ARTRS

Arkansas Teacher Retirement System

History of ATRS

ATRS is a defined benefit plan for public school and other public education employees. It is administered as a "qualified" retirement plan under the provisions of IRS § 401(a). The state statutes contain the benefit provisions for our members at Arkansas Code §§ 24-7-201 et. seq., which are supplemented by ATRS Rules and Regulations.

ATRS continues the original mission of recruiting, retaining, and rewarding career educators. The mission has been expanded beyond just teachers to include everyone in the public school systems who help ensure the educational curriculum is delivered in a clean, safe, healthy, and nurturing environment

ATRS Board of Trustees

The authority, general administration and responsibility for the proper operation of ATRS are vested in the Board of Trustees. The ATRS Board of Trustees consists of eleven (11) elected members and four (4) ex officio members. The Board of Trustees has the authority of the Legislature to promulgate rules.

The ATRS Board of Trustees is dedicated to the proposition that its paramount purpose is that of providing an adequate and equitable retirement plan for the members of the teaching profession, to protect this group in the event total and permanent disability causes them to be unable to continue employment in their profession, and to provide in part for their dependents in case of death.

12 of the 15 Trustees are members of our system. (11 are member elected).

ATRS Returns since 1986

Since 1986, ATRS has averaged a rate of return of 8.5%

For the 2017 fiscal year, ATRS ranked first in the country

ATRS Ranking on Returns

3 Year = Top 1%

5 Year = top 1%

10 Year = Top 1%

of Public Funds with a Billion Dollars or more Under Management

ATRS Historical information

- ATRS has not had a member contribution increase in 43 years.

- ATRS has not had an employer contribution increase in 12 years.

- In the financial crises, ATRS had a negative 4% return in 2008 and a negative 18% return in 2009 for a combined negative 22% return versus an expected positive return of 16% for a return difference of negative 38%. ATRS absorbed this major financial blow from the financial crisis without any material changes to benefits and NO change in contributions from members or employers. However, the financial crisis did affect the financial reserves of ATRS.

ATRS New Changes

- New Actuarial standards show:
  - Actuarial mortality tables where members are living longer;
  - Actuarial pressure to lower the system's assumed rate of return

These new standards have lead us where we are today:

- The combined impact of these 2 changes means that ATRS has to absorb over a $100 million dollar per year impact on ATRS finances from now on.

Best Survivor Benefit In the Country

ATRS pays each minor child under age 18 an annual annuity that is 20% of the member's best one (1) year's salary for up to 3 children capping the 20% at $100,000 of salary ($20,000 maximum initial annual benefit). This benefit receives the 3% COLA and is paid to age 23 as long as the child remains as a full time student in a post secondary educational program.

Active member dies with 3 minor children ages 1, 2, and 3, and the member has a $60,000 best one (1) year salary. Each minor child would receive a monthly benefit of $1,000 that would receive a 3% simple COLA until the child ceases being a full time student or reaches age 23, whichever occurs first.

The same example as above with 4 minor children, each child would receive 15% of the best salary since the maximum benefit payable to survivors is 60% of the member's best salary.

Service Credit

How are years of service computed for members?

# Days worked =	Amount of Service Credit
40 days	**¼ year of service credit**
80 days	**½ year of service credit**
120 days	**¾ year of service credit**
160 days	**1 year of service credit**

What is a day of service? School districts have wide discretion on granting a day of service. If a member completes assigned tasks for a day, even if the time spent is less than 4 hours, a day of service may be awarded. (Example: A member only driving a short afternoon bus route may be awarded a day of service.)

Benefit Multipliers

What is a multiplier? A multiplier is used to compute benefits at retirement. The standard formula is the final average salary (FAS) times multiplier times years of service.

- The standard multiplier after ten (10) years of service is 2.15% for each contributory year and 1.39% for each noncontributory year.

