

February 6, 2013

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

**Re: Senate Bill 110**

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 110 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 110 modifies Arkansas Code Section 24-7-702 to include a definition of “Manifest injustice” and amends section 24-7-205 (Correction of errors) by adding a new section (e) that allows the ATRS board or its designee to waive or modify the impact of a rule, provision, or law to correct or prevent a manifest injustice provided that the waiver or modification does not violate federal law or jeopardize the tax-qualification status of the system.

Section 24-7-205 (b)(4), as currently written, seems to already allow for a board waiver or repayment of amounts due to ATRS, including interest. The addition of section (e), as described above, would allow the waiver even if it conflicted with Arkansas State law.

While we feel this change is more of a legal issue than an actuarial issue, the change could result in additional waivers of repayments or adjustments to ATRS which could potentially increase Retirement System costs. However, based on the definition of a “Manifest injustice”, we assume that such instances would be extremely rare. In addition, based on discussion with ATRS staff, there are likely to be no more than a few individuals per year who qualify for a waiver under current statutes and rules regarding a manifest injustice. Given the small number of individuals involved, we estimate that this change will have little or no material impact on the funded status of ATRS or the amortization period. If specific examples can be provided, we can refine our estimates.

Of course, codifying flexible waiver policies can be expected to result in improvements in the administration of the Retirement System and help ensure consistent treatment of members and employers in the event of a waiver.

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

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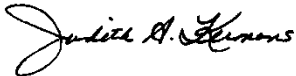
actuarial analyses cannot generally be added together to produce a total. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

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.

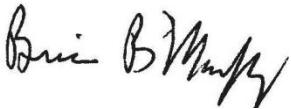
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:sc