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March 5, 2013

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

Re: Senate Bill 174 as Engrossed

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 174 as it relates to the Arkansas Teacher Retirement System (ATRS). This letter updates our February 15 analysis to reflect engrossed changes.

SB 174 as engrossed modifies Arkansas State Code Section 24-7-1605 related to Optional participation by institution of higher education employers on or after July 1, 2011, to allow more options for an employee or employer of a Post-Secondary institution of Higher Education (PSHE) to participate in ATRS.

Since July 1, 2011, a PSHE was required to designate which positions of the PSHE were eligible for participation in ATRS. A new employee of a PSHE could participate in ATRS, by an irrevocable election, if the employee was deemed to be "benefits-eligible" by the employer *and* if the PSHE employee was already vested in ATRS at the time of initial employment by the PSHE. The requirement to be vested in ATRS before participation in ATRS as a PSHE employee reduces the number of new PSHE employees who have the option to participate in ATRS.

If SB 174 becomes law, a PSHE employer would be permitted to adopt a less restrictive plan that would remove the requirement to be vested in ATRS prior to participation in ATRS as a PSHE employee. A PSHE employer would be able to modify a less restrictive plan at any time. A PSHE employer would also be permitted to provide an "opt-in" opportunity for members who have been continuously employed at the PSHE and who were otherwise "benefits-eligible" but were not able to participate in ATRS between July 1, 2011 and July 1, 2013 (because they were not vested). Such individuals must exercise the "opt-in" choice between July 1, 2013 and June 30, 2014. Individuals doing so will be allowed to purchase previous service by paying employer and employee contributions that would have been made during the time the service was rendered plus 8% annual interest. In all cases, the right to purchase service credit at rates described in the previous sentence expires on June 30, 2014. The purchase must be completed within one full year of the opt-in date.

Removing the vesting requirement is favorable for ATRS, because it is expected to add members to ATRS over the long-term. Adding members to ATRS is favorable since it provides additional employer and possibly employee contributions each year, above and beyond the amount required to cover normal costs for the people added. However, allowing a closed group of PSHE employees to purchase past service in ATRS at less than actuarially equivalent rates, costs ATRS money. That said, we understand from ATRS staff that there are only about ten (10) individuals in this situation with an average of two (2) years of service that could be purchased. In addition SB 174 only provides favorable purchase rates through June 30, 2014.

We assume that a less restrictive plan, once put in place, would remain effective for an extended period of time. In other words, we assume that the option to modify a less restrictive plan would be exercised rarely.

We also assume that new Subsection 24-7-1605(d) will be interpreted to provide the same rights under the same circumstances as new Subsection 24-7-1605(c).

Based on the above assumptions, we believe that this bill is approximately cost neutral to ATRS. This is because the long-term increase in the number of ATRS members is expected to provide additional contributions toward the unfunded liability that are likely to offset the small cost of permitting prior service purchases by the same individuals at favorable rates until June 30, 2014. If more specific data can be provided on the number of people who will be added to ATRS, how much service they will purchase and the amount they are to be charged, we could provide a more detailed cost estimate.

We hope this analysis meets your needs.

Please review this letter carefully to ensure that we have understood the bill properly and that the assumptions we have made are realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion 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, EA, MAAA, FCA

Brian B. Murphy, FSA, EA, MAAA, FCA
JAK/BBM:sc