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February 3, 2023

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

Re: Senate Bill (SB) 116 Permissive Service Purchase

Dear Mr. Rhoden:

You have asked us for our analysis of SB 116 as it relates to the Arkansas Teacher Retirement System (ATRS).

Section 1 of this bill modifies Arkansas Code § 24-7-202 to add new subsections (45), (46), and (47) that provide definitions of "Gap Year," "Permissive Service Credit," and "Qualified Service" respectively as follows.

"Gap Year" is defined to be a period of time in which a member was an inactive member and was either unemployed or did not provide qualified service. A gap year is further defined as a period of time for which the System may grant the member permissive service credit.

"Permissive Service Credit" is defined to be service that is credited under the System for the purpose of calculating a member's benefit, that has not previously been credited and for which the member contributes the amount necessary to fund the benefit that is attributable to the service as required by the System.

"Qualified service" is defined to be the service described in 26 U.S.C. § 415(n)(3)(C)(i)-(iv), as it existed on January 1, 2023.

Section 2 of the bill adds new Arkansas Code § 24-7-613 which permits non-retired members to purchase permissive service credit for up to five gap years under specified conditions. New subsection § 24-7-613 (e) provides that the member must pay the actuarial equivalent of the member's benefit to the System for each year of permissive service credit that is purchased and that the service shall not become credited service under the System until the amount is paid in full. Section 2 also allows for the member to receive a refund of the permissive service credit if the member ceases to be an active member or the permissive service credit is not otherwise used to establish the member's eligibility for retirement under the System.

In our judgment, this bill will result in no material cost to the System because the member is paying the actuarial equivalent of the benefit in order to purchase the permissive service.

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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.

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

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

Sincerely,
Gabriel, Roeder, Smith & Company

Judith A. Kermans

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Brian B. Murphy

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JAK/BBM/HGB:rmn

GRS