Examples of Multipliers

Example No. 1:

FAS = $40,000
Contributory years = 20
Noncontributory years = 10

$40,000 x 2.15% x 20 =	$17,200.00
$40,000 x 1.39% x 10 =	$ 5,560.00
Stipend*	$ 900.00
Total Annual Benefit:	**$23,660.00**

**** Stipend paid after 10 years of service.***

Examples of Final Average Salary (FAS)

Example No. 1

Fiscal Year		Salary
2014-15		$ 40,000
2015-16		$ 41,000
2016-17		$ 42,000
	Total	$123,000

$123,000 ÷ 3 = $41,000 (Benchmarked FAS)

Example No. 2

Fiscal Year	Salary	$5,000 bench	110% only
2014-15	$ 40,000	$ 40,000	$40,000
2015-16	$ 60,000	$ 45,000	$44,000*
2016-17	$ 62,000	$ 50,000	$48,400*
	$162,000	$135,000*	$132,400

$162,000 ÷ 3 = $54,000 (No control)

$135,000 ÷ 3 = $45,000 ($5,000 bench protection) *Used by ATRS*

$132,400 ÷ 3 = $44,133 (110% without protection)

** 110% Anti-spiking formula with the $5,000 override of the anti-spiking percentage application.*

Option Factors

(Payments to others after death of a retiree)

Option Factors: At retirement, a member can select

- **Straight Life Annuity** No Option Factors chosen.
- **Option A** which provided an eligible spouse (incapacitated child) 100% of the benefit payable to the ATRS retiree;
- **Option B** which provided an eligible spouse (incapacitated child) 50% of the benefit payable to the ATRS retiree; or
- **Option C** which guarantees that 120 monthly benefit payments will be made to the member or their option beneficiary if the member dies before 120 months of retirement. (In Option C, the member still has a lifetime benefit).

When choosing an option, the member's monthly benefit is reduced to provide the protection to a 3rd party.

T-DROP Program

An explanation of T-DROP

- The member locks in years of service, total multipliers, and final average salary as if retiring, but does not retire to obtain deposits based on a percentage of what a monthly benefit in retirement would be.
- Starts a ten (10) year clock running for monthly deposits into the T-DROP balance.
- Interest is paid on the growing balance until actual retirement.
- A teacher in an average school district spending 10 years in T-DROP often has between $200,000 - $300,000 as a balance in the T-DROP account after completing 10 years of T-DROP.
- That balance at the point of actual retirement, the member has various options on distribution of the balance.

The 3% Simple COLA Paid to Retirees and T-DROP

The 3% simple cost of living adjustment has served ATRS retirees very well. The COLA has not only preserved buying power, but has increased it.

- 1980 – 181% Buying Power
- 1990 – 163% Buying Power
- 2000 – 116% Buying Power
- After a member has been retired 10 years, the member's base benefit will be 130% of the initial benefit. After 10 years, a $2,000 initial monthly benefit becomes a $2,600 monthly benefit.

Disability

- Excellent program
- Almost immediate decision from ATRS Medical Committee
- Ability to continue working until decision is made
- Disability retirees can now work part-time and, under certain circumstances, full time.
- Lesser job or part-time.
- The disincentives to return to work and become active again have been removed.

Due to the passage of Act 549 of 2017, a disability retiree is now allowed to work for an ATRS covered employer and also receive monthly disability benefits if he or she works less than forty (40) days during a fiscal year or works more than forty (40) days but the work is substantially different (in a lesser position) than the work the member did when retiring because of disability and has a computed salary that is less than the final average salary used to compute the monthly disability benefit.

Disability Calculation

Disability benefits are calculated as if the member had reached age 60 with no reduction in benefits.

Example:

Member Age = 40

Years of Service = 15 Contributory

FAS = $40,000

$40,000 x 2.15% x 15 =	$12,900
Stipend	$ 900
Annual Benefit:	$13,800

Death In Active Service for Contributory and Noncontributory Members

Option A (monthly lifetime benefits for surviving spouse)

- Member must be active;
- Member must have five (5) or more years of service credit; and
- The spouse must be the designated primary beneficiary;
- The member and spouse must be married for two (2) or more years.

