



January 24, 2023

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

Re: House Bill (HB) 1183 Outsourcing

Dear Mr. Rhoden:

You have asked us for our analysis of HB 1183 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1183 modifies Arkansas Code §24-7-506 concerning the outsourcing provisions of the Arkansas Teacher Retirement System.

The bill modifies Arkansas Code § 24-7-506(a)(1)(B) to exclude covered employers reporting through the Arkansas Administrative Statewide Information System from the definition of covered employer for the purposes of §24-7-506.

The bill modifies Arkansas Code § 24-7-506(a)(8) to say that a surcharge employer is a covered employer that outsources and pays a surcharge to the Arkansas Teacher Retirement System. Specifically, it removes permissive language related to opting for embedded employees to accrue service credit in the Arkansas Teacher Retirement System.

The bill modifies Arkansas Code § 24-7-506(b) to require that a covered employer that enters into an outsourcing agreement for a service common to the normal daily operation become a surcharge employer. Under current law, such employers could choose to become participating employers.

The bill modifies Arkansas Code § 24-7-506(c) to eliminate obsolete historical language, to specify that the surcharge rate shall not exceed 4% of embedded employee payroll, and to provide that the Board of Trustees of the Arkansas Teacher Retirement System may establish the surcharge rate for years following Fiscal 2022 by resolution.

The bill removes current Arkansas Code § 24-7-506(d) and (e). This section is related to the treatment of covered employers that elect to become participating employers.

The bill relabels current §24-7-506(f) to §24-7-506(d).

The bill modifies retitled §24-7-506(d)(1) to eliminate language related to an election and to eliminate a reference to contributions that would only have related to a participating employer.

The bill modifies retitled §24-7-506(d)(2) to require collection of unremitted surcharges.

The bill modifies retitled §24-7-506(d)(3) to change references to covered employers to surcharge employers.

The bill removes the current §24-7-506(g). This section permitted a covered employer or an outsourcing contractor to request a determination from the Arkansas Teacher Retirement System as to whether an embedded employee performs or will perform a service common to the normal daily operation of a covered employer.

The bill then relabels subsequent sections consecutively and permits the Arkansas Teacher Retirement System Board of Trustees to promulgate rules necessary to implement the provisions of the section.

The bill as we understand it, removes the option of becoming participating employers from future outsourcing employers. Since the outsourcing surcharge rate is capped at 4% of payroll which is less than the current share of contributions that go toward the unfunded liability of the system, the bill would appear to reduce potential future funds received to help eliminate the System's unfunded liabilities.

While we do not have data that would permit a detailed cost analysis of the impact of the proposed change in law in HB 1183, ATRS staff has indicated that there have been no covered employers utilizing an outsourcing agreement who have elected to become a participating employer as currently allowed for in statute. Based upon our review and the information provided from ATRS staff, we believe that this proposed change in law would have no material financial impact 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.



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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.

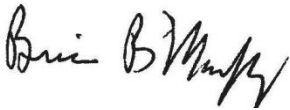
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Sincerely,
Gabriel, Roeder, Smith & Company



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