

February 1, 2017

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

Re: House Bill 1304

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1304 as it relates to the Arkansas Teacher Retirement System (ATRS).

Section One (1) of HB 1304 modifies Arkansas Code Section 24-7-202 (6) concerning the definitions of terms used in the Arkansas Code to add new language that 1) clarifies that ATRS is a “governmental” state agency and 2) defines ATRS to include a “limited liability company or other corporate entity solely owned by the system”.

Section Two (2) of HB 1304 modifies Arkansas Code Section 24-7-202(16) to clarify the definition of “Employer” and to include “covered employer” as a synonym.

Section Three (3) of HB 1304 modifies Arkansas Code Section 24-7-204 concerning the tax status of system assets to include a “limited liability company or other corporate entity solely owned by the system” and to state that the assets are exempt from “real property transfer taxes, revenue recording stamps and other fees”.

Section Four (4) of HB 1304 modifies Arkansas Code Section 24-7-702(a)(1) concerning voluntary early retirement to provide that a member must have 25 years of combined “actual and reciprocal” service including “purchased or free” credited service. Our understanding from staff is that this is a clarification of existing statute and not a change.

Section Five (5) of HB 1304 modifies Arkansas Code Section 24-7-705(a)(1)(B)(i) concerning the life annuity to change the word “percentages” to “multipliers” and to state that such multipliers shall be determined in accordance with the aforementioned chapter and the rules and resolutions of the ATRS Board of Trustees.

Section Six (6) of HB 1304 adds clarifying language to Arkansas Code Section 24-7-706(b)(1), concerning the cancellation of annuity options (and return to a life time equivalent) after a change in marital status of a member after retirement due to the death of the member’s spouse, divorce or marriage dissolution when the spouse is the member’s designated beneficiary.

Section Seven (7) of HB 1304 modifies Arkansas Code Section 24-7-711(2) concerning refunds of member contributions upon termination under the ATRS to remove a specific code reference and to replace it with generic language: “provided by law.”

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Section Eight (8) of HB 1304 modifies Arkansas Code Section 24-7-715(b) concerning benefit rights not subject to legal process to consolidate the definitions of an inactive member and to remove extraneous language.

Section Nine (9) of HB 1304 modifies Arkansas Code Section 24-7-1310(a) concerning the death of participants in the Teacher Deferred Retirement Option Plan (TDROP) to include language requiring that benefits payable upon death shall be paid according to “the rules and resolutions of the ATRS” in addition to the provisions of Section 24-7-710.

House Bill 1304 deals with important administrative and technical issues, and clarifies the intended meaning of certain sections of statutes. In particular, we understand from ATRS staff that the modifications to Section (4) and to Section (6) are intended to clarify the meaning of the statutes and to bring them into line with existing practice. Given that information, it is our opinion that HB 1304 is actuarially cost neutral for ATRS.

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 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.

Brian B. Murphy, Judith A. Kermans 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.

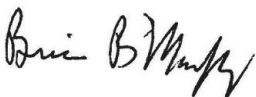
Sincerely,



Judith A. Kermans, EA, MAAA, FCA



Heidi G. Barry, ASA, MAAA



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