

February 13, 2013

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

Re: Senate Bill 164

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 164 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 164 modifies Arkansas Code Title 24, Chapter 7, Subchapter 5 to add a new section 24-7-505. The new section permits the Board of Trustees to offer periodic buyout plans to members eligible for deferred retirement under 24-7-707 and certain surviving spouses and alternate payees. Members, surviving spouses and alternate payees electing to participate in the buyout plan would receive a one-time lump sum payment and, in exchange for that payment, would forfeit future rights to benefits from ATRS.

The bill provides latitude to the Board in designing and administering the buyout plan. More than one buyout plan may be offered. The bill requires that a buyout plan specify the formula used to determine the amount of lump sum payment, but it does not require that any particular formula be used. Individuals, who participate in a buyout and later rejoin the system, may repurchase the previously bought out service as contributory service. The repurchased service will be treated the same as private school service.

In order to evaluate this bill, we have made three assumptions. We assumed that:

1. The buyout programs that the board structures will offer individuals less than the liability being held for such individuals as determined by an actuarial valuation at the time the buyout is offered.
2. The buyout program will offer individuals less than the cost they would have to pay to repurchase the same service under the service purchase formulas.
3. The service purchase formulas will be amended to require a person who is repurchasing previously bought out service to pay the cost of the repurchase as determined by the then current repurchase calculations and that the amount paid shall not be less than the amount of the original buyout plus interest at a defined rate.

With those assumptions, we estimate that this SB 164 will save money for the Arkansas Teacher Retirement System and possibly reduce the amortization period. The amount of the savings cannot be estimated until specific details of a particular buyout program are known. The liability currently

Mr. George Hopkins
February 13, 2013
Page 2

being held for vested deferred members exceeds \$400 Million, so the savings potential is some percentage of that amount.

We would recommend that cash flow needs be considered when structuring the buyout programs, especially in the first year when there may be a pent up demand for the buyouts.

Although not directly related to cost considerations, we wish to note that by reducing both assets and liabilities, a buyout program can reduce the overall risk position of the retirement system.

Please review this letter carefully to ensure that we have understood the bill properly and that the assumptions we have made are realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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 law or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

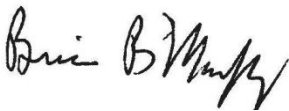
Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing 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,



Judith A. Kermans, EA, MAAA, FCA



Brian B. Murphy, FSA, EA, MAAA, FCA

JAK/BBM:sc