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March 23, 2019

Mr. Frank J. Wills, Deputy Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: House Bill 1338

Dear Mr. Wills:

You have asked us for our analysis of House Bill (HB) 1338 as it relates to the Arkansas Public Employees Retirement System (APERS).

HB 1338 modifies Section §24-4-802(c) of the Arkansas Code. After discussions with APERS staff, our understanding of the bill is that the proposed legislation allows a member to participate in the DROP over a ten-year period. Additionally, a member would be able to move in and out of the DROP during the ten-year period. Under the proposed legislation, additional service accruals and a new final average compensation would be computed (if higher than the previous final average compensation) with payments into the member's DROP account suspended while out of the DROP. The effect would be that members could selectively receive a higher ultimate benefit than under the current plan provisions.

We have no data to explicitly model the effect of this proposed legislation. We can state that the computed employer costs will be increased as result of enacting this legislation. An estimate of the magnitude of the increase in employer costs follows for consideration of decision makers:

- Our current experience indicates about 1 out of 3 retirement eligible members enter DROP and about 2 out of 3 retirement eligible members retire without entering DROP. We assume that this ratio does not change, and
- If it is assumed that members choose to suspend their benefit to leave DROP, as allowed by the proposed legislation, resulting in an increase of the overall value of their benefit of 10%, then
    - The ongoing normal cost increase would be about 0.20% of total active member payroll, and
    - The increase in unfunded actuarial accrued liabilities would be about $160 million, or an increase in the amortization payment of about 0.50% of total active member payroll.

This means a total increase in employer contribution in the near term of about 0.70% of total active member payroll under the assumptions described above. This is how we would expect to model the legislative change in the annual valuation until sufficient experience emerges. The ultimate impact of this change will emerge over time.

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However, we may misunderstand how this bill effects plan provisions. If the legislation is meant only to extend the maximum length of DROP participation from seven years to ten years then no increase in employer contributions will result. If this was the intent, simply striking seven (7) and replacing it with ten (10) in §24-4-802(c) seems sufficient.

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.

Heidi G. Barry is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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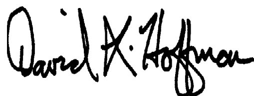
This communication shall not be construed to provide tax advice, legal advice or investment advice.

Respectfully submitted,



David L. Hoffman

Heidi G. Barry, ASA, FCA, MAAA

DLH/HGB:bd