



January 29, 2021

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

Re: House Bill (HB) 1319 – Reciprocal Final Average Salary

Dear Mr. Rhoden:

You have asked us for our analysis of a bill entitled HB 1319 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1319 modifies Arkansas Code concerning final average salary (FAS) and credited service in the Arkansas Teacher Retirement System.

Section 1 of the bill modifies Arkansas Code § 24-7-601(e)(4)-(6), concerning credited service under ATRS. This bill repeals a complex rule from Act 612 of 2017, that required reciprocal service to be treated as if it were ATRS service in the calculation of FAS if the total service credit in the reciprocal system was less than the number of years required in the ATRS FAS calculation. The bill requires two years of service in ATRS or in a reciprocal system in order for the FAS of that system to be used. The FAS of the system that has the highest FAS will be used in the calculation of a member's ATRS benefit. This would mean that, for example, if a member has exactly two years of service in a reciprocal system, then a two-year FAS from that system would be used in the ATRS benefit calculation if the two-year FAS is higher than the ATRS FAS.

The complex rule from Act 612 of 2017 that is being repealed in this section of HB 1319 was initially passed as a cost savings measure. However, we understand from ATRS staff that the 2017 law actually produced very little in savings for ATRS given the small number of individuals impacted. Whether or not there is a cost associated with repealing the rule (under Act 612) going forward depends on the number of individuals who meet the criteria for using the FAS from the reciprocal system and the circumstances of each individual involved. If the number of individuals impacted going forward is similar to what it has been since 2017 and the differences in FAS between ATRS and the reciprocal systems remain similarly small, we would not expect to see any material increase in cost associated with this proposed change in law.

Section 2 of the bill modifies Arkansas Code § 24-7-601(g)(3), concerning concurrent service credit under the Arkansas Teacher Retirement System. In the case where a member elects to waive all or part

of the concurrent service credited to the member in the system and retire under a reciprocal system, the employer and employee accrued contributions attributable to the concurrent service would now be refunded to the employer and member. Under current language in § 24-7-601(g)(3), these contributions must remain with ATRS. However, under 24-2-306 (1) related to erroneous enrollment and concurrent service in the Arkansas Public Employees' Retirement System (APERS), any such contributions would need to be refunded in order for an APERS benefit to be paid. The two sections create a conflict for ATRS and APERS with regard to how forfeited concurrent service is treated. While the change in language appears to remove a potential source of income (contributions) from ATRS, we understand from ATRS staff that the amounts involved are very small or zero in most cases. This is because most concurrent service occurs in ATRS and APERS and that contributions to ATRS are often not made by employers for the concurrent ATRS service if APERS is the system of priority for the member involved. Further, the individuals in this circumstance are typically forfeiting very small amounts of service and, therefore, very small amounts of employer and employee contributions are involved.

We do not have data that would permit a detailed cost analysis of the impact of the proposed change in law in Section 2 of HB 1319 but, based upon our review and information provided from ATRS staff, we believe that this proposed change in law would have no material financial impact on ATRS. It would correct a conflict that exists in current law between ATRS and APERS regarding the treatment of forfeited concurrent service.

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.

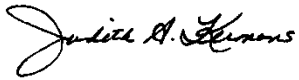
Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.



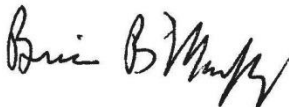
Mr. Clint Rhoden
January 29, 2021
Page 3

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:rmn

