

Special Report Legislative Joint Auditing Committee July 14, 2006

Arkansas Public Schools

Disclosure of Annuities and Life Insurance Policies

INTRODUCTION

This report is being issued to inform the Legislative Joint Auditing Committee of annuity contributions or other retirement enhancements and life insurance premiums paid to or on behalf of Arkansas public school employees. We trust this report will assist you in your legislative decision-making process.

OBJECTIVES

The objective in preparing this report was to provide information relating to annuity contributions, retirement enhancements, and life insurance premiums to the Arkansas General Assembly in their efforts to address the efficiency and equality of the Arkansas public school system.

SCOPE AND METHODOLOGY

We surveyed all of the State's public school districts and asked them to provide all annuity contributions or retirement enhancements provided to or on behalf of district employees for the period July 1, 1996 through June 30, 2006. This compilation does not include the districts' required contribution to the Arkansas Teacher Retirement System or accumulated sick leave payments or their equivalent at retirement. Districts were also asked to provide all life insurance premiums paid on behalf of their employees excluding fixed amounts included in health insurance benefits. Since school districts are required to retain their financial records for five (5) years, not all school districts had access to all of the requested information for the entire ten-year period and therefore provided only available information.

Completed surveys were reviewed and analyzed for items appearing unusual or erroneous. Follow-up was made to districts in order to clarify such items and our report was adjusted as necessary. However, the compilation should not be considered audited since supporting documentation for the amounts reported has not been examined.

The methodology used in preparing this report was developed uniquely to address our stated objective and, therefore, was more limited in scope than an audit or attestation engagement performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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BACKGROUND

Arkansas public school districts are governed by their respective school boards, whose members are elected officials. These public school boards have considerable autonomy for the operation and administration of their respective public school districts which allows public school districts to provide additional benefits to either all or selected employees.

Public school districts have the option to provide additional benefits which include but are not limited to annuities, retirement enhancements, and life insurance. Each of these benefits is discussed in the following sections.

ANNUITIES OR OTHER RETIREMENT ENHANCEMENTS

Annuities are investments purchased for selected employees by school districts to provide future income to that employee. Other retirement enhancements may include such things as additional payments to the Arkansas Teacher Retirement System beyond the required employer contribution on behalf of a particular employee or annual bonus payments to employees after retirement.

As shown in **Schedule 1**, twenty-one (21) school districts reported paying annuities or other retirement enhancement benefits to public school employees. The annual cost to the districts ranged from \$831 to \$240,097. These benefits were paid to or on behalf of their superintendents with the exception of the Hot Springs School District, which reported the payment was for their legal

counsel, and the McGehee School District which reported the payment was for the assistant superintendent.

LIFE INSURANCE PREMIUMS

Life insurance is an insurance providing for payment of a specified amount to a designated beneficiary upon the death of the insured. Public school districts who reported paying for some form of life insurance on behalf of their employees determine the value of the benefit in various ways. For example, some public school districts provide a policy that is two and one-half times the base salary while other districts have a policy value based on whether the employee is classified or certified.

Twenty-eight (28) public school districts provided a life insurance policy to their superintendents at a greater value than provided to other school district employees (see **Schedule 2 on page 4**). Annual premiums were reported in excess of \$10,000 at two (2) school districts as follows:

- \$24,500 for premiums during the 2005-06 school year at the **Springdale School District** for a \$750,000 universal policy with the superintendent's trust listed as the beneficiary and a \$70,000 term life policy with the superintendent's spouse listed as the beneficiary; and
- the **Bentonville School District** with premiums totaling \$86,819 in the 2004-05 school year for a \$400,000 universal life policy listing the school district as the beneficiary and a \$250,000 term life policy listing the superintendent's spouse as the beneficiary.

