GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

February 16, 2017

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

Re: Senate Bill 203

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 203 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 203 adds a new section §24-7-104 concerning employer early retirement incentives. The bill would end the requirement in some employers' early separation programs that members must retire from ATRS in order to participate in the incentive program. SB 203 would allow such members to participate in the incentive, work at another ATRS employer, and retire at a later date.

No official information on the frequency of early retirement incentives being offered is currently provided to ATRS by individual employers. There is, therefore, no way to know how many members decide to retire strictly due to an incentive or the re-employment risk (with other ATRS employers) for members who would rather not have retired.

ATRS staff estimates that possibly 100 members per year or so retire due to some form of incentive. They further estimate that 30 to 40 of these 100 members may not have retired had retirement not been a requirement of the incentive. Based on these estimates, we have used approximate methods to estimate the financial effects of this bill on ATRS. If more definitive data could be made available, we would be glad to revise our calculations.

Assuming that 30 or 40 members per year would delay retirement if SB 203 is passed, we estimate that the decrease in the ATRS employer rate based upon the current 29-year amortization period would be on the order of 0.03% to 0.05% of payroll. Maintaining the present employer rate (14% of payroll) and incorporating this change might result in an estimated decrease in the amortization years of one to two months. The amount actually saved will depend on how often early separation programs are offered and accepted and the re-employment risk for the members who decide not to retire.

The potential savings from SB 203 would not be exactly realized in any particular year but would emerge over time as members have the option of not retiring when leaving employment with a particular ATRS employer due to an incentive.

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. 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

Heidi G. Barry, ASA, MAAA

Brian B Murphy

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