



March 4, 2021

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

Re: House Bill (HB) 1169 – Public School Employees Heroes Act

Dear Mr. Rhoden:

You have asked us for our analysis of HB 1169 as it relates to the Arkansas Teacher Retirement System (ATRS). HB 1169 creates an act known as the "Public School Employees Heroes Act".

Background

State code section 24-7-702(b)(2) related to early voluntary retirement states that a member who meets early voluntary retirement eligibility conditions shall receive an early voluntary retirement annuity based on one hundred percent (100%) of his or her accrued benefit reduced by five-twelfths percent (5/12%) multiplied by the number of months by which the time of early retirement precedes the earlier of either completion of twenty-eight (28) years of credited service or attainment of sixty (60) years of age.

Act 750 of 2017 allows the ATRS Board to set by resolution the early annuity reduction at a rate between 5% and 15% per year, to be prorated monthly if the System's actuary certifies that the amortization period to pay the unfunded liabilities exceeds 18 years. The Board adjusted the reduction to 10% per year beginning August 1, 2017 by Resolution 2017-14.

HB 1169

This bill adds new subsections 24-7-702(b)(2)(C)(i) and 24-7-702(b)(2)(C)(ii) to provide that an active member who

- (a) Is an employee of a public school;
- (b) Has attained a full year of service credit for the 2020-2021 school year;
- (c) Has a combined total of twenty-seven (27) or more years of actual and reciprocal service, including purchased or free credited service; and
- (d) Is ineligible for retirement under § 24-7-701.

shall receive an early voluntary retirement annuity based on one hundred percent (100%) of his or her accrued benefit reduced by five-twelfths percent (5/12%) rather than 10 twelfths (10/12%) multiplied by the number of months by which the time of early retirement precedes the earlier of either completion of twenty-eight (28) years of credited service or attainment of sixty (60) years of age.

The Bill further stipulates that the Board shall not adjust the early annuity reduction provided in HB 1169.

Actuarial Analysis: This Bill would provide any member who earned a full year of service credit in FY 2021 a potentially larger early retirement benefit (once they achieve 27 years of service) than they otherwise would have received. Other individuals would not be eligible for the enhanced early retirement benefit provided by HB 1169.

Our estimate is that the change to a 5% reduction from a 10% reduction (for this group of individuals) will increase ATRS liabilities by about \$10 million and increase the amortization period by about 3 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. Such a review was not within the scope of our assignment.

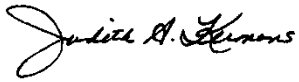
Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.



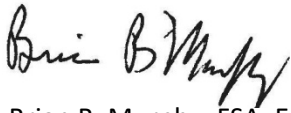
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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



Heidi G. Barry, ASA, MAAA, FCA

JAK/BBM/HGB:sc

