

February 13, 2013

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

Re: House Bill 1227 as engrossed

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1227 as it relates to the Arkansas Teacher Retirement System (ATRS).

Section 24-7-607 of Arkansas State code currently allows up to 15 years of private school service to be purchased at the actuarially equivalent rate. Private school service is defined as service rendered in a private school or agency that is recognized by the Department of Education for the issuance of teaching licenses.

HB 1227 modifies Arkansas Code Section 24-7-607(a) to expand the definition of what qualifies as private school service to include service rendered in a private school or agency that has positions recognized by the Department of Education for issuance of teaching licenses or *“is recognized as a private educationally-related entity by resolution adopted by the Board of Trustees of the Arkansas Teacher Retirement System”*.

We understand that HB 1227 will be amended to add language that will limit the purchases of private school service from an *“educationally-related entity”* to no more than five (5) years.

If HB 1227 becomes law, more individuals will be allowed to purchase private school service than in the past. Since all members purchasing private school service under Section 24-7-607 are charged an actuarially equivalent amount, the transaction would be cost neutral to ATRS.

We do believe that an amendment to HB 1227 to limit purchases of service from an *“educationally-related entity”* to five (5) years is prudent since some of the service, as described, may not qualify as private school service under IRC Section 415(n) and referenced section 170(b)(1)(A)(ii). IRC 415(n) limits the amount of non-qualified service that can be purchased to five (5) years.

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

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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.

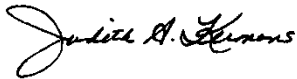
We did not review this bill for compliance with Federal, State, or local law or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

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.

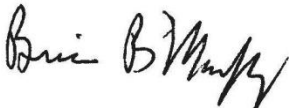
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:sc