

February 17, 2011

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

Re: House Bill 1135

Dear George:

You have asked us for an analysis of House Bill (HB) 1135. HB 1135 repeals Arkansas Code Section 24-7-717 (Rescission of Retirement). Section 24-7-717 permits a member to rescind retirement, return to work and resume active membership in ATRS. The rescission can allow people to improve their retirement benefit if they accrue at least one additional year of service credit. The improvement may be brought about by four potential factors.

1. More service credit.
2. Smaller early retirement reduction.
3. Higher final average compensation.
4. Updated or improved benefit formula.

Individuals who rescind their retirement do not receive monthly benefits from ATRS while the rescission is in effect. Employer and employee contributions are payable under the same conditions as any other active member.

Without rescission being available, an individual would have to return to work under the auspices of 24-7-502 (Termination of Active Membership) or 24-7-708 (Employment of Retired Members by Covered Employers). Rescission is not actually available to people who can return to work under 24-7-502. Such people have not met the test for termination from active membership (currently 180 days). They have to repay prior benefits if they return to work.

People returning to work under 24-7-708 can work and draw a pension at the same time, but they do not accrue additional retirement benefits and employer contributions are remitted on behalf of such people. No additional benefits are payable due to these employer contributions, which can then be applied directly to the funding of the ATRS' other liabilities.

Since an individual who returns to work has a choice between rescission under 24-7-717 and returning to work under 24-7-708 we have to assume that the individual will make the choice that provides her or him the greater value. Since under 24-7-708 the return to work retiree can draw both the pension and the salary at the same time without penalty, it can be presumed that a person who elects to rescind retirement expects to improve the retirement benefit by a significant amount, due to the operation of one or more of the four factors described in the opening paragraph of this letter. Further, the individual must expect (and we would also expect) that the improvement benefit is of greater value than the amount of monthly benefits that are being forfeited due to the rescission.

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Based upon the above analysis, we conclude that House Bill 1135 will save money for ATRS. The amount of money saved will not be large, because there are only a few people rescinding each year. Staff supplied data indicating that there are currently two (2) people on rescission. Each year the makeup of the people on rescission may change. In an extreme type of situation, it could be possible that two rescinding retirees would cause an increase in ATRS liabilities of as much as \$400,000 to \$500,000. The average annual effect would most likely be smaller.

Even though the savings is small, eliminating anti-selection loopholes of this type further strengthens the integrity of ATRS.

We hope this analysis meets your needs.

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.

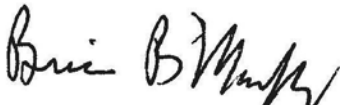
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

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