

February 16, 2011

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

Re: House Bill 1142

Dear George:

You have asked us for our analysis of House Bill (HB) 1142 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1142 modifies Arkansas Code Section 24-7-711 related to the refund of member contributions upon termination from covered employment by adding two new subsections. The first new subsection stops the crediting of interest on any current unpaid residual refund amounts for all active members who died before July 1, 2011, effective July 1, 2011. The second new subsection ceases the crediting of interest on a deceased member's contributions on the July 1 immediately following the member's death.

Based on discussions with ATRS staff, there are only 2 or 3 people who die each year without an eligible survivor annuity who leave an unpaid residual account in the System. If for example, three people died each year leaving an average unpaid residual account of \$50,000 the actuarial savings to ATRS would be on the order of 0.001% of payroll. The actuarial savings associated with HB 1142 would likely have no measurable impact on the amortization period of ATRS (52 years as of June 30, 2010). It is possible that the change would simplify administration somewhat, since there would be fewer such accounts to track. Beneficiaries of any such refunds would probably not want to leave contributions in a non-interest bearing account and so any investment income earned by ATRS on these accounts would likely be diminished with the adoption of HB 1142. Finally, although the savings generated by this bill is small, these types of changes are important in strengthening the integrity of ATRS.

If additional data on members who are in this situation can be provided, we might be able to provide a more precise estimate of the savings.

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.

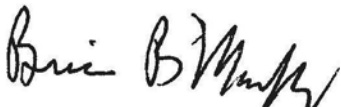
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK\BBM:bd