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January 29, 2021

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

Re: House Bill (HB) 1340 – Correction of Errors

Dear Mr. Rhoden:

You have asked us for our analysis of a bill entitled HB 1340 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1340 modifies Title 24 Section 7-205, 7-406 and 7-502 of the Arkansas Code related to the correction of errors and termination of membership under the Arkansas Teacher Retirement System.

Section 1 of the Bill modifies Arkansas Code §24-7-205(b)(1)(C) related to member balances owed to the system. Present statutes provide that for a fiscal year in which a member balance is owed the member may elect to have the system cancel contributory service instead of paying the balance due. In that case, the system would return any member contributions for the affected portion of the fiscal year without interest. Per SB 210 of 2019, the cancelled service, in this case, became non-contributory service. The Bill modifies the language to make it clear that cancelled contributory service credit for a fiscal year would be converted to non-contributory service credit if there are unpaid member contributions related to that fiscal year.

Actuarial Analysis: The permissive conversion to non-contributory service codifies current practice and corresponds to the intent of the original legislation under SB 210 of 2019. In our opinion this has no effect on ATRS.

Section 2 of the Bill modifies Arkansas Code §24-7-205(c) concerning correction of errors. Present statutes provide that a determination, review, etc. is not valid unless certain conditions are satisfied. The bill adds "an obvious or documented error by an employer or the system" that understates the salary to those conditions.

Actuarial Analysis: This change will have no measurable effect on ATRS.

Section 3 of the Bill modifies Arkansas Code §24-7-406(c)(1)(B) concerning the failure of an employer to report service and remit contributions to the system. Present statutes provide that if the failure to report service or remit contributions occurs within a certain lookback period the system has the right to collect the contributions that are due, with interest. If the failure did not occur within the certain lookback period, the unreported service may optionally be bought at actuarially equivalent rates. Finally, current statutes provide that service is not granted until all service is paid in full. The bill adds unreported salary to the type of failure covered by code. It eliminates the separate treatment of failures that occurred outside the lookback period. Essentially in the case of a failure that occurred outside the lookback period, the bill provides that the failure can be corrected by payment of back contributions instead of at actuarially equivalent cost. The bill also provides that service can be credited once member contributions are paid, without regard to whether or not the employer contributions have been paid. Finally, it provides the member the option to convert the service to non-contributory service in lieu of paying the member contributions.

Actuarial Analysis: We understand from staff that there are either very few or no instances at all wherein members have chosen to pay the full cost in lieu of cancelling service credit. We understand further that discovery of errors beyond the look back period is exceedingly rare. As such, the changes in this section will have very little financial effect on ATRS.

Section 4 of the Bill modifies Arkansas Code §24-7-502(b)(4) concerning termination of active membership. Under current statutes, unreported service rendered after July 1, 2011 may be established by paying the actuarial equivalent of the member's benefit to the system. The bill deletes obsolete language related to the period before July 1, 2011 and deletes language requiring an actuarial equivalent payment (because it would otherwise conflict with other portions of the bill).

Actuarial Analysis. This section does not, by itself, have any material impact on ATRS. It is there so that Arkansas Code §24-7-502(b)(4) will be consistent with other code sections that are affected by the bill.

Conclusion: In our opinion, since ATRS staff has indicated that the number of individuals impacted by any of the error corrections in this bill is extremely small, this bill will have very little if any financial effect on 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.

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

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