

March 7, 2013

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

**Re: Senate Bill 146, as Amended (Pending)**

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 146 as it relates to the Arkansas Teacher Retirement System (ATRS). We have included the pending amendment in our analysis.

SB 146 modifies Arkansas State Code Section 24-7-501(a) related to membership in ATRS by adding a new subsection three (3) that allows school resource officers who are indirectly paid by an ATRS employer to participate in ATRS, effective July 1, 2013, under certain conditions. The school resource officer must:

- Have retired from a Reciprocal System (APERS, State Highway, State Police, LOPFI, Judges, etc.)
- Have not participated in the LOPFI DROP
- Not be eligible to participate as an active member of the public retirement system that covers the direct employer of the resource officer
- Be an Arkansas certified law enforcement officer
- Be employed primarily to provide services at the system employer
- Not receive credit for the same service or salary in a different public retirement system in the state of Arkansas

SB 146 provides that a system employer may authorize a school resource officer to participate in ATRS by adopting a resolution that authorizes the officer to participate and that states an agreement to act as the employer of the officer for the purposes of reporting service, paying contributions and performing member services. The salary and service used to determine the contribution and benefits in ATRS shall be based on the salary paid by the employer for the services performed. In the event that one public entity is paying another or is paying a law enforcement agency for the services, the system who receives the services shall act as the employer for the resource officer and the salary indirectly paid to the officer shall be treated as if it had been paid directly by the employer.

Finally, SB 146 states that contributions will be made only on the salary paid (indirectly) by the employer and that prior school resource service rendered before July 1, 2013 shall *not* be purchased.

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The objective of SB 146 is to allow qualified retirees of reciprocal systems to work as a resource officer in school systems that participate in ATRS without requiring the retiree to suspend any pension benefits that they might be receiving from reciprocal systems. Based on discussion with staff, ATRS retirees would *not* be eligible for these positions.

SB 146 is cost neutral to favorable for ATRS because it is expected to add members to the system which provides additional employer and possibly employee contributions each year, a portion of which will be applied to the unfunded liability. We do not have specific data that would allow us to evaluate the potential impact of adding specific individuals to ATRS. However, we understand from ATRS staff that many of the members, being reemployed retirees, are not expected to work the five (5) years that would be needed to vest in ATRS in order to receive an ATRS pension. Even if some members do work long enough to receive a pension, contributions will have been made for the members during their period of employment. Since the members are not allowed to purchase past service in ATRS, a potential source of cost is eliminated.

Because it has not been explicitly excluded, these members would be able to receive all ATRS benefits once eligible, including death (lump sum death benefit) and disability benefits and the retiree health stipend. We would suggest that consideration be given to those issues to avoid unanticipated consequences.

If more specific data can be provided on the number of people who will be added to ATRS and individual information on those people, we could provide a more detailed estimate of the financial impact of SB 146.

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.

Mr. George Hopkins

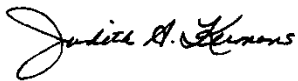
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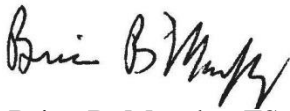
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Sincerely,



Judith A. Kermans, EA, MAAA, FCA



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

JAK/BBM:sc