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March 1, 2017

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

Re: Senate Bill 187

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 187 as it relates to the Arkansas Teacher Retirement System (ATRS). SB 187 modifies Arkansas Code Section 24-7-406 (b)(8) concerning the member contribution rate set by the Board of Trustees of the ATRS.

The law as currently written already allows the Board to set the member contribution rate between 6% and 7% (of payroll) but states that the Board shall not increase the member rate unless the System's actuary certifies to the Board that the amortization period exceeds thirty years and that, in order to address an amortization period over thirty (30) years, the Board determines that an increase in the rate is necessary.

SB 187 directs the Board to set the member contribution rate at no less than six percent (6%). It allows the Board to increase the member contribution rate by resolution at any meeting if the System's actuary certifies to the Board that the amortization period to pay the unfunded liabilities exceeds eighteen (18) years and the Board determines that an increase is prudent to maintain actuarial soundness. The change in the member contribution rate would apply to subsequent fiscal years until changed.

In summary, Senate Bill 187 eliminates the maximum member contribution rate (of 7% of payroll) and reduces the required number of amortization years from thirty (30) to eighteen (18) for an increase to occur.

SB 187 removes a restriction for increasing the contributory member rate and, therefore, provides a potential financial savings for ATRS in the event that the member rate is increased. Since this legislation is permissive, and there is a range of options to the Board for the selection of a contributory member rate, we cannot assign a precise savings estimate to the bill at this time. We have consequently done some approximate testing. For example, an increase of 1.0% in contributory member rate for a total member contribution rate of 7.0% of payroll would provide an approximate savings to ATRS of 0.7% of total payroll. The current amortization period of 29 years would be reduced by a few years (4 to 5). The amount actually saved will depend on the exact member rate that is ultimately adopted. We would, of course, not recommend a reduction in the employer contribution rate if the member rate is increased. We would prefer that the employer contribution rate be maintained at least at its current level.

Finally, SB 187 is silent with regard to non-contributory members. However, based upon discussions with ATRS staff, we understand that if the member contribution rate is increased, a commensurate decrease in the non-contributory benefit multiplier would be considered so that the value balance between the contributory and non-contributory multipliers would be maintained.

Providing the ATRS Board with additional options for increasing the member contribution rate to maintain the integrity of the plan will strengthen ATRS.

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, nor did we attempt to determine whether these changes would contradict or negate other related State, or local laws or legislation currently under consideration. 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

Heidi G Barry

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JAK:rmn