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February 27, 2013

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

Re: House Bill 1136

Dear Mr. Hopkins:

You have asked us for our analysis of House Bill (HB) 1136 as it relates to the Arkansas Teacher Retirement System (ATRS).

HB 1136 amends Arkansas Code Section 24-7-704 (a) related to disability retirement.

It amends subsection (a)(1)(A) to require five (5) years of actual ATRS service rather than a combination of actual and reciprocal service.

It amends subsection (B) to exclude members who are already eligible for Voluntary Retirement under Section 24-7-701. Based on discussions with ATRS staff, this change eliminates an inequity in the crediting of accrued service which favors members who meet both conditions but file for disability.

HB 1136 also amends subsection (a)(2) to change the effective date from the calendar month following the date of termination from active membership to the date the written application is filed and the member is no longer employed by an employer. We understand from ATRS staff that in the 2012 fiscal year there were 145 retirees who filed for disability, some with substantial back payments owed given the elapsed time between termination of active membership and actual filing dates.

Finally, HB 1136 adds subsection (a)(3) that restricts members who file for disability from working for a system-covered employer or being indirectly employed by specific third parties who are employed by a system-covered employer in an arrangement in which the member has some control of the employer-employee relationship.

HB 1136 will have a small, but positive, financial impact on ATRS. It will not impact the funding position of ATRS or the amortization period. As mentioned above, it is expected to eliminate some service accrual inequities, reduce the potential for large back payments and reduce the number of members who qualify for disability benefits overall.

HB 1136 can be expected to improve the administrative functions and strengthen the financial integrity of ATRS.

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 law or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

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

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

JAK/BBM:mrb