



March 15, 2019

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

Re: House Bill 1335 – Credited Service

Dear Mr. Rhoden:

You have asked us for our analysis of House Bill (HB) 1335 as it relates to the Arkansas Teacher Retirement System (ATRS). We have reviewed this Bill as Engrossed 03-06-2019 and 03-14-2019.

HB 1335 modifies Title 24 Section 7 related to credited service.

Section 1 of the Bill modifies §24-7-601(e)(4) related to the use of the term Final Average Salary. The change is a minor wording change.

Section 2 of the Bill repeals §24-7-701(d) and (e) and creates a new subsection (d). The new subsection (d) provides that in the case of a member who earns a full year of service in the year of retirement, the retirement annuity can start no earlier than the July 1 following the end of the fiscal year. This language essentially replaces the language repealed in §24-7-701(e). Under present statutes, a member who retires under the conditions in §24-7-701(a)(1)(A) (voluntary retirement) at the end of a calendar quarter can receive credit for fractions of a quarter year of service credit, but a member who retires on a date other than the end of a calendar quarter loses credit for any fractions of a quarter year of service. The repeal of current §24-7-701(d) results in everyone who retires under the provisions of §24-7-701(a)(1)(A) receiving credit for any existing fractional quarters of a year of service.

Section 3 of the Bill repeals §24-7-702(e) and (f) and creates a new subsection (e). The new subsection (e) provides that in the case of a member who earns a full year of service in the year of retirement, the retirement annuity can start no earlier than the July 1 following the end of the fiscal year. This language essentially replaces the language repealed in §24-7-702(f). Under present statutes, a member who retires under the conditions in §24-7-702(a)(1)(A) (early voluntary retirement) at the end of a calendar quarter can receive credit for fractions of a quarter year of service credit, but a member who retires on a date other than the end of a calendar quarter loses credit for any fractions of a quarter year of service. The repeal of current §24-7-702(e) results in everyone who retires under the provisions of §24-7-702(a)(1)(A) receiving credit for any existing fractional quarters of a year of service.

Actuarial Analysis: This Bill affects benefits in two ways.

First, for people who retire under reciprocal provisions, use salary earned at ATRS for their Final Average Salary calculation and who do not have the full number of years of ATRS service required for the ATRS Final Average Salary calculation, the change redefines the divisor used in the Final Average Salary calculation in order to eliminate a potential windfall. Under both present statutes and HB 1335, the numerator of the calculation is total salary earned in the ATRS position. The divisor under present statutes is full quarters of ATRS service credit not including fractions of a quarter year of service. Under House Bill 1335, the divisor will be total ATRS service credit (including fractions of a quarter year of service), and therefore, a larger number. Consequently, the resulting Final Average Salary will be smaller under HB 1335 than under present statutes, and the potential windfall is eliminated. This only affects the benefit to be paid from the reciprocal system. It does not affect the ATRS benefit.

Second, HB 1335 will allow people with substantial ATRS service who retire on a date that is not at the end of a quarter to get, potentially, some extra weeks of service credit. This is, however, service credit that the people have earned and on which they may have paid contributions. They would, therefore, expect it to apply to their benefit calculation. The number of individuals in this situation, we understand, is expected to be very small.

In summary, this Bill will reduce benefits paid from reciprocal systems for some retirees with small amounts of ATRS service. It will potentially increase benefits from ATRS slightly for those few members who retire with substantial ATRS service but at a time other than the end of a calendar quarter. According to ATRS staff, most people retire at the end of a calendar quarter, and in fact either on January 1 or July 1. Consequently, the number of individuals impacted by HB 1335 would likely be very small and the extent of the effect, when it occurs, would be on the order of some weeks of service credit in each case. We do not have data that would permit a detailed cost analysis of the impact of HB 1335, but based upon our review and information received from ATRS staff, we believe that House Bill 1335 is approximately cost neutral with respect to 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. Such a review was not within the scope of our assignment.



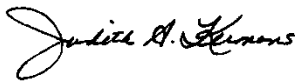
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Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

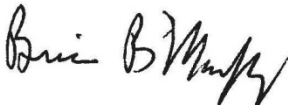
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, FCA, MAAA



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



Heidi G. Barry, ASA, FCA, MAAA

JAK/BBM/HGB:rmn

