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February 1, 2017

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

Re: House Bill 1305 of 2017

Dear Mr. Hopkins:

You have asked us for an analysis of House Bill (HB) 1305 as it relates to the Arkansas Teacher Retirement System (ATRS). HB 1305 modifies Arkansas State Code Section 24-7-710(b)(1)(A)(i) – concerning survivor annuity benefits under the ATRS.

Section 1 of HB 1305 modifies language in Section 24-7-710(b)(1)(A)(i) to provide that in the case of death of an active member prior to retirement, the surviving spouse (who has been married to the member for at least two years immediately preceding the member's death) shall receive an annuity computed in the same manner and in all respects as if the member had retired on the date of death, elected Option A naming the spouse as beneficiary, and then died, *unless* "the member otherwise directs an alternative beneficiary…" We understand this change to mean that if the member directs an alternative beneficiary, the surviving spouse annuity will not be paid.

Section 2 of HB 1305 adds a new subsection 24-7-710(b)(1)(F) stating that if the member has directed an alternative beneficiary, the member may designate one or more residual beneficiaries to receive "a lump sum payment of the member's residue amount under Section 24-7-709 in lieu of the member's surviving spouse".

Section 3 of HB 1305 gives the ATRS Board of Trustees the authority to adopt rules to carry out the provisions of Section 24-7-710(b).

Section 4 of HB 1305 amends Arkansas State Code Section 24-7-1310 related to the death of a Teacher Deferred Retirement Option Plan (TDROP) participant to allow for the TDROP balance to also go to the residual beneficiary if the member has one or more residual beneficiaries, and once again to eliminate the surviving spouse annuity.

This bill would eliminate some full surviving spouse benefits in lieu of paying only the residue amount (i.e., the member's remaining accumulated contributions, if any). Full surviving spouse benefits always have a value at least equal to the residue amount. Consequently this bill will produce a small savings for ATRS. We anticipate that members will direct an alternative beneficiary only in very rare circumstances, and that, therefore the amount of savings would be too small to measure. The savings would most likely be less than 0.01% of payroll or one amortization month if the current contribution rate is maintained.

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.

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.

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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Heidi G Barry

Heidi G. Barry, ASA, MAAA

JAK/BBM:rmn