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February 20, 2013

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

Re: Senate Bill 197

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 197 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 197 amends Arkansas Code Section 24-7-205(b)(1) related to the correction of errors to expand the options for ATRS regarding members who owe the retirement system money. Under SB 197, when a member has an outstanding balance due the system, ATRS would be able to cancel the service for the fiscal year for which there is a balance due to the system in lieu of collecting the balance. If service credit is canceled, the system shall return any member contributions for the affected fiscal year not including interest.

We understand from ATRS staff that there are currently about 1,480 members who have outstanding balances owed to the system that total $615,000. We further understand that some of these members would like to retire but are not able to do so because they cannot make the necessary payments.

Service credit, in our experience, whether purchased or accrued is usually worth as much as or more than the amounts contributed or paid by the member for the service. Based on this experience, we estimate that SB 197 saves money for ATRS. We do not have information on the amount of service that could potentially be forfeited and therefore cannot provide an estimate of the savings. However, given the small number of individuals on the rolls in this situation, we estimate that SB 197 will not impact the financial status of ATRS or the amortization period (which was over 100 years as of June 30, 2012).

Even though the savings resulting from the passing of SB 197 is likely be very small each year, SB 197 would provide some leverage for ATRS in either collecting the amounts owed or cancelling the service. Such leverage would improve the administrative functions of 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.

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

Judith A. Kermans, EA, MAAA, FCA

Brian B. Murphy

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

JAK/BBM:sc