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March 18, 2011

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

Re: House Bill 1251

Dear George:

You have asked us for an analysis of House Bill (HB) 1251 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1251 modifies Arkansas state law related to the settlement of employee grievances to allow credit, without limitation, under applicable retirement systems.

We understand from ATRS staff that this new law would allow cash settlements for retroactive wages to be included in the Final Average Salary (FAS) of ATRS members through the grievance settlement process (arbitration or other).

HB 1251, if passed, has the potential to increase retirement benefits paid to affected ATRS members. The increase in the FAS due to the grievance settlement increases the retirement benefit, but does not result in a commensurate increase in ATRS assets. Effectively, the cost of a portion of the grievance settlement is passed along to ATRS, and is spread across all school districts. We have no data upon which to base an estimate of the increase in cost associated with HB 1251. Although the number of individuals involved in the grievance process would presumably be small, the impact on the individuals involved could be substantial. This is especially true if retroactive wage awards are spread over several years in a pattern that doesn't invoke the 120% anti-spiking rule defined in 24-7-202(27)(A)(iii)(a)(6). For example, if we assume that 20 members per year with an average of 30 years of service receive an award of $30,000 and further assume that the award was spread evenly over three wage years, the result would be an increase in the Final Average Pay of $10,000 for each of the 20 members. An increase in Final Average Pay of $10,000 would provide an increase of $6,450 per year in benefits for each member and additional ATRS liability on the order of $1.5 million per year. The long term impact on the ATRS amortization period (52 years as of June 30, 2010) would be an increase of about three (3) years. The impact would be partially offset by any employer contributions that would be remitted for the wage settlement. HB 1251 does not specifically provide for employer contributions on the settlement amount but presumably other statutes require such contributions.

Although not specifically an actuarial issue, we also understand that HB 1251 would exclude the applicable retirement system (in this case ATRS) from the grievance process. This means that costs could be imposed upon the retirement system and spread across all the school districts in the State, without the retirement system having a say in the process, or potentially even knowledge that it had occurred. Consideration could be given to charging the applicable school districts involved in the grievance process for the potential increases in retirement system costs imposed by HB 1251.

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.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion 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

Judith A. Kermans, EA, MAAA, FCA

Brian B. Murphy

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