

March 15, 2013

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

**Re: Senate Bill 9**

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 9 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 9 modifies Arkansas State Code Section 24-7-202 – Definitions. The bill expands the definition of a “Child of a Member”. A child of a member is currently restricted to “natural” children or children by law (applicable court action). Under SB 9, the definition would also include children by marriage and any child whose “primary source of support and care is the member”.

Under current provisions, each dependent child of a member who dies in service can receive an annuity equal to 20% of the highest salary. The aggregate amount of the survivor benefit paid to children of a deceased member cannot exceed 60% of the highest salary.

SB 9, if passed, would increase retirement system costs since it could potentially provide retirement benefits to some individuals (children) who would not have received such benefits under current provisions. SB 9 contains no objective standards for determining eligibility for benefits so the pool of children covered by ATRS could potentially expand to include step children, grandchildren or step grandchildren who have never lived with or been supported by a member of ATRS. It could also include children whose parents are living but unable to support the child, or children, grandchildren, etc. of deceased or indigent relatives or friends. In short, there would be no way of knowing which children, or how many children, might be eligible for survivor benefits if SB 9 becomes law.

By including “the child of a member by marriage” without a requirement that the marriage have existed for any particular length of time, SB 9 creates anti-selection opportunities and could act to lower benefits that would otherwise be paid to any natural children of the member. For example, the member could have married a person with one child just prior to death, never have supported the child, yet provide the child with a survivor benefit. If the deceased member already had three natural children each eligible to receive a 20% benefit, the addition of a fourth child would cause the member’s own children to receive 15% instead of 20% of the member’s highest salary in benefits.

By including children whose “primary source of support” is the member, SB 9 may require the ATRS Board to adjudicate situations that have no basis in law. In particular, the bill does not

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require the member to actually have supported the child for any particular length of time, and it does not require any evidence (such as income tax returns) that the support actually occurred. In addition, SB 9 does not have any time requirements for application. Because of this uncertainty, ATRS might award benefits to certain children, and later be made aware of other children who are also eligible for benefits, necessitating some type of retroactive correction. As an example, a deceased member could have three (3) natural children and three (3) children by marriage. When the natural children age out of benefits, the children by marriage could, if they are still young enough, then apply for and receive benefits.

As mentioned above, we have no independent way of knowing what type of increase in the number of child survivors could be expected if SB 9 becomes law. However, ATRS staff members estimate the number could easily double from its present level.

We estimate that, over time, SB 9 would increase accrued liabilities by about \$2.7 million to \$5.4 million and retirement system costs by about .04% to .08% of payroll, based on a 30 year amortization period. SB 9 would act to increase the ATRS amortization period which was already over 100 years on June 30, 2012. If more specific data can be provided on the number of people who will be added to ATRS and individual information on those people, we could provide a more detailed estimate of the financial impact of SB 9.

To limit anti-selection opportunities, we suggest that SB 9 be amended to require that a marriage exist for a reasonable and well-defined length of time before a "child by marriage" becomes eligible. Similarly, we recommend that SB 9 be amended to require that in the case of a child whose "primary source of support is the member" the support relationship must have existed for a well-defined length of time and that financial support be documented through federal income tax returns.

Finally, we caution that because of all of the uncertainties in this bill, administrative costs are likely to rise, and litigation regarding denied claims may be a factor in those increased administrative costs.

We hope this analysis meets your needs.

Please review this letter carefully to ensure that we have understood the bill properly and that the assumptions we have made are realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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.

We did not review this bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

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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.

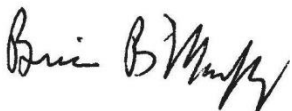
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:rmn