

February 15, 2017

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

Re: Senate Bill 194 of 2017

Dear Mr. Hopkins:

You have asked us for an analysis of Senate Bill (SB) 194 as it relates to the Arkansas Teacher Retirement System (ATRS). SB 194 modifies Arkansas State Code Section 24-7-710 concerning eligible survivor annuity benefits under the ATRS.

Section 1 of SB 194 modifies Arkansas State Code Section 24-7-710(a) to include reciprocal service in the determination of a participant's eligibility for a survivor benefit. It also adds a new subdivision (2)(B) that requires an "immediately eligible survivor or the minor survivor's guardian or legal representative" to complete the application process within six (6) calendar months after filing the application required under subdivision 24-7-710 (a)(2)(A), including the submission of any additional documentation required by the system, or the "application shall be void unless an extension is granted by the system". We understand present law to allow an application to be filed at any time following death of the member, potentially years later in rare circumstances. This change closes off the period for completing the application process at 6 months unless the Board grants a waiver in a specific case.

Sections 2 and 3 of SB 194 modify Arkansas State Code Section 24-7-710(b)(1)(B) for immediately eligible surviving spouses and Arkansas State Code Section 24-7-710(b)(1)(C) for surviving spouses not immediately eligible respectively, to similarly close off the period for completing the application process for surviving spouse benefits at 6 months following eligibility.

Section 4 of SB 194 changes Arkansas State Code Section 24-7-710(c)(1) concerning surviving dependent child annuity benefits under the ATRS from a flat 20% of the member's highest salary year received in covered employment to 1% of the members highest salary year for each quarter of actual service (i.e., not including reciprocal service) up to twenty quarters. It further sets a maximum surviving child benefit of \$20,000 per year per child and \$60,000 per year for all children combined.

In summary, this bill would allow reciprocal service to count toward vesting of survivor benefits. In addition, for members meeting the requirements of revised §24-7-710(a) it requires the proration of surviving dependent child annuity benefits if actual ATRS years of service are less than 5 years. It sets a maximum benefit of \$20,000 per year per child, but limited to a maximum of \$60,000 per year for all children combined.

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Allowing reciprocal service to count towards eligibility will act to increase cost but by a very small amount. This is because benefits will be paid, that otherwise would not be paid. While there could be a small backlog of individuals that may become eligible for benefits due to this bill, we understand from ATRS staff that there are very few individuals in this circumstance. Incorporating the \$20,000/\$60,000 annual benefit maximum acts as a savings for ATRS. However, it only comes into play if the highest salary year is greater than \$100,000. This would occur very rarely today, because the average pay is well below that. However, as time passes, pays will rise with inflation and the \$20,000/\$60,000 caps will begin to apply more frequently than at present. In summary, there are two very small nearly offsetting effects involved in this bill. We estimate the net effect will be a small savings of less than 0.01% of payroll or one amortization month.

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.

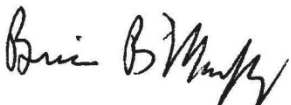
Sincerely,



Judith A. Kermans, EA, MAAA, FCA



Heidi G. Barry, ASA, MAAA



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

JAK/BBM:rmn