GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

February 18, 2013

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

Re: House Bill 1137

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1137 as it relates to the Arkansas Teacher Retirement System (ATRS).

Sections 24-7-701 (d) and 24-7-702 (e) of Arkansas State code related to Voluntary Retirement and Early Voluntary Retirement Benefits respectively, outline the rules for service and pay included in the computation of ATRS Final Average Salary (FAS).

Currently, when computing the FAS, members are allowed to count each full year of salary earned; plus each full quarter of salary earned in the final year of active employment but only if they retire on the first day of a calendar quarter (January 1, April 1, July 1, October 1). This has the effect of encouraging a small number of people in certain circumstances to retire on April 1, rather than in May or early June when teaching duties typically end.

HB 1137 modifies Arkansas Code Section 24-7-701 (d) and 24-7-702 (e) to allow salary earned in the final year of active employment to be used in the calculation of FAS, even if a member does not retire on the first day of a calendar quarter.

We understand from ATRS staff that out of the roughly 2,300 members who retired in fiscal year 2012, approximately 425 of the members did not retire on the first day of a calendar quarter. We understand further that of the 425 members, about 25 members retired after April 1, 2012. Since the computation of FAS is based on the highest three years of salary, we can assume that most members who retired before April 1st would probably not have earned enough in 2012 to use that salary in the computation of FAS. This means that a very small portion of the 2012 retirees (roughly 25 people) could have been impacted by HB 1137, if it had been in effect. We assumed further that the final average compensation of about half of those people would be improved by the provisions of HB 1137.

Based on those assumptions, we estimate that HB 1137 will result in a small increase in retirement system costs, something on the order of $100,000 per year, which would correspond to 0.004% of payroll. An increase of this magnitude would not have a measurable impact on the funded status of ATRS or on the amortization period. Whatever costs arise due to people retiring before the end of the school year would be partially offset by the fact that such people get fewer benefit checks over their lifetimes than those who retire later in the year. This bill is also likely to reduce the number of people who retire before the end of teaching duties for the school year since the last year of pay can now be included in the FAS calculation even if they retire in between quarters. We understand from ATRS staff that retirement prior to the end of the school year is very disruptive for school districts since they have to find a replacement teacher in the middle of the year and for students because they are required to work with a new teacher for the last several weeks of the year.

We hope this analysis 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 realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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 law or regulations, and Internal Revenue Code provisions. Such a review was not within the scope of our assignment.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

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

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

JAK/BBM:sc