

Arkansas Teacher Retirement System

Annual Actuarial Valuation of
Active and Inactive Members
June 30, 2018



Report of the June 30, 2018 Actuarial Valuation

Outline of Contents

Pages	Items
-	Cover Letter
Section A	Executive Summary
Section B	Valuation Results
B-1	Computed Employer Rates
B-2	Historical Contribution Rates
B-3	Actuarial Liabilities
B-4	Total Retiree Accrued Liabilities
B-5	Financing Benefit Promises (Pie Chart)
B-6	Short Condition Test
B-7	Closed Group Population Projection (Pie Chart)
Section C	Summary of Benefits
C-1	Summary of Provisions
C-11	Sample Calculations
Section D	Financial Information
D-1	Valuation Assets
D-5	Reported Assets
D-6	Market Value Reconciliation
D-7	Schedule of Funding Progress
D-8	Risk Measures
Section E	Covered Member Data
E-1	Active Members
E-5	Deferred Vested Members
E-6	T-DROP Members
E-8	Retirees and Beneficiaries by Type of Annuity
E-9	Historical Graphs
E-10	Benefit and Purchasing Power Changes
Section F	Financial Principles
Section G	Actuarial Assumptions
Section H	Glossary

November 19, 2018

Board of Trustees
Arkansas Teacher Retirement System
Little Rock, Arkansas

Dear Board Members:

Presented in this report are the results of the ***Annual Actuarial Valuation of non-retired members as of June 30, 2018***. The June 30th annual valuation of retired lives receiving monthly benefits indicates the liabilities for future benefit payments to existing retirees. These liabilities are covered in detail in a separate report. They are also covered briefly in this report on page B-4.

The purposes of the valuation are to measure the System's funding progress and to determine the amortization period that results from the statutory employer and employee rates and the actuarial assumptions that the Board has adopted. This report should not be relied on for any purpose other than the purposes described herein. Financial results associated with the benefits described in this report that are developed for purposes other than those identified above may be significantly different than those in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the Retirement System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The valuation was based upon census data and financial information provided by the System's administrative staff. Preparation of this data requires considerable staff time. The helpful cooperation of the Arkansas Teacher Retirement System (ATRS) staff in furnishing the data is acknowledged with appreciation. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the data provided by ATRS.

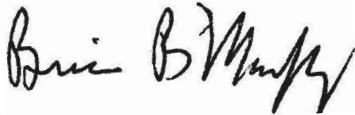
This report was prepared using certain assumptions approved by the Board. The actuarial assumptions used for valuation purposes are summarized in Section G. These assumptions reflect experience during the period July 1, 2010 to June 30, 2015 and expectations for the future.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law. The scope of an actuarial valuation does not contain an analysis of the potential range of such future measurements.

To the best of our knowledge, this report is complete and accurate and was made in accordance with standards of practice promulgated by the Actuarial Standards Board. The actuarial assumptions used for the valuation produce results which, individually and in the aggregate, are reasonable.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. Brian B. Murphy, Judith A. Kermans and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The individuals submitting this report are independent of the plan sponsor.

Respectfully submitted,



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



Judith A. Kermans, EA, FCA, MAAA



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BBM/JAK/HGB:ah



SECTION A

EXECUTIVE SUMMARY

Executive Summary

General Financial Objective. Section 24-7-401 (a) of the Arkansas Code provides as follows (emphasis added):

- (1) The financial objective of the Arkansas Teacher Retirement System is to establish and receive contributions that expressed as percentages of active member payroll will **remain approximately level from generation to generation of Arkansas citizens.**
- (2) Contributions received each year shall be sufficient:
 - (A) To **fully cover the costs of benefit commitments** being made to members for their service being rendered **in that year**; and
 - (B) To **make a level payment** that if paid annually over a reasonable period of future years will **fully cover the unfunded costs** of benefit commitments for service previously rendered.

Arkansas Teacher Retirement System Status: Based upon the results of the June 30, 2018 actuarial valuations, **ATRS is satisfying the financial objective of level-contribution-percent financing.**

This report contains the results of the June 30, 2018 valuation. The table below shows a summary of the data used in the valuation. This data was the basis for determining valuation results and recommended employer contribution rates.

