

July 9, 2010

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

Re: Strengthen Disability Requirements

Dear George:

Section 24-7-704 of the Teacher Retirement Laws of the State of Arkansas defines the rules for Disability Retirement. Members terminating with 5 or more years of service, who are totally and permanently physically or mentally incapacitated such that they cannot perform their jobs, may be retired by the Trustees of the Arkansas Teacher Retirement System. In the industry, this is referred to as an “own occupation” definition of disability. The member may be required to undergo a medical examination at least one time each year during the first five years on disability and at least once in each three year period thereafter.

You have asked us to provide an analysis of the financial impact of strengthening the eligibility requirements for disability to those required by the Social Security Administration. The definition of disability for social security purposes is very strict. In order to be considered disabled for social security purposes, the disability must be severe enough to prevent the worker from doing “substantial gainful work” and must be expected to last at least 12 months or to result in death. In the industry, this is referred to as an “any occupation” definition. The strengthened requirements would also include, among other things, additional reviews and/or medical examinations.

This change would likely result in fewer disability retirements, which we would expect to produce a savings for ATRS. It is impossible to know in advance the extent to which the incidence of disability retirements would be reduced by the change. Therefore, our cost analysis is based on the assumption that, after the change, ATRS disability rates will be similar to those in other more tightly administered retirement systems. The rates of disability that were used, along with current rates, are shown on the attached page.

Based on the assumed rates of disability and the financial status of ATRS in the June 30, 2009 valuation, we estimate that the effect of strengthening the adjudication and review process for ATRS may be a savings of about 1.5 years in the amortization period. This change would not be seen all at once, but would emerge gradually over a period of years. Experience would need to be monitored on a year to year basis until sufficient experience has been accumulated to develop new disability rates for ATRS.

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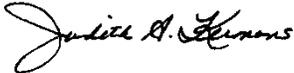
Please let us know if this analysis meets your needs.

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.

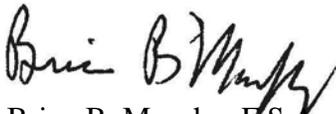
Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

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

Sincerely,



Judith A. Kermans, E.A., M.A.A.A.



Brian B. Murphy, F.S.A., E.A., M.A.A.A.

JAK:BBM/bd
Enclosure

ARKANSAS TEACHER RETIREMENT SYSTEM
RATES FOR PRESENT AND STRENGTHENED DISABILITY ADJUDICATION
PRESENT BASED ON JUNE 30, 2009 VALUATION

Sample Ages	Percent of Active Members Separating due to Disability Within the Next Year				
	Present			Strengthened	
	Men	Women		Men	Women
		Support	Teacher		
25	0.10%	0.08%	0.09%	0.02%	0.02%
30	0.08%	0.07%	0.07%	0.02%	0.02%
35	0.08%	0.07%	0.07%	0.02%	0.02%
40	0.14%	0.12%	0.13%	0.04%	0.04%
45	0.24%	0.19%	0.22%	0.09%	0.15%
50	0.53%	0.42%	0.47%	0.25%	0.27%
55	0.88%	0.70%	0.79%	0.47%	0.40%
60	1.00%	0.80%	0.90%	0.77%	0.59%

The assumed strengthened rates shown above are similar to those in more tightly administered retirement systems. Disability experience would need to be monitored on a year to year basis until sufficient experience has been accumulated to develop new disability rates for ATRS. If observed rates of disability are ultimately different than what is shown above, the savings will be different than shown on the previous page.