GRS

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March 7, 2013

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

Re: HB 1194 as Engrossed

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1194 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1194 amends Arkansas Code 24-7-705 related to Life Annuities. The Bill provides the ATRS Board authority to adjust the contributory and non-contributory multipliers. Specifically, the bill provides that:

1. All service rendered prior to 6/30/2013 is subject to the present multiplier (2.15% for contributory service and 1.39% for non-contributory service).
2. All flat dollar minimum benefit provisions are eliminated.
3. The Board can adjust the contributory multiplier to any value between 1.75% and 2.15%.
4. The Board can adjust the non-contributory multiplier to any value between 0.5% and 1.39%.
5. A change to a multiplier shall remain in effect until changed by the Board and shall apply to all service rendered during a complete fiscal year.
6. The Board may increase, but may not decrease multipliers for service rendered in the past.
7. The Board may increase the multiplier for a future year, without increasing it to the same level (or at all) for past years.
8. The Board may set the multiplier applicable to the first 10 years of service rendered by an individual to a level (between 1.75% and 2.15% for contributory service) that is below the level that would be earned for subsequent years. However, the Board cannot apply this change retroactively to service rendered in the past.
9. If the Board exercises the choice described immediately above, it may change the multiplier to a standard level for the first ten years of service, once ten years of service have actually been rendered.
10. The Board cannot adjust the multiplier to a lower rate for contributory service earned after the first ten years of service unless the system's actuary certifies to the Board that the amortization period exceeds thirty years and that in order to address an amortization period in excess of thirty years, the Board determines that the multiplier rate for contributory service should be reduced.

Since this legislative is permissive, and provides a range of options to the Board for the selection of a 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 0.25% in both multipliers for future service only would reduce the amortization period from its present level of over 100 years, to a level below 50 years. It would reduce the GASB annual required contribution from its present level of 16.8% to a figure below 16% of payroll.

This bill allows the ATRS Board to provide reduced benefits for future service. Consequently, it has the potential to save money for ATRS. The amount actually saved will depend on the exact plan that is ultimately designed.

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 laws 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.

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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:bd