	Number	Average	Type of Average
Active not in T-DROP	68,645	\$38,477	Pay
Active in T-DROP	3,696	62,456	Pay
Deferred Vested	12,544	5,279	Annual Projected Benefit
Retired	46,824	23,478	Annual Current Benefit
Total Members	131,709		

Included in the 2018 valuation were 4,029 reemployed retirees (included in the Retired data file) with total earnings of \$114.0 million. ATRS receives full employer contributions on these individuals per Arkansas Code Section 24-7-708. The actuarial valuation assumes the number of working members will remain constant at the current level. In recent years the total number of working members has decreased. A decreasing population means less contribution income for the retirement system than expected and can lead to funding difficulty in extreme cases. ATRS has endeavored to get employer contributions on behalf of all working members.

Actuarial Assumptions: In our judgement the actuarial assumptions in use, and in particular the 7.5% investment return assumption, are reasonable for the purposes described in this report. However, it is possible that the 7.5% assumption may be deemed unreasonable for purposes of the June 30, 2019 valuation.

Executive Summary - (Continued)

Contribution Rate Changes

Employer and member contribution rates will change in the future according to the following schedule.

Fiscal Year	Contribution Rate	
	Member	Employer
2018-2019	6.00%	14.00%
2019-2020	6.25%	14.25%
2020-2021	6.50%	14.50%
2021-2022	6.75%	14.75%
2023 and Later	7.00%	15.00%

Results of the Valuation

The amortization period this year is 28 years, down 2 years from last year's period of 29 years. This result is heavily dependent upon member and employer rates increasing in accordance with the schedule above. While 28 years is a reasonable period that meets statutory requirements, use of such a period will result in unfunded liabilities that are projected to increase in dollar amount for approximately the next 10 years. This condition is called "negative amortization" and is falling out of favor. The ATRS has targeted 18 years as the threshold in recent legislation. The contribution rate based upon the target amortization period would be approximately 17.8% payroll.

The Arkansas Teacher Retirement System remains stable with an 80.0% funded position as of June 30, 2018. Unless there is an investment loss in Fiscal Year 2019, the amortization period is likely to decrease in the next valuation due to scheduled phase-in of investment gains.

The rate of Investment return was 11.36%[#] this year. As of June 30, 2018, the market value of assets exceeded the actuarial value of assets by approximately \$737 million. (Please refer to page D-3 for details.) Investment gains and losses that occur each year are smoothed in over a 4-year period. After considering smoothing, the recognized return this year was 7.78%, compared to an assumed 7.5% return for Fiscal 2018. The smoothing is expected to introduce downward pressure on the amortization period next year.

[#] *The actuary calculated this return figure which may not exactly match the investment consultant's figure.*

Executive Summary (Continued)

Other Observations

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of the plan earning 7.50% on the actuarial value of assets), it is expected that:

- 1) The unfunded actuarial accrued liabilities will be fully amortized after 28 years.
- 2) The funded status of the plan will increase gradually towards a 100% funded ratio.
- 3) The unfunded accrued liability will increase for an extended period before beginning to decline.

Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

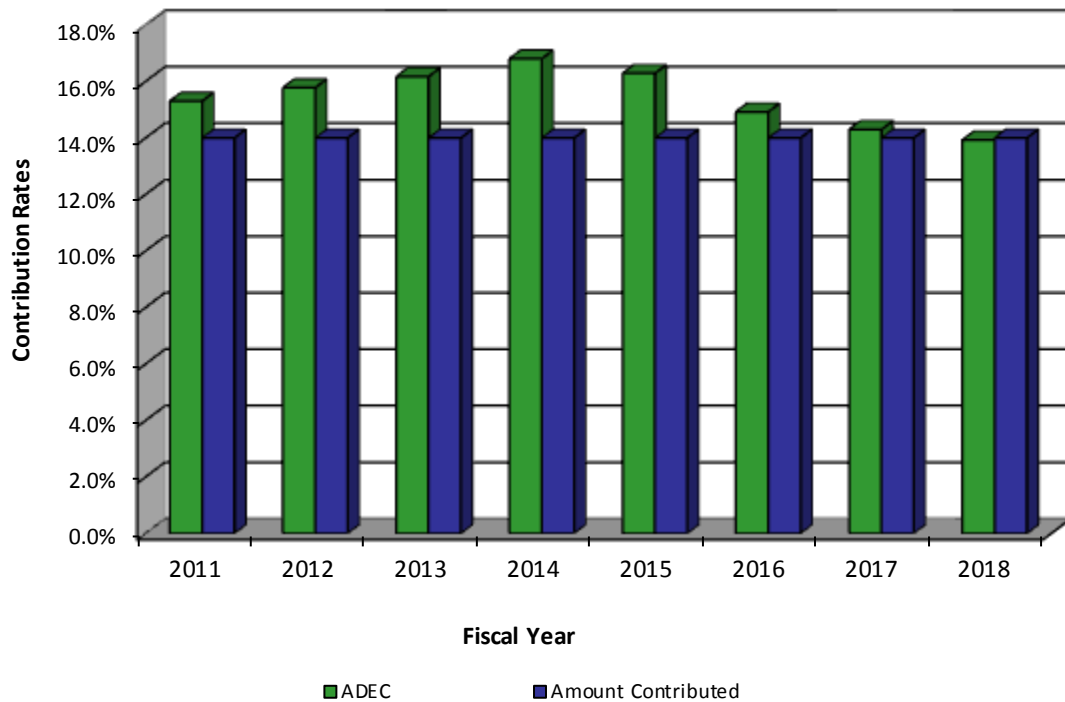
- 1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations, in other words, of transferring the obligations to an unrelated third party in an arm's length market value type transaction.
- 2) The measurement is dependent upon the actuarial cost method which, in combination with the plan's amortization policy, affects the timing and amounts of future contributions. A funded status measurement in this report of 100% is not synonymous with no required future contributions. If the funded status were 100%, the plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).
- 3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

Limitations of Project Scope

Actuarial standards do not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make required contributions to the plan when due. Such an evaluation was not within the scope of this project and is not within the actuary's domain of expertise. Consequently, the actuary performed no such evaluation.

Executive Summary - (Concluded)

The following graph shows a history of the amounts contributed vs. the employer contributions, based on a maximum amortization period of 30 years. The results would look different if the Actuarially Determined Employer Contribution (ADEC) were calculated according to the Board's target of 18 years.



Since the amortization period exceeded 30 years in the 2009-2015 valuations, the amount contributed is less than the 30-year contribution in FY 2011-2017. In FY 2018 (June 30, 2016 valuation), the amount contributed exceeded the 30-year contribution.

SECTION B

VALUATION RESULTS

Determination of Amortization Period

Computed as of June 30, 2018 and June 30, 2017

Computed Contributions for	Percents of Active Member Payroll			
	June 30, 2018			June 30, 2017
	Teachers	Support	Combined	Combined
Normal Cost				
Age & Service Annuities	10.38%	6.94%	9.40%	9.29%
Deferred Annuities	1.18%	2.09%	1.44%	1.45%
Survivor Benefits	0.36%	0.27%	0.33%	0.33%
Disability Benefits	0.48%	0.38%	0.45%	0.45%
Refunds of Member Contributions	0.46%	1.11%	0.65%	0.66%
Total	12.86%	10.79%	12.27%	12.18%
Average Member Contributions	6.43%	4.94%	6.01%	5.94%
Net Employer Normal Cost	6.43%	5.85%	6.26%	6.24%
Unfunded Actuarial Accrued Liabilities			8.74%	8.76%
Employer Contribution Rate			15.00%	15.00%
Amortization Years			28	29

The calculated amortization period of 28 years, is based on anticipated increases in the employer and member contribution rates. The current employer and member contribution rates are 14% and 6%, respectively. The employer and member rates are scheduled to increase by 0.25% increments beginning in Fiscal Year 2020 and ending in Fiscal Year 2023. The ultimate employer and member contribution rates will be 15% and 7%, respectively.

