



February 9, 2021

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

Re: House Bill (HB) 1326 – Technical Corrections

Dear Mr. Rhoden:

You have asked us for our analysis of a Bill entitled HB 1326 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1326 modifies various sections of Title 24 related to the Arkansas Teacher Retirement System.

Sections 1 through 10 of the Bill are technical corrections to language and definitions in various sections of the Arkansas Code that have no impact on the operation of ATRS. They will have no material impact on the actuarial condition of ATRS.

Sections 11 and 12 removes wording that requires members to be active when purchasing out of state or private school service. However, both sections leave in force wording saying that if the member ceases to be an active member before the service credit has been established, the member payments made under the section shall be refundable. This change appears to allow inactive members to purchase such service. Assuming the purchases continue to be made at full actuarial cost, this will have no material impact on the actuarial condition of ATRS.

Section 13 removes language in Arkansas Code § 24-7-610(c), limiting National Guard service purchase to one purchase per year to align language in this section with current ATRS practices. This will have no impact on the actuarial condition of ATRS.

Section 14 modifies Arkansas Code § 24-7-610(e) and (f) to specify that National Guard service is to be credited to the year in which it was rendered even if the member has concurrent service with a covered employer. Assuming that purchases continue to be made at full actuarial cost, this will have no material impact on the actuarial condition of ATRS.

Section 15 affects domestic federal service in Arkansas Code § 24-7-611(b) and (c). It removes wording that requires members to be active when purchasing such service. However, it leaves in force wording saying that if the member ceases to be an active member before the service credit has been established, the member payments made under the section shall be refundable. This appears to allow inactive members to purchase such service. Assuming that purchases continue to be made at full actuarial cost, this will have no material impact on the actuarial condition of ATRS.

Section 16 modifies Arkansas Code §24-7-612 to require that service purchase payments be completed before the first annuity installment or T-DROP deposit occurs. This will have no material impact on the actuarial condition of ATRS.

Section 17 is a technical change to language in Arkansas Code §24-7-701(c)(2). This will have no material impact on the actuarial condition of ATRS.

Section 18 modifies Arkansas Code §24-7-701(d). If the Bill becomes law, the Board will be authorized to make rules permitting certain retirements to occur prior to the end of the school year. If the Board chooses to do so, this would add a small amount of cost to the system. This is because benefits will be paid in the same amount but will begin earlier than would otherwise be the case.

Section 19 modifies §24-7-702(b)(2)(A) concerning early retirement reduction. This modified language makes §24-7-702(b)(2)(A) consistent with §24-7-702(b)(2)(B) and clarifies the intent of earlier legislation. This will have no material impact on the actuarial condition of ATRS.

Section 20 is a technical change to language in Arkansas Code §24-7-702(c)(2). This will have no material impact on the actuarial condition of ATRS.

Section 21 modifies Arkansas Code §24-7-702(e) to permit early voluntary retirement prior to the end of a fiscal year under the same circumstances as permitted by language the Bill introduces in §24-7-701(d). This will add a small amount of cost to the system because early voluntary retirement annuities will be paid in the same amount but will begin earlier than would otherwise be the case.

Sections 22 to 26 are technical corrections to language in various sections of the Arkansas Code. These changes will have no material impact on the actuarial condition of ATRS.

Section 27 modifies §24-7-720(j)(1)(A) to provide the maximum lump sum death benefit after ten years of contributory service instead of fifteen years. This change aligns law with current practice under ATRS Board Resolution 2020-27. This change will add a small amount of cost to ATRS.

Sections 28 and 29 modify §24-7-730(a)(1) and §24-7-730(b)(2)(C) for compliance with recent changes to required minimum distribution rules in federal law. Specifically, the SECURE Act changed the required beginning date from 70½ to 72. This will have no material impact on the actuarial condition of ATRS.

Section 30 modifies §24-7-735 to clarify the rules under which service credit or salary may be purchased when a contract buyout agreement, settlement, or judgement is in force. This will have no material impact on the actuarial condition of ATRS.



Section 31 modifies §24-7-736(c)-(f). This portion of the statute limits the increase in pay from one year to the next that may be used for final average compensation purposes. Present statutes say that the increase from the base year to the next highest year cannot exceed a certain percentage increase, unless the dollar value of the increase is less than a certain dollar amount. The Board chooses both the percentage limitation and the dollar limitation within bounds that are defined in the statute. The current percentage increase and dollar limits are 10% and \$5,000 respectively. The Bill reverses the order of application of the % increase and the \$ increase limit, but appears not to have a material effect on the final result of the computation. This will have no material impact on the actuarial condition of ATRS.

Section 32 modifies §24-7-1307(c)(1). The change allows the Board until the end of the first quarter to select the interest rate to be applied to TDROP deposits. This will have no material impact on the actuarial condition of ATRS.

Section 33 modifies §24-7-1307(e). The change allows the Board until the end of the first quarter to select the ten year plus plan interest rate to be applied to TDROP deposits. This will have no material impact on the actuarial condition of ATRS.

Section 34 modifies §24-7-1308(b)(2) and (3). Present statutes require that if a retiring TDROP participant selects a partial lump sum distribution, the lump sum must be 25%, 50%, or 75% of the account. The Bill would allow a member to select a Lump sum of any amount. This will have no material impact on the actuarial condition of ATRS.

Section 35 modifies § 24-7-1310(c), concerning the death of a participant who retired from the Teacher Deferred Retirement Option Plan (TDROP), to clarify the calculation details and order of operations with regard to residue. The amount of residue will be the greater of: (1) The accumulated contributions and regular interest credited to the retirement reserve account as of the member's retirement effective date reduced by the total amount of regular annuities paid, further reduced by amounts received from the TDROP account in the form of lump-sum or annuity payments; and (2) The TDROP account as of the member's retirement effective date reduced by amounts received from the TDROP account in the form of lump-sum or annuity payments. This change will have no impact on the actuarial condition of ATRS.

Sections 36 and 37 are technical corrections related to non-mandatory employers and optional participation in the ATRS.

Actuarial Opinion: In our opinion, this Bill is a mostly a technical corrections Bill that streamlines Teacher Retirement Laws, eliminates obsolete language, and codifies existing practice and ATRS Board intent. Certain provisions described in Sections 18, 21 and 27 may add cost to the system, depending on how they are administered.

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.

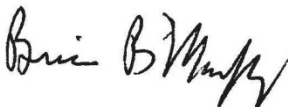
Brian B. Murphy and Judith A. Kermans are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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



Heidi G. Barry, ASA, MAAA, FCA

JAK/BBM/HGB:sc

