

February 5, 2015

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

Re: House Bill 1078

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1078 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1078 modifies Arkansas Code Section 24-7-706(a)(2)(C). Under present law, if an Option C (10 Year Certain and Life) beneficiary predeceases the retiree, the retiree may either nominate a successor beneficiary or may elect to return to the Option 1 (Straight Life) benefit amount. This type of payment option is called a “pop up” option and specifically a “pop up on death of beneficiary” option. Present law also provides that a retiree who is receiving a single lifetime benefit and who marries after retirement may elect to have the single lifetime benefit cancelled and may elect Option B (50% Survivor) to cover the spouse.

House Bill 1078 modifies Code Section 24-7-706(a)(2)(C) in two ways.

1. If the designated beneficiary is the spouse of the retiree and the marriage ends in divorce or other dissolution, the retiree may either nominate a successor beneficiary or may elect to return to the Option 1 benefit amount. This is called a “pop up on divorce.”
2. In the case of marriage after retirement, HB 1078 would permit a retiree (including a retiree who just ‘popped-up’ via item one) to elect Option A (100% Survivor), or B (50% survivor), to cover the new spouse. We understand this to be a codification of present practice. We understand further that rules require the retiree to be married to the new spouse for at least a year before an option can be elected. Following the one year mandatory wait, the retiree then has 6 months to elect an option.

We have analyzed the actuarial cost of these two provisions separately.

With respect to pop up on divorce, we do not have sufficient data to permit a rigorous analysis of this potential change in law. We used approximate techniques and assumed that divorce within the first ten years was twice as likely as death within the first ten years for a new retiree. If there is data indicating that a different figure should be used, please let us know. Based upon that assumption, we estimate that the long term effect on cost would be an amount too small to be measured. Any effect on the amortization period would also be too small to be measured.

With respect to marriage after retirement, our analysis assumes that the Optional benefit amount is based upon the ages of the retiree and beneficiary at the time the option is elected. In this case, since

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the option factors are intended to be cost neutral factors, and are subject to periodic revision, and because there are rules in place to control anti selection, this provision is cost neutral.

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.

Brian B. Murphy and Judith A. Kermans are Members of the American Academy of Actuaries (MAAA) 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, EA, MAAA, FCA



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

JAK/BBM:mrb