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February 6, 2013

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

Re: Senate Bill 130

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 130 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 130 modifies Arkansas Code Section 24-7-713(b) related to the monthly benefit stipend provided to retirees to allow the ATRS Board some flexibility in adjusting the amount of stipend paid to retirees by board resolution.

If SB 130 becomes law, the ATRS board will be allowed to reduce the stipend by any amount between $1 and $75 (eliminating the stipend) provided that the amortization period exceeds 30 years.

The stipend amount adopted by the board *"shall apply for a complete fiscal year and shall remain in effect until adjusted by the board subject to the limitations under subdivision (b)(4) of this section."*

In the June 30, 2012 valuation, the amortization period exceeded 100 years. We estimate that each $1 decrease in the stipend produces a decrease in liability of about $6.6 million and a corresponding decrease in the Normal Cost of about 1/2 basis point. Eliminating the stipend completely would bring the amortization period down to about 45 years, as of June 30, 2012.

Providing the ATRS board with a means of curtailing certain benefit provisions when the amortization period exceeds the 30 year threshold will strengthen ATRS.

Also, we would recommend that Section 1 (b)(4) be modified to read as follows with suggested edits as emphasized. We feel the suggested language better defines the role of the actuary and the ATRS board.

(4) The board shall not reduce the benefit stipend unless the system's actuary certifies ~~recommends *a reduction*~~ to the board that the amortization period exceeds 30 years and that in order to address an amortization period in excess of thirty (30) years to pay the unfunded liabilities of the system, the board determines that the stipend should be reduced.

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.

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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