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February 5, 2015

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

Re: Senate Bill 48 Disability Eligibility

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 48 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 48 modifies Arkansas State Code Section 24-7-704 related to Disability Retirement.

Current statutes provide that an active member with 5 or more years of actual service who becomes totally and permanently physically or mentally incapacitated for his or her job duties as the result of a personal injury or disease may be retired due to the disability. Statutes provide further that the ATRS Board may require periodic medical reexamination until age 60. Based upon the results of the medical re-examination, the Board may terminate the disability retirement. Statutes also provide that to receive disability benefits, the individual cannot be directly or indirectly employed by a system covered employer. (The individual could, of course, have other unrelated employment.)

Senate Bill 48 imposes an additional requirement for continuing receipt of ATRS disability benefits after initial approval. Specifically, SB 48 requires the member or retiree to provide the System with a Social Security Administration determination letter finding that the member is disabled within 36 months from the later of July 1, 2015 or the disability retiree's effective date of disability retirement. In other words, the individual must prove eligibility for Social Security Disability benefits in order to continue to receive disability benefits from ATRS. The bill provides a means to get an extension beyond the 36 months under certain circumstances.

The ATRS definition of disability is an "own occupation" type of definition, meaning that the individual must be disabled with respect to his or her specific line of work. Based upon discussion with staff, we understand that most disability applications are ultimately approved. This may be because ATRS members work with children, and there is of course always a concern for the safety and educational well-being of those children. We note that approximately 7.5% of retirees and 5% of retiree liabilities relate to disability benefits. The Social Security administration uses an "any occupation" definition of disability. In order to qualify for Social Security disability rates, an individual must no longer be able to perform "substantial gainful activity," as the result of a physical or mental impairment that is expected to last at least 12 months, or possibly result in death. It is very difficult to get Social Security Disability benefits. While an individual could receive Social Security disability benefits and be employed, the Social Security Administration imposes a severe earnings restriction on such individuals.

There is currently no data available to us on the proportion of disability retirees who qualify for social security disability benefits, 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.

Staff provided data on 2,637 disability cases. The average age at disability was 52. The average current (2/1/2015) age is 63. 157 people were age 60 or older at time of disability (no longer permitted) and 499 cases were between 57 and 60 at time of disability.

Based upon the above information, we expect that a small percentage, perhaps on the order of 10% to 25% of disability cases will qualify for Social Security disability. However, even in the cases of individuals who do not ultimately qualify for Social Security Disability benefits, ATRS is likely to pay benefits for as much as three or more years before suspending them. Data shows that disability cases tend to occur at older ages, and approximately 20% of cases occur after age 57. Consequently some individuals may actually end up receiving benefits until they reach the normal age of eligibility for retirement benefits, even if they do not ultimately qualify for social security disability benefits. For this reason we have developed a low estimate and an alternate estimate of the potential savings from SB 48. The low estimate is based upon a long term 10% reduction in disability benefits. The alternate estimate is based upon a long term 50% reduction in disability benefits.

	Estimate	
Increase(Decrease) in	**Low**	**Alternate**
Employer Rate	0.00%	(0.05)%
Amortization Years	(0.05)	(0.68)

The change in employer rate is based upon 30-year amortization of the change in liabilities. The change in amortization years is based upon maintaining the present employer rate (14% of payroll). Actual effects will be based upon actual experience and will emerge gradually over time.

The above actuarial calculations are based upon the assumptions that were used in the June 30, 2014 valuation of ATRS, except as indicated. In particular, the interest rate assumption was 8%, the payroll growth assumption was 3.25% and the valuation method was entry age normal cost.

Please review this letter carefully to ensure that we have understood the bill properly and that the assumptions we have made are realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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 and Judith A. Kermans 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.

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

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

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

JAK/BBM:rmn