

February 9, 2017

Ms. Gail H. Stone
Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: Senate Bill 202

Dear Ms. Stone:

You have asked us for our analysis of Senate Bill 202. The proposed legislation modifies Arkansas State Code Title 24, Chapter 4, Subchapter 8 concerning Deferred Retirement Option Plan (DROP) participants. Our analysis of the proposed amendments to § 24-4-804 as they pertain to the Arkansas Public Employees Retirement System (APERS) follows.

Based upon our understanding, § 24-4-804 currently is worded such that when a member's participation in the APERS DROP ceases, that member is not eligible for employment in any position covered by the plans identified in § 24-2-401(3). Senate Bill 202 would eliminate this restriction (i.e., DROP participants that cease employment would be eligible for return to work under the same conditions as non-DROP participants).

The data provided for the June 30, 2016 valuation showed 938 rehired retirees with payroll of \$38.0 million and 1,526 DROP participants rehired retirees with payroll of \$67.3 million. Total active members in APERS exceed 45,000 with payroll of nearly \$1.8 billion. Given the proposed change, we would not anticipate a significant change in the retirement decisions of individuals participating in the DROP, and therefore we believe that there will be no material financial effect for APERS resulting from adoption of this proposed legislation.

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.

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Mita D. Drazilov 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.

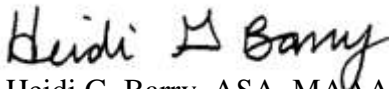
Respectfully submitted,



Mita D. Drazilov, ASA, FCA, MAAA



David L. Hoffman



Heidi G. Barry, ASA, MAAA

DLH/HGB:sc