

February 24, 2015

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

**Re: House Bill 1215**

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1215 as it relates to the Arkansas Teacher Retirement System (ATRS).

Present law provides that Boards of Trustees for any Arkansas State supported system are to set actuarial assumptions and methods based upon recommendations that the Systems actuary makes, and with which the actuary employed by the Joint Committee on Public Retirement and Social Security Programs agrees.

HB 1215 amends Arkansas Code Section 24-1-102 to require that the System's actuary prepare a second set of liability calculations based upon a discount rate assumption of 4%.

It appears that the proposed language in HB 1215 is intended to require ATRS to disclose an unfunded actuarial accrued liability (UAAL) based on a market value of liability (MVL) measure in addition to the UAAL that is calculated and disclosed under traditional actuarial practice; and upon which the System's funding policy is based.

A disclosure of the UAAL under an MVL measure may be useful in helping the System assess risk if it is properly calculated and communicated. However, we are concerned that the disclosure of the information as it is dictated in HB 1215 would mislead interested stakeholders (ATRS members, employer and taxpayer) into thinking that the MVL disclosure represents the "true cost" of the System, which we do not believe to be the case.

If such a calculation is to be performed, we would suggest the use of discount rates more closely tied to some form of yield curve rather than based on an arbitrary rate of 4%. In addition, we would recommend that the unit credit actuarial cost method be used for the calculation.

If passed, HB 1215 will add to the administrative costs of System because the System's actuary will be required to produce, check, and publish another set of actuarial liability calculations, and will therefore need to charge the System more in actuarial fees.

We have a few technical suggestions for this Bill.

1. We suggest replacing the phrase “value of the system” with “actuarial accrued liability” or “funded percent”, depending on what is being requested.
2. We suggest referring to the 4% figure as a discount rate, rather than as an “expected future rate of return on the investments”.

We hope this analysis meets your needs.

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.

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.

Brian B. Murphy and Judith A. Kermans are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

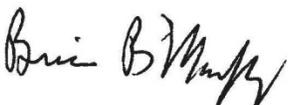
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Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:rmn