If no eligible spouse exists, then the member's contributions, plus interest, will be payable to the residual beneficiary or estate.

If the member is retired and dies without drawing benefits equal to the contributions plus interest, then the residual contributions and interest are payable to the member's beneficiary or estate.

Death After Retirement from T-DROP

If the retiree has not drawn benefits equal to any T-DROP balance that is annuitized, then the residual T-DROP is paid to the member's beneficiary. However, if the member has designated an option beneficiary, the option beneficiary continues to receive monthly benefits payable through the option. (Option A benefit is 100% of the member's benefit for the life of the spouse, with no penalty for remarriage)

Lump Sum Death Benefit (LSDB)

$10,000 for people who meet the following criteria:

- 10 years of service credit
- Totally contributory
- 15 years of service credit if have both contributory and non-contributory service.

Members who do not meet the criteria above, will have a pro-rated.

Employer Contribution Rate

Increasing the employer contribution rates from 14% to 15% in 0.25% increments over a 4 year period beginning FY 2020 with the rate change fully implemented in fiscal year 2023.

Any change to the employer contribution rate is over a year and a half away. ATRS has not had an employer contribution increase in over 12 years. Most other plans had to have employer increases to overcome the financial shock of the 2008/2009 financial crisis. Importantly, the first employer increase would not happen until fiscal year 2020, with 0.25% increases per year through fiscal year 2023. This gives ample time for employers to prepare for the increase and for any process for the payment of the increase to be tweaked to the extent necessary for an orderly transition period from 14% to 15% for the employer contribution rate. Absent this employer contribution rate increase, the impact to the members would be greater.

New Member Contribution Rate

Member Contribution Rate. Increasing the member contribution rate from 6% to 7% in 0.25% increments over a 4 year period beginning over a year and a half from now in FY 2020. Any change to the member contribution rate is over a year and a half away. The 6% member contribution rate has not been changed in 43 years. However, the adoption of a lower assumed rate of return and a new mortality table necessitates the member contribution rate increase to maintain financial strength and sustainability. The contributory rate increase will be phased in over a four year period. This provides contributory members greater flexibility and more time to absorb the change.

Multipliers after 10 years of (recognized) service

All multipliers earned through FY 2018 remain unchanged.

Contributory multipliers are unchanged.

Noncontributory multipliers after FY 2019.

Noncontributory multipliers are reduced to 1.25% beginning in FY2020 in alignment with contributory members contributing more to maintain an unchanged contributory multiplier.

New Noncontributory Multiplier in FY 2020

Multiplier. Lowering the noncontributory member multiplier from **1.39% to 1.25%** beginning in FY 2020. The change in the member contribution rate means that contributory members will pay more to maintain the current contributory multiplier of 2.15%. In order to maintain alignment and parity between contributory members and noncontributory members, the noncontributory multiplier should be reduced in line with the additional cost borne by contributory members. A 1.25% multiplier for noncontributory service brings the noncontributory rate in close parity with the higher contribution rate for contributory service. As a reminder, any noncontributory member may become contributory by filing an election with ATRS before the beginning of a fiscal year and receive the higher contributory multiplier.

IMPORTANTLY: A noncontributory member can become contributory anytime before next fiscal year or before the beginning of any fiscal year.

Anti-Spiking

Anti-Spiking. Now 110% lowest to highest comparison**.** Members have a benchmarked 3 year final average salary. Each active member as of June 30, 2018 will have a 3 year benchmarked FAS using the 110% anti spiking formula. This is a protection for members as the change to 5 year FAS is made.

Final Average Salary (FAS)

Final Average Salary. No change in the definition of salary.

3 year Benchmark guarantee during conversion to a 5 year FAS.