The amortization period is the number of years it will take to pay off the unfunded liability of \$4.2 billion assuming that the employer contribution rate increases to 15% according to the schedule described above. Since 2000, the period has varied from a low of 19 years to a high of over 100 years. Unless there is an investment loss in FY 2019, the amortization period is likely to decrease in the next valuation. Please see additional comments regarding the amortization period on page A-2.

Computed Employer Contribution Rates 10-Year Comparative Statement

Valuation Date June 30	Active Members in Valuation **		Average Annual Pay		Consumer Price (Inflation) Index		Employer Contributions	
	Number	Annual Payroll (\$Millions)					Computed Financing Period (Years)	Total Employer Rate
			Amount	% Change	Value	% Change		
2009	70,655	\$ 2,318	\$ 32,804	1.5 %	\$ 215.7	(1.4)%	45	14.0 %
2010#	72,208	2,381	32,980	0.5 %	218.0	1.1 %	52	14.0 %
2011#*	76,780	2,728	35,534	7.7 %	225.7	3.6 %	66	14.0 %
2012	75,627	2,714	35,891	1.0 %	229.5	1.7 %	over 100	14.0 %
2013#	74,925	2,727	36,400	1.4 %	233.5	1.8 %	70	14.0 %
2014	74,352	2,758	37,092	1.9 %	238.3	2.1 %	39	14.0 %
2015	72,919	2,777	38,088	2.7 %	238.6	0.1 %	33	14.0 %
2016	72,232	2,785	38,557	1.2 %	241.0	1.0 %	29	14.0 %
2017#*	72,148	2,814	38,997	1.1 %	245.0	1.6 %	29	15.0 %
2018	72,341	2,872	39,702	1.8 %	252.0	2.9 %	28	15.0 %

* Revised assumptions; employer and employee rates scheduled to increase to 15% and 7%, respectively, in 4 steps beginning in FY 2020.

Legislated benefit or contribution rate changes.

** Beginning with the June 30, 2011 valuation, active members include T-DROP members and payroll. ATRS also receives contributions on return to work retirees, but they are not included on this schedule.

Computed Actuarial Liabilities as of June 30, 2018

Actuarial Present Value of	(1) Total Present Value	Entry Age Actuarial Cost Method	
		(2) Portion Covered by Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Age and service retirement allowances based on total service likely to be rendered by present active members.	\$ 8,330,631,831	\$2,252,485,161	\$ 6,078,146,670
Age and service retirement allowances based on total service likely to be rendered by present T-DROP members.	2,144,659,404	36,253,436	2,108,405,968
Vested Deferred Benefits likely to be paid present active and inactive members.	1,125,969,131	350,725,399	775,243,732
Survivor benefits expected to be paid on behalf of present active members.	222,324,281	81,209,956	141,114,325
Disability Benefits expected to be paid on behalf of present active members.	214,608,216	105,951,938	108,656,278
Refunds of Member contributions expected to be paid on behalf of present active members.	20,122,677	148,340,593	(128,217,916)
Benefits payable to present retirees and beneficiaries.	11,851,333,244	0	11,851,333,244
Total	\$23,909,648,784	\$2,974,966,483	\$20,934,682,301
Applicable Assets	16,756,062,928	0	16,756,062,928
Liabilities to be Covered by Future Contributions	\$ 7,153,585,856	\$2,974,966,483	\$ 4,178,619,373

