

March 18, 2013

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

Re: Senate Bill 106

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 106 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 106 modifies Arkansas State Code Section 24-7-502(a)(6)(A) related to termination of active membership in ATRS by adding a new subsection (6)(A)(ii) that allows a member to enter into discussions with a state-supported institution of higher education concerning a future employment relationship if the employment will not begin until after the member has satisfied his or her termination separation period.

Under Section 24-7-502 - Termination of active membership - All members who terminate from active service must remain terminated from covered employment for specific periods of time, depending on the age and service of the member at the time of termination, in order to qualify as officially terminated and eligible to receive an ATRS pension. This section of the statutes is intended to enable ATRS to comply with the normal retirement age regulations of the internal revenue code (IRC Section 1.401(a)-1(b)).

SB 106 appears to us to be unnecessary because current statutes do not prevent members from having discussions with potential employers during the separation period. The emergency clause of the bill states in part that "*this act is immediately necessary to ensure that members of the Arkansas Teacher Retirement System can work with state supported institutions of higher education to secure employment once the termination separation period has expired without delay*". Given this language, we are concerned that Senate Bill 106 could mislead members and employers into believing that an employment relationship with a delayed effective date could actually be agreed upon prior to the end of the separation period. The act of entering into an employment agreement during the separation period could produce a potential violation of Section 401 of the Internal Revenue Code, a plan qualification issue.

In addition, members might get confused and end up not meeting the termination requirements which would be harmful to them because they would then have to repay retirement benefits already received. This potential for confusion could create an additional administrative burden on ATRS staff as they sort out issues with members and employers.

Mr. George Hopkins

March 18, 2013

Page 2

In summary, since SB 106 does not technically allow anyone to return to work during the mandatory separation period as defined in Section 24-7-501, it is cost neutral to ATRS. However, we are concerned that this bill, if enacted, could jeopardize the plans status as a "Qualified" plan under Section 401 of the Internal Revenue Code and may lead to members being confused about the separation period requirements.

We hope this analysis meets your needs.

Please review this letter carefully to ensure that we have understood the bill properly and that the assumptions we have made are realistic. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill or the assumptions we have made. 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.

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.

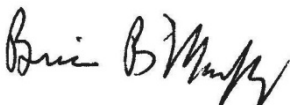
Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing 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, EA, MAAA, FCA



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

JAK/BBM:sc