

January 28, 2013

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

Re: Senate Bill 112

Dear George:

You have asked us for our analysis of Senate Bill (SB) 112 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 112 modifies Arkansas Code Section 24-7-305(b)(2) related to the duties and responsibilities of the Board of Trustees of the ATRS to allow for the modification or elimination of a plan provision that was originally established to comply with Internal Revenue Code (IRC) requirements but that is no longer necessary to maintain the plan's tax-qualified status under the IRC, including provisions concerning:

- (i) Penalties;
- (ii) Restrictions;
- (iii) Time limitations; or
- (iv) Other requirements that impact a member, members' benefits, or the plan.

If this Bill is passed, the Board will be allowed to “*adopt rules, procedures, plans, programs, and actions necessary to enable the system to pay all benefits earned by the system's members and reduce penalties or restrictions required by the Internal Revenue Service while maintaining compliance with the Internal Revenue Service*”.

This change will allow the ATRS Board some flexibility in complying with the ever changing IRC requirements for governmental defined benefit plans.

While this bill is intended to be primarily administrative in nature, it could impact Retirement System costs. The impact could be either an increase in costs or a savings, depending on the particular changes that are made to ATRS for IRC compliance purposes. Since future potential changes to the IRC are unknowable, the Actuary cannot provide an estimate of the impact of this bill on Retirement System costs, the Funding Status, or the amortization period.

Of course, codifying flexible administrative practices can be expected to result in improved administration and additional consistency in the application of benefit provisions.

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.

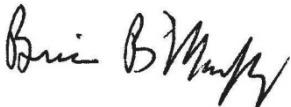
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:sc