ATRS is converting from a 3 year final average salary to a 5 year final average salary calculation. This will be done with a 2018 benchmark to protect members near retirement. The benchmark sets a 3 year final average salary calculation benchmark at the end of the current fiscal year. This calculation will be a permanent benchmark that will be used if the 5 year calculation produces a lower final average salary than the permanent 2018 benchmark for all members (most members will quickly have a higher 5 year FAS than a 3 year, but for those near retirement or with a recent salary increase, the benchmark serves as a special protection to the member). This benchmarking ensures the change will not negatively affect those soon to retire, and all members' benefits will grow by working longer.

New Multipliers for Service Earned AFTER Fiscal Year 2018 for Future Retirements When the Member has less than 10 years of Recognized Service Credit.

- For those with less than 10 years of service, all multipliers earned through 2018 will not be affected by this change and are not reduced.
- After 2018, multipliers earned for those with less than 10 years of **recognized** service is 1.75% for service credit before reaching 10 years of service. At 10 years, the service credit will be backfilled and credited at the full 2.15%. **<u>This will not impact any multiplier already earned.</u>**
- Once 10 years of service is reached, all multipliers become the standard rate multipliers: 2.15% contributory, 1.39% non- contributory through FY2019 and 1.25% thereafter.
- This initial multiplier only impacts members who earned service credit after FY2018 and retire before reaching 10 years of **recognized** service.

Impact on T-DROP

The variable 2% to 6% of T-DROP Interest Rate of previously used is now set at a fixed 3% rate with incentive rates that would move an annual interest rate up to 6% in years with good returns.

Until this fiscal year, ATRS used a variable interest rate formula that varied between 2% and 6% based upon returns. This fiscal year ATRS set the one year rate at a fixed 5% since it was clear ATRS was moving toward outstanding returns, tempered by the Board's understanding that soon ATRS would implement changes due to the changes in the actuarial assumptions. Provisions have been made to allow the opportunity in years with outstanding investment returns (9.5% or higher) to provide additional incentive interest on top of the fixed rate, up to 6% total interest payable in good years. The maximum rate in regular T-DROP remains at 6% when the fixed rate and maximum incentive rate are combined.

Impact on Retirement out of T-DROP

No Material Changes to Retirement out of T-DROP. All the distribution options remain in place with enhanced CBA interest rates.

1. Annuitized for a higher lifetime monthly benefit. The annuitization factors have been modified to the new mortality table and the rates of return, and will move toward a more standard annuity return factor that could be expected from an insurance company. The adjustment to the annuity return factors will be made over six (6) years.
2. Reminder of big advantages of CBAs versus rolling out to another administrators. 10% early withdrawal reduction ends at age 55.
3. 10% early withdrawal reduction ends at age 55.
4. Direct payment immediately Taxable.

Cash Balance Account (CBA)

Cash Balance Accounts (CBA) are for members retiring from T-DROP and leaving a discretionary balance at ATRS for future withdrawal. CBA participant's funds are left in an interest bearing account with ATRS. The CBA account has been a win for members and a win for ATRS. ATRS benefits by receiving the spread between the average interest rate paid on CBA accounts and actual earnings for ATRS.

CBA accounts help the member with a quality place for T-DROP distributions and helps ATRS financially.

Cash Balance Account (CBA)

CBA rate increased to 2.5%. Beginning on July 1, 2018, the initial CBA rate will be increased from 2% to 2.5% with the second year through fifth year interest rates increasing 0.5% each year from the original CBA schedule and reaching a 4% interest rate in year six (6) rather than the current 4% interest rate in reached in year eight (8).

- For the first fiscal year of participation: 2.50%
- For the second year: 2.75%
- For the third year: 3.00%
- For the fourth year: 3.25%
- For the fifth year: 3.50%
- For the sixth year: 4.00%
- For the seventh year: 4.00%
- For the eighth year and thereafter: 4.00%

Post 10 Year T-DROP – Higher Maximum Interest

Post 10 Year T-DROP: Unchanged except for better interest rates.

