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February 16, 2011

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

Re: Senate Bill 68

Dear George:

You have asked us for our analysis of Senate Bill (SB) 68 as it relates to the Arkansas Teacher Retirement System (ATRS).

Section 1 of SB 68 modifies the definition of "Salary" in Arkansas Code Section 24-7-202(B)(ii) to require that any salary established as '*earned salary under a service purchase contract with a covered employer*' must be for work that occurs on site only.

Section 2 of the bill modifies Code Title 24, Chapter 7, Subchapter 7 to add section 24-7-735 regarding the calculations of benefits. This new section prohibits the accumulation of service credit under a contract buyout agreement or court-order unless the member is working for the employer (on-site).

We understand that the intent of this bill is to eliminate a loophole for a few individuals in highly paid positions who are able to work under a two or three year contract, and by getting a buyout paid out over a period of years, meet the 5 year vesting rule and ultimately receive benefits from ATRS. If, for example, three fewer low service but higher paid people became vested each year as a result of SB 68, ATRS might see an estimated average decrease in liability of about $100,000 to $150,000 per year. Based on this information, the actuarial savings associated with SB 68 would act to reduce the amortization period of ATRS (52 years as of June 30, 2010), but the effect would be too small to be measured in the actuarial valuation. Even though the savings is small, eliminating loopholes of this type could further strengthen the integrity of ATRS.

If data on members in this specific situation can be provided, we would be pleased to refine our numerical estimate of the savings generated by this bill.

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:bd