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February 8, 2023

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

Re: Senate Bill (SB) 117 Termination Separation Period

Dear Mr. Rhoden:

You have asked us for our analysis of SB 117 as it relates to the Arkansas Teacher Retirement System (ATRS). This bill amends and updates the law concerning the termination separation period.

Under current law, members are not considered terminated from employment for retirement purposes if within six calendar months of the effective date of retirement they become employed by a covered employer and have not attained the System's normal retirement age. Normal Retirement Age is defined as the age of 65 with 5 or more years of credited service or the age of 60 with 38 or more years of combined credited service.

This bill modifies Arkansas Code § 24-7-502(a)(2) to reduce the six-calendar month period to three full calendar months effective July 1, 2023.

This change to a three-month period would permit people who have not yet met normal retirement age (many of whom are eligible for unreduced retirement) to retire at the end of the school year and return to work three months earlier than under current law (potentially October 1 instead of January 1). Such people would of course have a re-employment risk and ultimately have to be offered and accept employment with their former employer, or potentially another employer.

This change could potentially result in more people selecting "return to work" over T-DROP than is the case under current law. In such cases, ATRS would pay out 100% of the retirement benefit directly to affected individuals rather than paying a reduced amount (approximately 70%) into the individual's T-DROP account. The cost to the System would be the approximate 30% benefit differential and any earnings on T-DROP assets above the amounts that would have been credited to the affected individual's T-DROP account if the member had gone into T-DROP.

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We cannot determine the financial effect on the System without knowing the extent to which the above would occur. If, for example, in the long term the Senate Bill would reduce the T-DROP population by 10% with a corresponding increase in the return to work population, the added cost to the Arkansas Teacher Retirement System would be on the order of $3 to $4 million per year. The added cost would cause the amortization period to increase by less than one year. This effect would not be seen all at once. It would occur gradually over a multi-year period.

Please bear in mind that the 10% figure we have used is only an illustration. We do not have data that would permit us to prepare a statistically valid estimate of the effect of this Bill. If the true figure is greater than 10%, the cost would be higher. If the true figure is less than 10%, the cost would be less.

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.

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

Sincerely,
Gabriel, Roeder, Smith & Company

Judith A. Kermans, EA, FCA, MAAA

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JAK/BBM/HGB:dj