GRS Retirement Consulting

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February 4, 2019

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

Re: Senate Bill 210 – Error Corrections

Dear Mr. Rhoden:

You have asked us for our analysis of Senate Bill (SB) 210 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 210 modifies Title 24 Section 7-205 of the Arkansas Code related to error corrections.

The Bill restricts the language in this section to allow contributory service credit (only) for a fiscal year to be cancelled if there are unpaid member contributions related to that fiscal year. In cases where contributory service is cancelled, member contributions, if any that had been made for that fiscal year are to be refunded to the member without interest.

We have a couple of observations about this Bill.

1. The intent of the Bill would be clearer to us if instead of "cancel any contributory service credit for the fiscal year," it said "cancel any contributory service for the fiscal year and replace it with non-contributory service credit." If that is the intent of the Bill.
2. The Bill removes the ability of ATRS to cancel non-contributory service credit if there were cases in which such action would be warranted. In our analysis we have assumed that such cases have probably not occurred in the past and are not anticipated to occur in the future.
3. The Bill now allows the ATRS Board to waive the collection of contributions owed if the error was not the fault of the participant or employer or in the event of a manifest injustice.

The design of ATRS is that the contributory plan and the non-contributory plan are intended to have approximately the same actuarial cost. Consequently, we find this Bill to be cost neutral with respect to 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. 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.

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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