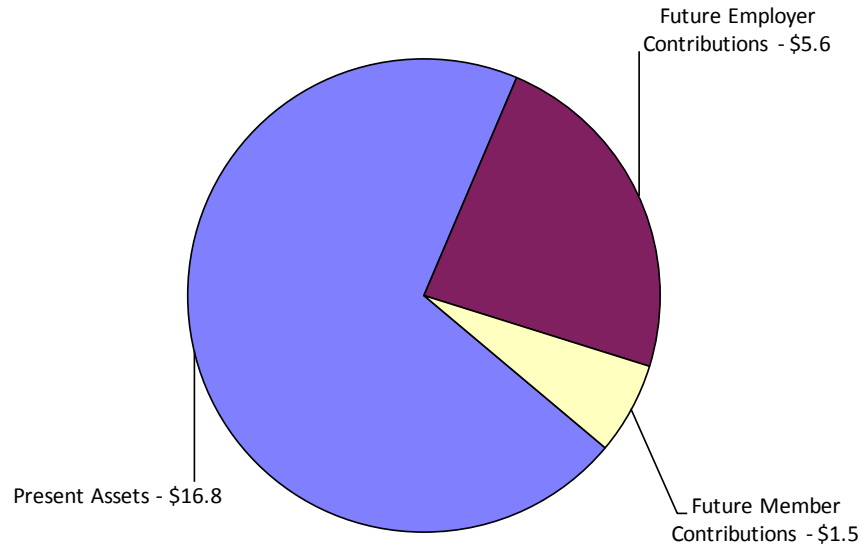
Liabilities for Retirees July 1, 2018

Tabulated by Type of Benefit Being Paid

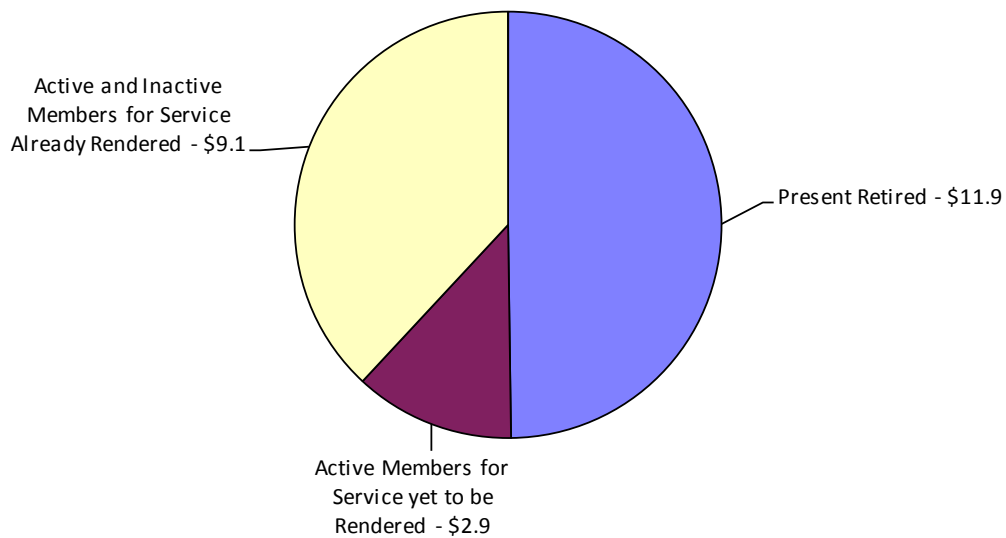
Type of Annuity	Liabilities July 1, 2018		
	Men	Women	Totals
RETIREMENT RESERVE ACCOUNT			
Age & Service Annuities			
Option 1 (Straight Life)	\$ 1,391,673,065	\$ 6,579,108,117	\$ 7,970,781,182
Option A (100% Joint & Survivor)	814,470,928	847,691,740	1,662,162,668
Option B (50% Joint & Survivor)	403,257,838	618,700,170	1,021,958,008
Option C (10 Years Certain & Life)	30,515,264	136,624,999	167,140,263
Beneficiaries	54,226,359	155,621,655	209,848,014
Total Age & Service	2,694,143,454	8,337,746,681	11,031,890,135
Disability Annuities			
Option 1	49,395,134	272,263,010	321,658,144
Option A	27,644,696	42,783,985	70,428,681
Option B	5,575,565	11,422,110	16,997,675
Option C	306,272	3,179,579	3,485,851
Beneficiaries	19,617,347	22,971,468	42,588,815
Total Disability	102,539,014	352,620,152	455,159,166
Act 793	9,763,657	5,745,064	15,508,721
Total Retirement Reserve Account	2,806,446,125	8,696,111,897	11,502,558,022
SURVIVORS' BENEFIT ACCOUNT			
Beneficiaries of Deceased Members	\$ 48,056,111	\$ 58,986,956	\$ 107,043,067
OTHER LIABILITIES			
Act 808	9,465,972	3,632,898	13,098,870
RETIREMENT SYSTEM TOTALS			
Total Annuity Liabilities	2,863,968,208	8,758,731,751	11,622,699,959
Cash Benefit Account Liabilities			109,036,167
Liabilities for Lump Sum Death Benefits			119,597,118
Total	\$ 2,863,968,208	\$ 8,758,731,751	\$ 11,851,333,244

