

February 3, 2015

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

Re: Senate Bill 137

Dear Mr. Hopkins:

You have asked us for our analysis of Senate Bill (SB) 137 as it relates to the Arkansas Teacher Retirement System (ATRS).

SB 137 repeals Arkansas Code Section 24-7-716 related to a lump sum payment of the reserve value for annuity benefits that are less than \$20 per month. The law currently allows, but does not mandate, ATRS to pay a retiree or beneficiary a lump sum benefit in place of a monthly annuity. The consent of the retiree or beneficiary is needed if the amount of the lump sum would be more than \$1,750. Under SB 137, the lump sum payment would no longer be an option.

Staff provided data on 33 cases of lump sum payouts from 1994 to 2011. The average monthly amount was \$11.26 and the average lump sum payout was \$1,666.82. The largest payout was \$3,263. The data shows no lump sum payouts after 2011. Based upon information from staff, most retirees prefer the small monthly annuity to the lump sum payout because it is usually accompanied by a larger payout from another system, such as APERS. The lump sum payout is based upon female actuarial reserve factors, and thus actually provides the retiree a slightly greater value than a true actuarial reserve in some cases since some of the people receiving lump sums will be male.

The amounts involved here are very small. In total the repeal of this provision produces a very tiny savings for the System that is much too small to be measured. Essentially, we judge that SB 137 is cost neutral to 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 laws or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

Mr. George Hopkins

February 3, 2015

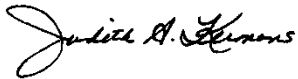
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Brian B. Murphy and Judith A. Kermans are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

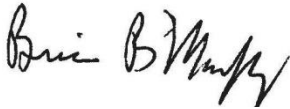
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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

A handwritten signature in black ink, appearing to read "Judith A. Kermans".

Judith A. Kermans, EA, MAAA, FCA

A handwritten signature in black ink, appearing to read "Brian B. Murphy".

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

JAK/BBM:rmn