

March 15, 2013

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

Re: House Bill 1135 as engrossed 2/18/2013 and 3/14/2013

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1135 (as engrossed) as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1135 modifies Arkansas Code Section 24-7-710 related to Survivor annuity benefits. It modifies subsection (a) to require five (5) years of “actual” ATRS service rather than allowing a combination of actual ATRS service and reciprocal service.

It also adds a new subsection (a)(2) that allows payment to an immediately eligible survivor beginning the month after the death of the member if the survivor application is filed with the retirement system within a three (3) month period. Otherwise, the bill requires payment of survivor benefits starting from the date that the eligible survivor files an application to receive survivor benefits. HB 1135 also modifies Section 24-7-710(b)(1)(B) to provide the same payment rules for surviving spouses that are immediately eligible. For surviving spouses that are not immediately eligible, HB 1135 amends Section 24-7-710(b)(1)(C) to allow receipt of benefits beginning with the later of the month following the date the member would have been eligible had the member survived or the date the survivor application is filed with the retirement system.

Current statutes require survivor benefit payments starting from the month following the month of death for individuals that are immediately eligible and the month following the date the member would have been eligible to receive benefits (had the member survived) for survivors who are not immediately eligible to receive. We understand from ATRS staff that occasionally, survivors wait a few years before they file for survivor benefits and, under present statutes, large back payments are sometimes required.

HB 1135 saves money for ATRS because it potentially reduces benefits paid to eligible survivors who do not apply in a timely manner for benefits. We do not have data upon which to base an estimate of the amount of savings, but we would expect it to be small and that the savings would not impact the funding status of ATRS or the amortization period. However, reducing the potential for large lump sum back payments will strengthen the financial integrity of ATRS and could lead to more consistent treatment of survivors of deceased participants in the longer term.

We hope this analysis meets your needs.

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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.

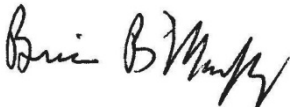
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Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:rmn