

February 28, 2017

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

Re: Senate Bill 192 Disability Eligibility

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 192 as it relates to the Arkansas Teacher Retirement System (ATRS). We understand from staff that the main purpose of this bill is to streamline the ATRS disability process and to encourage disability retirees to return to work on a full-time or part-time basis to assist schools in meeting critical staffing needs.

Arkansas Code Section 24-7-704 currently allows an active member with five or more years of actual service who becomes totally and permanently physically or mentally incapacitated for his or her job duties as a result of personal injury or disease to be retired by the ATRS Board of Trustees with a disability benefit, provided that the member meets the criteria outlined in 24-7-704. The criteria include not being employed by a System-covered employer, providing the System with a Social Security Administration determination letter finding that the member is disabled within 36 months from the later of July 1, 2015 or the disability retiree's effective date of disability retirement and reexamination for those under age 60. Further, if a member under age 60 returns to work, the member is reinstated as an active employee, disability benefits are terminated and the member does not get service credit for any of the time that the member was on disability.

We understand that the changes proposed in SB 192 are trying to accomplish the following objectives:

1. Recognize reciprocal service credit towards disability retirement eligibility.
2. Allow members who do not receive a Social Security Administration determination letter to apply for a review from the ATRS' medical committee who shall make a recommendation to the ATRS Board. The Board shall make a final decision about the case.
3. Let disability retirees work and also receive a monthly disability benefit if working less than forty days during a fiscal year.
4. Let disability retirees work and also receive a monthly disability benefit (even for more than 40 days) if the work is substantially different from the work the member did prior to the disability and the computed yearly salary is less than the final average salary used to compute the disability benefit. The Employer who hired the member would be required to make contributions on all salary paid to the disabled member.
5. Encourage disability retirees to return to work on a full time basis by removing a potential financial penalty for members who are reinstated. The Employer who hired the member would be required to make contributions on all salary paid to the disabled the member.

In support of Objective Two, Sections 3 and 4 of SB 192 modifies Arkansas Code Sections 24-7-704 (b)(3)(C) and 24-7-704(b)(3)(D) to add new language that allows a member to apply for and seek a review by the System's medical committee within three months of disability benefits ceasing and no later than three months after termination of disability benefits specifically due to the lack of a Social Security Administration determination letter. In addition, the System's medical committee shall hear all applications for review and render decisions consistent with the definition of disability under 24-7-704(a)(1)(D). The medical committee's recommendation after its review shall be presented to the Board, who shall issue a final order consistent with the provisions of this chapter and the System's rules of initial disability retirement. The Board's approval shall be a final disposition of the matter by the System.

The modifications in SB 192, in accordance with Objective Two, may lead to a few more disabilities than is currently the case. This is because the Social Security Administration uses an "any occupation" definition of disability. In order to qualify for Social Security disability, an individual must no longer be able to perform "substantial gainful activity," as the result of a physical or mental impairment that is expected to last at least 12 months, or possibly result in death. It is very difficult to get Social Security Disability benefits. Further, even if an individual could receive Social Security disability benefits and be employed, the Social Security Administration imposes a severe earnings restriction on such individuals.

The ATRS definition of disability is an "own occupation" type of definition, meaning that the individual must be disabled with respect to his or her specific line of work.

Section 5 of SB 192 repeals Arkansas Code Section 24-7-704 (b)(4) and Section 6 of SB 192 modifies Arkansas Code Section 24-7-704 (c) to remove sections (1) through (4). Taken together, these sections required disabled members under age 57 to be re-examined in order to maintain eligibility for disability retirement. The re-examination requirement has been removed. This change could also lead to slightly more disabled members on the rolls at ATRS.

In support of Objectives Three and Four, Section 7 of SB 192 adds a new subsection 24-7-704 (e) stating that a disability retiree may be employed by a covered employer and also receive a monthly disability retirement if:

- (1) The disability retiree provides the covered employer with less than forty days of actual service during a fiscal year or at least forty days of actual service during the fiscal year if the actual service is substantially different from the position, job requirements, and work duties from which the disability retiree retired after a determination of disability and has a computed yearly salary that is less than the final average salary used to compute the monthly disability benefit.
- (2) Within three months of a covered employer's employment of a disability retiree under this section, the System grants a waiver of subdivision (a)(4)(A) upon the request of the covered employer.
- (3) A disability retiree who meets the requirements of this subsection and whose employer is granted a waiver shall continue to receive his or her monthly disability annuity from the

System and shall not accrue additional service credit. A covered employer who employs a disability retiree shall remit contributions on all salary paid the disability retiree in an amount equal to the employer contribution rate applicable to an active member.

Finally, in support of Objective Five, Section 8 of SB 192 adds a new section 24-7-738 stating that if a member who has been on disability retirement with the ATRS returns to regular, covered employment and then returns to disability retirement with the System, the disability benefit shall be the higher of the amount that the member would have received if he or she did not return to regular, covered employment or the recomputed benefit using the additional salary and additional service credit earned by the member under the covered employment. A member who returns to covered employment after disability retirement shall not receive a disability benefit in any month that the member is paid a salary. Any payment made in error may be recovered by the System as an overpayment as allowed by law.

In summary, SB 192 will likely increase the number of disability retirements in ATRS and will allow for some disability benefits to be larger than would otherwise have been the case, which will increase Retirement System costs. The increase will be offset somewhat by additional Employer contributions that will be required for members who return to work but do not accrue service in ATRS.

There is currently no data available to us on which to perform a detailed financial analysis of SB 192 and, therefore, we must use approximate methods to estimate the financial effects of this bill on ATRS. If such data could be made available, we would be glad to revise our estimate.

Approximately 4% of retiree liabilities relate to disability benefits. Therefore, assuming that future adjudication of disability cases is reasonably in line with past practice, any increase in these liabilities will have a small overall impact on the financial position of ATRS. If, as a result of SB 192, there is a 10% increase in the number of disabled retirees each year and that any increases in actual disability benefits are negligible, Retirement System costs would be expected to increase by less than 0.01% of payroll with about 1 month added to the amortization period. Actual effects will be based upon actual experience and will emerge gradually over time.

The above actuarial calculations are based upon the assumptions that were used in the June 30, 2016 valuation of ATRS, except as indicated. In particular, the interest rate assumption was 8%, the payroll growth assumption was 3.25% and the valuation method was entry age normal cost.

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.

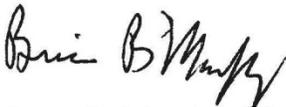
Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



Brian B. Murphy, FSA, EA, MAAA, FCA



Heidi G. Barry, ASA, MAAA

JAK/BBM:rmn