



February 15, 2023

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

Re: House Bill (HB) 1186 as Engrossed Annuity Options

Dear Mr. Rhoden:

You have asked us for our analysis of HB 1186 as it relates to the Arkansas Teacher Retirement System (ATRS).

Under present law, retiring members may elect to receive their annuity as a straight life annuity or as one of three actuarial equivalent forms – Option A (100% Survivor Annuity), Option B (50% Survivor Annuity), or Option C (Ten Years Certain and Life). For options A and B, only one beneficiary may be nominated. The beneficiary must be either the spouse, to whom the member has been married for at least one year, or a dependent child who has been judged physically or mentally incapacitated by a court of competent jurisdiction.

Section 1 modifies Arkansas Code § 24-7-706(a)(2), concerning a member's Option A annuity election. The amendment permits the member to nominate one or more beneficiaries. The beneficiaries must be either a spouse who has been married to the retiree for at least one year immediately preceding the first annuity payment due date or a dependent child of the retiree that has been adjudged to be physically or mentally incapacitated by a court of competent jurisdiction.

Section 2 makes corresponding changes to Arkansas Code § 24-7-706(a)(2)(B) concerning a member's Option B annuity election.

Section 3 modifies Arkansas Code § 24-7-706(a) by adding a new subdivision (4) to provide that in the case of multiple beneficiaries, the reduced annuity shall be continued such that the spouse shall receive 50% of the survivor benefit and the remaining 50% shall be paid in equal shares to each dependent child. The payments to each beneficiary cease upon the death (or ineligibility) of that person and do not revert to the other surviving beneficiaries.

Section 4 modifies Arkansas Code § 24-7-706(d), concerning the ability of a residue beneficiary under § 24-7-709 to cancel the form of annuity in effect and elect Option A. The amended language adds a new subparagraph (4) that provides that a surviving spouse who is eligible to receive an annuity may elect a lump sum distribution if the retiree did not designate one or more dependent children as a beneficiary and if the spouse waives the right to a spousal annuity. It also adds a new subparagraph (5) that provides that if a residue beneficiary elects Option A under this subsection and is the surviving spouse of a disability retiree, the procedures in §24-7-710 related to survivor annuities shall be used to determine when annuity payments begin.

Section 5 modifies Arkansas Code § 24-7-706 to provide that a retiree's effective retirement date and the date when survivor benefits under this section are payable shall be determined by the law in effect at the time of the retiree's death.

Conclusion:

Based upon discussions with staff, we understand that there are very few cases wherein a disabled dependent child would be named as an Option A or Option B beneficiary, and that no more than 5 cases per year would be expected.

In our opinion, this Bill, if enacted, will have either no measurable cost, or a very small cost depending on whether or not the child portion of the Option A or Option B Annuity is calculated in an actuarial equivalent manner.

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 as IRC §401(a)(9). Such a review was not within the scope of our assignment.

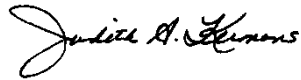
Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.



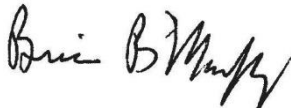
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,
Gabriel, Roeder, Smith & Company



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