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March 15, 2017

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

Re: House Bill 1373

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1373 as it relates to the Arkansas Teacher Retirement System (ATRS). Our analysis reflects amended language that we received on March 13, 2017.

HB 1373 modifies Arkansas Code §24-7-713 related to simple cost of living adjustments and monthly benefit stipends provided to retirees.

Under present statutes, a monthly benefit stipend is paid to eligible retirees, beneficiaries, and surviving spouses. The benefit stipend is added to the base benefit, and is therefore subject to the 3% simple COLA. The current amount of the benefit stipend is $75 per month. Arkansas Code §§24-7-713(b)(1)-(4) permit the Board to change the amount of the stipend if the System's actuary certifies to the Board that the amortization period exceeds 30 years. However, the stipend must be between $1 per month and $75 per month regardless of the amortization period.

Section One (1) of HB 1373 modifies Arkansas Code §24-7-713 (a)(4) to remove the benefit stipend from the base amount at the discretion of the Board. Our understanding of the language in Section 1 is that it applies to future retirees and beneficiaries but not to current retirees and beneficiaries.

Section Two (2) of HB 1373 modifies Arkansas Code §24-7-713 (b)(4) to provide that the Board may reduce the amount of the stipend if the System's actuary certifies to the Board that the System's amortization period exceeds 18 (instead of the current 30) years and the Board determines that a reduction in the benefit stipend is prudent to maintain actuarial soundness. Section 2 also adds a new subsection §24-7-713 (b)(5) which provides that increases or decreases in the stipend can be phased in.

Section Three (3) of HB 1373 modifies Arkansas Code Section 24-7-713 to add an additional subsection (d). New subsection (d) provides that the Board may remove the benefit stipend from the base amount of current retirees and beneficiaries if the Board determines that it is prudent to do so to maintain actuarial soundness.

If HB 1373 becomes law, the benefit stipend will be removed from the base benefit of all future retirees and beneficiaries, so that it is no longer subject to the 3% COLA for such people.

Furthermore, the Board will have the authority to reduce the stipend to an amount below $75 per month (but not below $1 per month) if the amortization period is above 18 years (instead of 30 years as in current statute). Finally, the Board will have the authority to remove the stipend from the base benefit of current retirees and beneficiaries if the Board deems it prudent to do so in order to maintain actuarial soundness.

Actuarial practice is moving in the direction of amortization periods shorter than 30 years. Senate Bill 1373 brings ATRS more in line with emerging actuarial practice by requiring an amortization period of 18 years instead of 30 years for the Board to take action to maintain actuarial soundness.

Removing the benefit stipend from the base benefit (and thereby eliminating COLAs on the stipend) for future retirees and beneficiaries will reduce the amortization period from its current 29 year level by approximately 1.4 years to approximately 28 years.

With respect to the discretionary authority that HB 1373 allows the Board, we provide the following estimates.

1. A reduction of $25 per month in the stipend (and the base) for current and future retirees and beneficiaries (in addition to removing the COLA on the stipend for future retirees) will reduce the amortization period to 25 years from the level indicated above.
2. Removal of the stipend from the base benefit for current retirees and beneficiaries (in addition to removing the COLA on the stipend for future retirees) will reduce the amortization period to 27 years from the level indicated above.

Users of this information should be aware that estimates of changes in amortization period are heavily dependent on actuarial assumptions and on the amortization period before the change. Please refer to the full actuarial report of the June 30, 2016 valuation for a complete description of actuarial assumptions and methods.

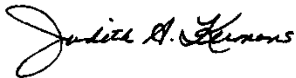
We hope this analysis meets your needs.

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.

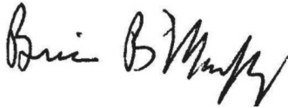
We did not review this bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions nor did we attempt to determine whether these changes would contradict or negate other related State, or local laws. Such a review was not within the scope of our assignment.

Brian B. Murphy 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 opinions contained herein.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:sc