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March 14, 2013

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

Re: House Bill 1205

Dear George:

You have asked us for an analysis of House Bill (HB) 1205 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1205 modifies Arkansas state law related to the settlement and relief of grievances of employees of state of agencies. Among other changes, HB 1205 allows for service credit and pay, without limitation, that the employee would have earned under applicable retirement systems to be part of the relief settlement.

HB 1205 requires that interest (rates not specified), compounded daily, be part of the relief settlement and that the state agency involved will be required to pay the state retirement system involved "the employee and employer contributions that would otherwise have been paid during the period affected by the personnel action". Any retroactive wages paid would presumably be included in the Final Average Salary (FAS) of ATRS members.

HB 1205, if passed, will increase retirement system costs because it will increase retirement benefits paid to affected ATRS members by increasing their FAS and restoring service. The contributions received in exchange will not be sufficient to cover the cost of the increase. Effectively, the cost of a portion of the grievance settlement is passed along to ATRS, and is spread across all ATRS employers, including school districts.

We have no data upon which to base an estimate of the increase in costs associated with HB 1205. Although the number of individuals involved in the grievance process would presumably be small, the impact on the individuals involved could be substantial. This is especially true if retroactive wage awards are spread over several years in a pattern that circumvents the 120% anti-spiking rule defined in Section 24-7-202(27)(A)(iii)(a)(6). For example, if we assume that 2 members per year with an average of 28 years of service and a FAC of $30,000 receive an award of $30,000 and one year of service credit, the result could be an increase in the Final Average Salary of $10,000, and a retirement benefit based on 29 years of service rather than 28 years for each of the 20 members. The increase in retirement benefits would be $6,880 per member per year or $13,760 in total per year. The added ATRS liability would be on the order of $180,000 per year. In return, ATRS would receive approximately $12,000 in missed contributions. The ATRS amortization period which is already over 100 years as of June 30, 2012 would be increased in each of the relief awards. Based upon the discussion above, we estimate the standalone cost of this bill might be just under 0.01% of payroll.

Although not specifically an actuarial issue, we noticed that HB 1205 does not appear to include the applicable retirement system (in this case ATRS) in the grievance process. This means that costs could be imposed upon the retirement system and spread across all the school districts in the State, without the retirement system having a say in the process, or potentially even knowledge that a grievance settlement had occurred.

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. 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

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

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