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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 186

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 186 as it relates to the Arkansas Teacher Retirement System (ATRS). SB 186 modifies Arkansas Code Section 24-7-705 (b)(5) concerning the multiplier rate used in a life annuity under the ATRS.

The law as currently written only allows the ATRS Board to reduce the multiplier for contributory service over 10 years if the system's actuary certifies to the Board that the amortization period exceeds 30 years and the ATRS Board determines that the rate for contributory service should be reduced.

SB 186 reduces the 30-year amortization requirement to an 18-year requirement. The bill allows the Board to reduce the multiplier rate for contributory service earned after the first ten years of service if the System's actuary certifies to the Board that the amortization period to pay the unfunded liabilities of the System exceeds eighteen (18) years; and the Board determines that a reduction in the contributory multiplier is prudent to maintain actuarial soundness.

SB 186 strengthens the Board's authority for lowering the benefit multiplier and, therefore, provides a potential financial savings for ATRS in the event that the multiplier is lowered. Since this legislation is permissive, and there is a range of options to the Board for the selection of a contributory multiplier, we cannot assign a precise savings estimate to the bill at this time. We have consequently done some approximate testing. For example, a reduction of 0.10% in contributory and noncontributory multipliers for future service only would provide an approximate long term savings to ATRS of 0.5% of payroll. The current amortization period of 29 years, would be reduced by a few years (3 to 4) only since member's accrued benefits are not being reduced. The amount actually saved will depend on the exact plan that is ultimately designed. We would, of course, not recommend an actual reduction in the employer contribution rate if the multiplier is reduced. We would prefer that the employer contribution rate be maintained at least at its current level.

Providing the ATRS Board with a means of curtailing certain benefit provisions 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

Brian B Murphy

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JAK/BBM:rmn