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February 9, 2017

Ms. Gail H. Stone
Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: House Bill 1187

Dear Ms. Stone:

You have asked us for our analysis of House Bill 1187. The proposed legislation modifies Arkansas State Code Title 24, Chapter 4, Subchapter 8 concerning Deferred Retirement Option Plan (DROP) participants. Our analysis of the proposed amendments to § 24-4-804 as they pertain to the Arkansas Public Employees Retirement System (APERS) follows.

Based upon our understanding, § 24-4-804 currently is worded such that when a member's participation in the APERS DROP ceases, that member is not eligible for employment in any position covered by the plans identified in § 24-2-401(3). House Bill 1187 would create an exception to this limitation for certain participating agencies. The participating agencies are the Arkansas Forestry Commissions, the Arkansas Livestock Poultry Commission and the State Plant Board.

The data provided for the June 30, 2016 valuation indicates payroll of about $2 million for these agencies out of a total APERS payroll of about $1.8 billion. The data showed APERS rehired retirees had payroll of $38.0 million and APERS DROP participants had payroll of $67.3 million. We expect that there will never be more than a handful of individuals who could be rehired as a result of the proposed legislation. Given the minimal effect of the change, we believe that there will be no material financial effect for APERS resulting from adoption of this proposed legislation.

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. Such a review was not within the scope of our assignment.

Mita D. Drazilov 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.

Respectfully submitted,

Mita Drazilov

Mita D. Drazilov, ASA, FCA, MAAA

David L. Hoffman

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DLH/HGB:bd