GRS

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February 16, 2011

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

Re: Senate Bill 95

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 95 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 95 modifies Arkansas Code Section 24-7-720 to add an additional section (i)(1)(A) to allow for the maximum $10,000 lump sum death benefit for eligible beneficiaries of any member who has at least 15 years of contributory service, regardless of the amount of non-contributory service accrued.

Under present policies, rules and regulations of ATRS, the amount of the death benefit is $10,000 if a person's service is all contributory, $6,667 if the service is all non-contributory, and a prorated amount if there is a mix of contributory and non-contributory service. This means that if one retiree has 30 years of service, all of which is contributory, and another retiree has 35 years of service consisting of 30 years of contributory service and 5 years of non-contributory service, the beneficiary of person in the latter situation actually would get a lesser lump sum death benefit. The intention of the bill appears to be to deal with this inequity by stipulating that once 15 years of contributory service has been rendered, the maximum death benefit (currently $10,000) would be paid. It is our understanding from ATRS staff that there were 32 members who died during 2010 in this situation. Providing the maximum death benefit to the eligible beneficiaries of the 32 members would have resulting in an additional payment of $22,316 in death benefits during 2010.

Since this bill will provide slightly higher death benefits, it has a small cost. Based on a complete evaluation of data on all plan participants, we estimate that SB 95 may cause less than a one month increase in the ATRS amortization period (52 years as of June 30, 2010). When considered as part of a comprehensive legislative package we understand that the costs generated by this bill should be more than offset by cost reductions in the package. Policymakers will need to balance equitable treatment of individuals against the very small additional cost.

Since we based our estimated cost on a computer run covering all of the data, we have attached for your reference a full report on that calculation.

Please review this information carefully to ensure that we have a thorough understanding of the Bill. The analysis in this report should not be relied upon if there is doubt about our understanding of the Bill.

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.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Judith A. Kermans

Judith A. Kermans, EA, MAAA, FCA

Brian B. Murphy

Brian B. Murphy FSA, EA, MAAA, FCA

JAK:rmn
Enclosures

cc: Gail Bolden, ATRS

ARKANSAS TEACHER RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION AS OF JUNE 30, 2010
SENATE BILL 95

Requested By:	Mr. George Hopkins, Executive Director
Date:	February 16, 2011
Submitted By:	Brian B. Murphy, FSA, EA, MAAA, FCA and Judith A. Kermans, EA, MAAA, FCA Actuaries Gabriel, Roeder, Smith & Company

This report contains actuarial valuations of proposed changes in benefits for members of the Arkansas Teacher Retirement System. The actuaries issuing this report 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.

The supplemental valuations were based on the census data and actuarial methods and assumptions used in the June 30, 2010 actuarial valuation. The results of the supplemental valuations indicate what the June 30, 2010 valuation would have shown if the proposed benefit changes had been in effect on that date. Supplemental valuations do not predict the result of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of **only the benefit changes** on future valuations without comment on the complete end result of the future valuations.

These calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the valuation report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important and relevant plan provisions are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision. Also, in the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations 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.

This report is intended to describe the financial effect of the proposed plan changes on the retirement system. Except as otherwise noted, potential effects on others benefit plans were not considered.

ARKANSAS TEACHER RETIREMENT SYSTEM
SUPPLEMENTAL ACTUARIAL VALUATION AS OF JUNE 30, 2010
SENATE BILL 95

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions are adopted by the Retirement Board of Trustees. The assumptions used for this valuation include:

- An assumed rate of investment return of 8.0%.
- An entry-age normal cost valuation method.
- For purposes of amortizing unfunded accrued liabilities, payroll was assumed to increase 4.0% per year.

The amortization period as of the June 30, 2010 valuation is 52.4 years, based upon a 14% employer contribution rate.

A brief summary of the data, as of June 30, 2010, used in this valuation is presented below.

	Active Members				Retired Members	
			Average in Years			Annual
Group	Number	Covered Payroll	Age	Service	Number	Benefits
Education	34,866	$1,643,302,553	43.3	12.2		
Support	37,342	738,117,948	46.1	7.3		
Total	72,208	$2,381,420,501	44.7	9.7	30,587	$612,772,763

	T-DROP Members			Deferred Vested Members	
Group	Number	Account Balance	Covered Payroll	Number	Estimated Annual Benefits
Total	4,608	$480,904,351	$275,106,179	11,924	$53,894,731

SENATE BILL 95

CURRENT:

Lump Sum Death Benefit. Beneficiaries of deceased active members or retirees with 10 or more years of ATRS credited service are eligible to receive a lump sum death benefit of up to $10,000 ($6,667 for non-contributory service-benefit is prorated).

PROPOSED:

Lump Sum Death Benefit. Beneficiaries of deceased active members or retirees with 10 or more years of ATRS credited service are eligible to receive a lump sum death benefit of up to $10,000 ($6,667 for non-contributory service-benefit is prorated). If a member accrues a minimum of 15 years of actual contributory service, the member shall receive the maximum $10,000 lump sum death benefit, regardless of non-contributory service accrued.

Actuarial Statement

The financial effect of the proposal is shown below:

		$ Millions		
	Valuation Date June 30, 2010	**Valuation Results**	**Proposal Results**	**Effect**
1)	Accrued Liabilities	$14,697	$14,699	
2)	Funding Value of Assets	10,845	10,845	
3)	UAAL $: (1) - (2)	$ 3,852	$ 3,854	$ 2
4)	- % Funded: (2) / (1)	74%	74%	
5)	Employer Contribution Rate	14.00%	14.00%	
6)	Normal Cost	8.21%	8.21%	
7)	UAAL %: (5) - (6)	5.79%	5.79%	
8)	Amortization Years	**52.42**	**52.49**	**0.07**

The stand alone effect of this proposal based upon a 30-year amortization of the change in the UAAL is an increase of 0.01% of payroll.

Comments Regarding this Proposal

The figures shown above are based on the June 30, 2010 actuarial valuation. Please remember that these changes, if adopted, would likely impact the June 30, 2011 valuation. That valuation will be completed in the fall of 2011 and will be based on member data and financial results as of June 30, 2011, neither of which is available to us at this time.

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