The Post 10-year interest program has major beneficial impact on ATRS. A material number of members complete 10 years in T-DROP and for personal reasons often decide not to retire but continue working. These members could receive a monthly benefit and could potentially withdraw their entire T-DROP balance accrued over the ten year period. Post 10 Year T-DROP will continue to pay the current variable interest rate between 4% and 6% using the existing formula after one minor tweak to the process being the use of a calendar year return as estimated by the general financial consultant instead of an annualized return from March 31. This tweak is intended to allow more time to establish a better estimate. Otherwise the interest rate process is unchanged for Post 10 Year T-DROP.

ATRS is paying interest on Post 10 Year T-DROP in FY 2018 at 6%

Impact on Option Factors

Option Factors have a slightly increased reduction on monthly benefits due to the new mortality table and assumed rate of return.

In establishing the reduction, the actuarial factors such as the mortality table impact the amount of the reduction to provide the option benefit. An unanticipated outcome of the longer assumed lifetimes of members caused by the adoption of the new mortality table is that without adjusting the assumed rate of return below 7.5% it may in several instances create a smaller reduction than the existing option beneficiary formula. It was determined that the new option beneficiary formula should not become more generous than the existing formula since cost-cutting was occurring across all other ATRS groups. In order to have cost sharing by option beneficiaries, the new mortality table will be used with an assumed rate of return of 5%. This creates a slightly higher reduction (typically about 3%) than the reduction in the existing option beneficiary formula.

Impact on Early Retirement

Before Age 60 or 28 years of service = 10% per year.

- Still must have 25 years of service.
- Once 25 years of service is obtained, then an age or years of service comparison is made to determine the reduction.
- Disability is available for those unable to continue working.
- Many states have totally eliminated early retirement and use a rule of 80 or 85.
- ATRS retains the early retirement election, just not at the expense of other members.

- **As has been the case, a Member can retire at age 60 without reduction in benefits regardless of years of service as long as member is vested**.

Benefit Stipend & Cost Of Living (COLA)

Benefit Stipend - Lowered from $75 to $50.

New retirees in the current fiscal year do not have the benefit stipend as part of the base. Retirees will assist in absorbing the costs added by the change in actuarial assumptions through the removal of the benefit stipend from the base for all current retirees beginning in fiscal year 2019, coupled with the reduction in the benefit stipend from $75 back to the original $50 per month beginning in fiscal year 2020 (1½ years away). The reduction would have a hold harmless "phase-in" to ensure that no retiree would see an actual dollar amount reduction in the monthly benefit payment after the stipend is returned to $50 per month.

COLA - The annual COLA would backfill the implementation of the stipend reduction over more than one fiscal year for any member with a base monthly benefit of less than $833. Most retirees will not need this protection, but a few will benefit by it. COLA will be maintained at 3%.

NO CHANGE IN LUMP SUM DEATH BENEFIT

NO CHANGE IN THE 3% SIMPLE COLA

ATRS Website - www.artrs.gov

24-Hour Access to Your Member Data...

Member Access - allows members and retirees to access their membership data at any time. (Benefits Paid, Tax and Insurance Deductibles, Beneficiaries, T-DROP history, Cash Balance Account, and 1099 Tax info)

Secure - to access membership data, members and retirees must complete the website registration process and have their information *successfully validated by ATRS***.**

For Troubles Signing Up – just call ATRS and we will walk you through the process.

IMPORTANT THINGS TO REMEMBER

- BEFORE going back to work, contact ATRS.
  (i.e. retirement separation period.)
- Sign up on website (www.artrs.gov)
- Contact ATRS for major life events
- How to reach ATRS:

  (501) 682-1517 local
  (501) 682-2359 fax
  1-800-666-2877 toll-free
  Email us at: **info@artrs.gov**