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March 8, 2017

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

Re: Senate Bill 185 Buyout Plan

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 185 as it relates to the Arkansas Teacher Retirement System (ATRS). SB 185 modifies Arkansas State Code Section 24-7-505 concerning buyout plans for inactive members.

Arkansas Code §24-7-505 permits the Board of Trustees of ATRS to establish a voluntary buyout plan that offers a onetime lump sum payment to certain people eligible for deferred retirement or future benefits as a surviving spouse or alternate payee.

A buyout plan has already been offered, based upon existing statute. In connection with that program 2,147 people accepted an average lump sum payment of $4,421. Receipt of the lump sum payment cancelled interest in any retirement benefit and all future rights in the System. Since the lump sum payout was less than the liability being held on behalf of those people, the program saved money and reduced the amortization period used to finance ATRS unfunded liabilities. A precise estimate of the reduction in amortization period is not available.

SB 185 adds a new subdivision 24-7-505 (b)(3) stating that a buyout plan established by the Board may be extended, modified, or expanded by Board resolution.

In order to evaluate this bill, we have made three assumptions. We assumed that:

1. The buyout programs that the Board structures will offer individuals less than the liability being held for such individuals as determined by an actuarial valuation at the time the buyout is offered.
2. The buyout program will offer individuals less than the cost they would have to pay to repurchase the same service under the service purchase formulas.
3. The service purchase formulas will continue to require a person who is repurchasing previously bought out service to pay the cost of the repurchase as determined by the then current repurchase calculations and that the amount paid shall not be less than the amount of the original buyout plus interest at a defined rate.

With those assumptions, we estimate that SB 185 will continue to save money for the Arkansas Teacher Retirement System and possibly reduce the amortization period used to finance ATRS unfunded liabilities. The acceptance rate, and hence the savings to ATRS, is likely to be less than with the original program because some of the current deferred vested people have already been offered a buyout and have not accepted it. However, SB 185 will provide additional flexibility for the ATRS Board in offering voluntary buy out options for deferred vested members, beneficiaries and alternate payees. The liability currently (June 30, 2016) being held for over 12,000 vested deferred members and future beneficiaries exceeds $500 million. If, for example, $12 Million of the liability could be removed in exchange for paying out $5 Million in assets, the effect on ATRS would be a reduction in the amortization period on the order of one to two months.

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 or legislation currently under consideration. 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

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Brian B Murphy

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JAK/BBM:rmn