section 19 of the Bill modifies §24-7-736(f) related to the salary differential. It removes partial years of service from the calculation to be consistent with Section 19.

Section 20 of the Bill modifies §24-7-1307(d) related to interest on TDROP deposits for individuals who remain in TDROP longer than 10 years. Current statutes provide that interest is credited once per year on June 30. HB 1320 provides for a partial year's interest crediting in the case of an individual who retires prior to June 30.

Actuary Comment: *This change would have a very small effect on costs related to those people who retire at other than the year end. In our judgement this is not a material issue.*

Section 21 of the Bill modifies §24-7-1313 related to limitation on enhancements to the TDROP benefit. Present statutes require that in order for a benefit increase to be effective, the amortization period must be 30 years or less and the enhancement must not cause the amortization period to exceed 30 years. HB 1320 changes the 30 year period to 18 years.

Section 22 of the Bill modifies §24-7-1504(b) related to ad-hoc benefit enhancements. Present statutes require that in order for an ad-hoc benefit increase to be effective, the increase must not cause the period for amortizing the unfunded liabilities to exceed 30 years. HB 1320 changes the 30 year period to 18 years.

Section 23 of the Bill is a standard Emergency Clause.

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. 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.

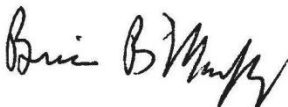
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



Brian B. Murphy, FSA, EA, MAAA, FCA



Heidi G. Barry, ASA, FCA, MAAA

JAK/BBM/HGB:sc

