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March 15, 2017

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

Re: HB 1286 of 2017

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1286 as it relates to the Arkansas Teacher Retirement System (ATRS). Our analysis reflects an amendment that we received on March 13, 2017.

Arkansas Code §24-7-702(a)(1)(A) provides that an active or inactive member who has 25 or more years of credited service, but who has not attained age 60 may voluntarily retire early upon written application filed with the Board of Trustees of ATRS. Arkansas Code §24-7-702(b)(2) currently defines the early retirement reduction to be five-twelfths percent per month (i.e. 5% per year) multiplied by the number of months by which early retirement precedes the earlier of completion of 28 years of credited service or attainment of age 60.

Arkansas Code §24-7-1314 concerns participation in the Teacher Deferred Retirement Option Plan (TDROP) by an individual who has competed 28 years of service, but not 30 years. This is referred to as early participation. Section 24-7-1314 (b) provides that the "Plan Deposit" for a person with less than 30 years of service is reduced by at least an additional 0.5% of the plan benefit for each month (i.e. 6% per year) the member begins participating in the TDROP prior to having 30 years of credited service. It also allows the Board to increase the percentage required as an early participation reduction in order to provide a fair and just and reasonable benefit for all members of the ATRS and to provide for appropriate actuary considerations.

Section 1 of HB 1286 modifies Arkansas Code §24-7-702 (b)(2) to add new subdivision (B) which allows the Board to increase the early reduction factor from 5% per year to a maximum of 15% per year if the System's actuary certifies to the Board that the amortization period to pay the unfunded liabilities exceeds 18 years and the Board determines that a reduction in the cost of early voluntary retirement is prudent to maintain actuarial soundness.

Section 2 of HB 1286 modifies Arkansas Code §24-7-1314(b) concerning early participation in the Teacher Deferred Retirement Option Plan. The bill would allow the Board to reduce the plan deposit for a participant with less than 30 years of service by at least one-half of one percent (0.5%) and no more than one percent (1.0%) of the plan benefit for each month the member begins participating prior to having 30 years of service. Such a change would require a Board resolution.

Since this legislation is permissive, and provides a range of options to the Board for the selection of early and TDROP reduction factors, we cannot assign a precise savings estimate to the bill at this time. We have consequently done some approximate testing.

With regard to §24-7-702 (b)(2) and the early retirement reduction factor, we estimated the effect of an increase in the factor from 5/12ths of 1% to 6/12ths of 1% for each month (5% to 6% per year) by which early retirement precedes the earlier of completion of 28 years of credited service or the attainment of age 60. Such an increase in the factor would reduce the amortization period by approximately 1 to 2 months. Larger increases would reduce the amortization period yet more. However, at some point people would become much less likely to retire early due to the reduction and the effect of additional increases in the reduction factor would be greatly reduced from the level indicated above.

With regard to §24-7-1314(b) and the TDROP early participation reduction, we estimated the effect of an increase in the current additional reduction of 0.5% for each month by which credited service is less than 30 years to an additional 0.6% for each month by which credited service is less than 30 years. Such a change would reduce the amortization period by approximately 1 to 2 months. Larger increases would reduce the amortization period yet more. However, at some point people would become much less likely to enter TDROP with less than 30 years due to the reduction and the effect of additional increases in the reduction factor would be greatly reduced from the level indicated above.

We understand that this bill would not affect anyone currently in TDROP, or anyone who has already accepted early voluntary retirement. Except for that, we did not consider the effect of any type of grandfathering provision related to either change. Grandfathering provisions, to the extent they are introduced, would reduce the savings estimates that we have provided above.

Users of this information should be aware that estimates of changes in amortization period are heavily dependent on actuarial assumptions and on the amortization period before the change. Please refer to the full actuarial report of the June 30, 2016 valuation for a complete description of actuarial assumptions and methods.

We hope this information 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 reasonable. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the reasonability of our assumptions. 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 provisions of other proposed legislation. 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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JAK/BBM:rmn