

March 8, 2011

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

Re: Senate Bill 120

Dear George:

You have asked us for our analysis of Senate Bill (SB) 120 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 120 modifies Arkansas Code Section 24-7-706(a) regarding people who are required by statute to be eligible as beneficiaries under Option A (100% Survivor Annuity) and Option B (50% Survivor Annuity). Under present statutes, the eligible beneficiaries are:

1. A person who has been the spouse of the retiree for at least one year prior to the date the first annuity payment is due.
2. A person who is at least 40 years of age and who, for the year prior to the member's retirement, received at least one half of his or her support from the retiring member.
3. A dependent child of the member who has been judged physically or mentally incapacitated by a court of competent jurisdictional.

The Bill modifies Section 24-7-706(a)(2) to remove language that requires that ATRS automatically recognize people in the second group as eligible for nomination as a beneficiary under Options A and B. It does not modify the language related to individuals eligible to be nominated as beneficiaries under Option C (10 years certain and life).

Also, the Bill creates a new subsection 24-706(a)(3). The new subsection permits the Board to designate other classes of people to be eligible as Option A or B beneficiaries in connection with Section 24-7-706, Section 24-7-704 (disability retirement) and Section 24-7-710 (survivor annuity benefits).

Annuity options generally add to the cost of a System because of potential anti-selection opportunities. Individuals in impaired health are more likely to elect options than individuals in average or above average health. When an individual in impaired health elects an annuity option, benefits may be paid well beyond the individual's lifetime, and the small reduction in benefit that the individual and the beneficiary may suffer cannot make the System whole for that effect.

Generally, annuity options are offered based upon a belief that it is sound public policy to permit members to elect options that cover spouses or dependent disabled children. For many other classes of individuals, such as dependent parents, the 10 year protection offered by Option C is very valuable.

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With regard to the present statute, it is not clear how ATRS can adjudicate the support percentage accurately, or determine if there are other social support safety nets that would be available to potential non-spouse beneficiaries if an annuity option under Section 24-7-706, Section 24-7-704 or Section 24-7-710 were not available. SB 120, if passed, would eliminate this issue.

To the extent that SB 120 will reduce anti-selection, it will also reduce long term ATRS costs. However, given that the number of individuals who elect to cover non-spouse 40 year olds is quite small, the reduction in cost is also likely to be quite small and not subject to direct measurement. However, reducing anti-selection opportunities will help preserve the integrity of ATRS.

Finally, since the bill permits ATRS to name other classes of people as eligible beneficiaries, the Board will have the ability to prevent disenfranchising truly needy cases and to ensure consistency between similarly situated members who either die while serving as an active employee or after applying for disability. We would recommend that policies and procedures related to such members be established if SB 120 becomes law.

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.

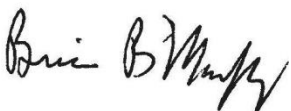
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Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK:BBM:bd