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February 25, 2011

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

Re: Senate Bill 89

Dear George:

You have asked us for our analysis of Senate Bill (SB) 89 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 89 modifies Arkansas Code Section 24-7-711 related to the refund of member contributions upon termination from covered employment by adding a new subsection. The new subsection states that a member or surviving spouse who receives a refund of contributions under Section 24-7-711 also cancels all of the member's service, including any non-contributory service in ATRS.

We received data from ATRS staff indicating that during calendar year 2010, 250 members or surviving spouses of members elected a refund of contributions and have some non-contributory service remaining in ATRS. 28 of the 250 individuals are eligible to receive a vested deferred benefit from ATRS based on the service that remained in ATRS. The average age of this group on June 30, 2010 is 48.2 years, and the average remaining non-contributory service is 8.7 years. The total of the estimated vested benefits of the affected individuals is $132,000. A similar number of people have returned to work and have been reinstated as active members. The remaining people have small amounts of service that would only result in a benefit if they later returned to work and repaid contributions.

SB 89, if passed, will provide a cost savings for ATRS. If in future years, the demographic makeup of the affected group of people is similar to that of the 2010 group, we would expect an annual savings on the order of $750,000. Senate Bill 89 will act to discourage people with non-contributory service from withdrawing contributions, so the eventual annual savings may turn out to be less than indicated above.

The change is likely to simplify administration somewhat since there would be fewer terminated but vested individuals to track.

Although the savings generated by this bill is small, these types of changes are important in strengthening the integrity of ATRS.

Since the bill does not separately deal with refunds taken before July 1, 2011, it is possible that it could be interpreted to operate to cancel the rights to any benefits related to the service of the 250 members who have already terminated and refunded. Assuming that such is not intended, we suggest adding clarifying language. 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.

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

Judith A. Kermans, EA, MAAA, FCA

Brian B. Murphy

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JAK:BBM:bd