

March 28, 2013

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

Re: Senate Bill 9 as Engrossed 3-27-2013

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”. The bill, as engrossed, requires the ATRS Board to develop rules to define both “child by marriage” and “primary source of care and support”. We understand from ATRS staff the one part of the definition may involve the child being claimed on the member’s federal income tax return for a period of years prior to the death of 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 expand substantially. The Board will need to anticipate the many situations that may occur and develop rules to adjudicate claims. The following paragraphs describe some potential issues with administration of the bill that could possibly be dealt with by Board rules.

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 could act to lower benefits that would otherwise be paid to any natural children of the member. For example, a member with three natural children could marry a person with one child just prior to death, never have supported the child, yet provide the “child by marriage” with a survivor benefit. Since the example deceased member already had three natural children each of whom would have been eligible to receive a benefit equal to 20% of highest salary, the addition of a fourth child via Senate Bill 9 would cause the member’s own children to receive 15% instead of 20% of the member’s highest salary in benefits.

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By including children whose "primary source of support" is the member, SB 9 may require the ATRS Board to develop rules for and to adjudicate situations that have no basis in law. Potentially, this situation could include grandchildren, God children, foreign exchange students, and children of friends or distant relatives. The ATRS Board can perhaps minimize some ambiguities if they do, in fact, require that such children have been claimed on the member's tax return for a certain number of years prior to the death of the member.

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 level of increase in the number of child survivors could be expected if SB 9 becomes law. However, ATRS staff members estimate the long term increase in the number of child survivors could range from 50% to as much as 100% over the present level.

Based upon the above assumption, we estimate that, over time, SB 9 would increase accrued liabilities by about \$2.7 million and increase retirement system costs by about 0.04% of payroll. SB 9 would act to increase the ATRS amortization period which was already over 100 years on June 30, 2012.

Finally, we caution that 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.

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.

Mr. George Hopkins

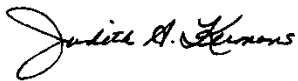
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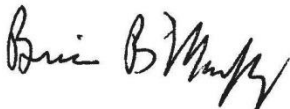
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:rmn