**Disclosure of Annuities and Other Retirement Enhancements
Provided for July 1, 1996 through June 30, 2006**

Schedule 1

School Years

School District	Position	2006 ADM	Total	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Arkadelphia	Superintendent	2,213.0	\$ 18,941	-	-	-	-	-	-	-	\$ 5,873	\$ 6,534	\$ 6,534
Batesville	Superintendent	2,552.9	37,600	-	\$ 4,800	\$ 4,800	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	4,000	4,000	4,000
Bentonville	Superintendent	10,108.6	327,602	-	-	-	-	4,200	8,803	9,243	9,937	240,097	55,322
Bismarck	Superintendent	1,044.0	26,000	-	-	-	-	-	-	-	-	8,000	18,000
Blytheville	Superintendent	3,112.0	44,130	-	-	-	5,747	5,920	6,000	6,180	6,365	6,856	7,062
Centerpoint	Superintendent	1,038.6	1,741	-	-	-	-	-	-	-	-	831	910
Conway	Superintendent	8,582.0	51,650	\$ 5,000	6,650	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
El Dorado	Superintendent	4,554.9	87,897	4,160	5,083	7,345	6,938	7,531	9,880	12,240	12,240	12,240	10,240
Fayetteville	Superintendent	8,308.0	81,009	-	-	6,743	6,844	7,287	6,943	3,900	15,600	16,608	17,084
Fort Smith	Superintendent	13,318.3	23,000	-	-	-	-	-	-	-	-	11,000	12,000
Hot Springs	Legal Counsel	3,719.9	16,000	-	-	-	-	-	-	-	-	16,000	-
Jonesboro	Superintendent	4,758.4	80,291	-	10,142	10,142	10,142	10,142	10,142	10,142	10,142	9,297	-
Little Rock	Superintendent	23,579.8	165,024	15,000	12,500	12,500	12,500	12,500	9,870	10,154	15,000	40,000	25,000
McGehee	Assistant Superintendent	1,324.1	9,692	-	-	-	-	-	-	-	-	9,692	-
Monticello	Superintendent	2,175.6	74,854	-	-	8,670	8,670	9,487	9,487	9,487	10,467	11,071	7,515
North Little Rock	Superintendent	8,875.8	36,400	5,200	5,200	5,200	5,200	5,200	5,200	5,200	-	-	-
Pine Bluff	Superintendent	5,521.0	83,750	-	-	2,750	9,000	12,000	12,000	12,000	12,000	12,000	12,000
Pulaski County Special	Superintendent	17,459.7	144,600	7,000	7,000	17,000	10,000	10,000	10,000	23,500	23,500	13,500	23,100
Searcy	Superintendent	3,901.8	10,000	-	-	-	-	-	-	-	-	-	10,000
Springdale	Superintendent	15,589.8	81,000	-	-	-	-	13,500	13,500	13,500	13,500	13,500	13,500
Van Buren	Superintendent	5,692.7	58,152	-	-	11,520	6,300	6,300	6,300	6,600	6,732	7,200	7,200

ADM - Average Daily Membership

Note 1: The amounts in this schedule were provided by the respective school districts and have not been audited.

Note 2: School districts are required to retain their financial records for five (5) years; therefore, not all school districts had records available back to the 1986-97 school year.

Value of Annuities: The value of each annuity is equal to the sum of all payments plus interest earned. Separately, \$147,165 of annuity investments paid by the Bentonville School District will result in a \$200,000 return when the superintendent reaches age 63 (assuming a guaranteed minimum rate of return of 3%).

**Arkansas Public Schools
Life Insurance Provided Selectively to School Employees
For School Years July 1, 1996 through June 30, 2006**

Schedule 2

School Years / Annual Premiums

June 30, 2006
Policy Value

School District	Position	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	June 30, 2006 Policy Value
Batesville	Superintendent	\$ 188	\$ 188	\$ 449	\$ 641	\$ 641	\$ 1,053	\$ 1,053	\$ 1,053	\$ 1,053	\$ 1,046	\$150,000 life
Bentonville	Superintendent	-	-	-	1,030	-	1,030	1,030	1,030	86,819	2,173	\$400,000 life* / \$250,000 life
Dequeen	Superintendent	2,922	2,922	2,922	2,922	2,922	2,922	2,922	2,922	2,922	2,922	\$200,000 life
Fayetteville	Superintendent	-	-	-	504	-	454	454	454	454	454	\$250,000 life
Forrest City	Superintendent	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	\$200,000 life
Little Rock	Superintendent	4,452	-	-	-	-	1,995	1,995	-	5,219	5,219	\$360,000 life
North Little Rock	Superintendent	1,422	1,622	2,102	2,316	2,554	2,818	3,116	-	-	-	-
Pulaski County Special	Superintendent	25	25	25	202	202	202	231	29	29	5,517	\$300,000 life
Springdale	Superintendent	-	-	15,250	13,250	10,979	13,250	13,500	13,500	13,500	24,500	\$750,000 life / \$70,000 life
Van Buren	Superintendent	-	-	-	907	907	1,786	991	807	991	1,088	\$225,000 life / \$100,000 accidental death and dismemberment

*School district listed as the beneficiary

Note 1: The amounts in this schedule were provided by the school districts and have not been audited.

Note 2: Since record retention requirements are five (5) years, not all school districts had access to the requested financial information for the entire ten-year period.

Note 3: Districts providing Life Insurance to the Superintendent of Selected employees and reporting annual premiums less than \$500 are Arkadelphia, Bald Knob, Bismarck, Cabot, Carlisle, Cushman, Dumas, Lakeview (Garland Co.), Lead Hill, Magnolia, Monticello, Nashville, Newport, Paragould, Pine Bluff, Prescott, Searcy, and South Conway County.

Note 4: Districts that provide Life Insurance to all employees, but policy values vary are presented below:

Value based on annual contract / salary - Bauxite, Camden-Fairview, and Stephens.

Value two (2) times annual contract / salary - Alma, Drew Central, and Woodlawn.

Value based on two and a half (2 1/2) times annual contract / salary - Magazine.

Value based on years of service and annual income - Vilonia; and

Value based on certified / classified / position - Little Rock, Newport, Searcy, Warren, and Yellville-Summitt.