Financing \$23.9 Billion of Benefit Promises for Present Active and Retired Members June 30, 2018

**Sources of Funds
(\$ Billions)**



Uses of Funds



Short Condition Test

ATRS' funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will **pay all promised benefits when due -- the ultimate test of financial soundness**. Testing for level contribution rates is the long term test.

A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service already rendered by members. In a system that has been following the discipline of level percent-of-payroll financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is unusual.

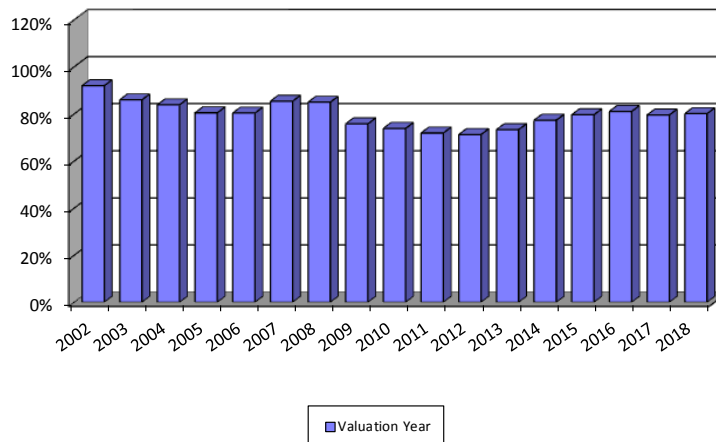
The schedule below illustrates the history of Liability 3 of the System and is indicative of the ATRS objective of following the discipline of level percent-of-payroll financing.

Val. Date June 30	(1) Member Contrib.	(2) Retirees and Benef.	(3) Active and Inactive Members (Employer Financed Portion)	Present Valuation Assets	Portion of Present Values Covered by Present Assets			
					(1)	(2)	(3)	Total
					-----\$ Millions-----			
2009	\$ 790	\$ 6,041	\$ 7,188	\$ 10,617	100%	100%	53%	76%
2010#	848	6,516	7,333	10,845	100%	100%	47%	74%
2011#*	929	7,132	7,460	11,146	100%	100%	41%	72%
2012	981	7,649	7,509	11,484	100%	100%	38%	71%
2013#	1,027	8,181	7,510	12,247	100%	100%	40%	73%
2014	1,077	8,777	7,456	13,375	100%	100%	47%	77%
2015	1,128	9,778	7,230	14,434	100%	100%	49%	80%
2016	1,184	10,430	7,198	15,239	100%	100%	50%	81%
2017#*	1,254	11,337	7,707	16,131	100%	100%	46%	79%
2018	1,312	11,851	7,772	16,756	100%	100%	46%	80%

* Revised actuarial assumptions or methods.

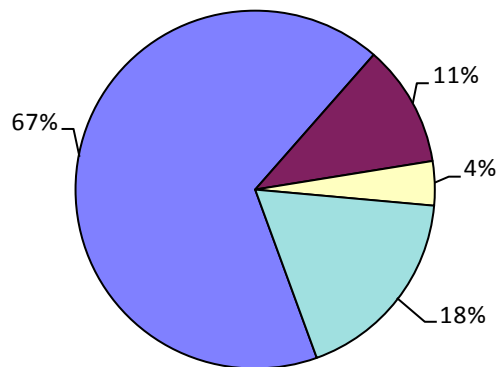
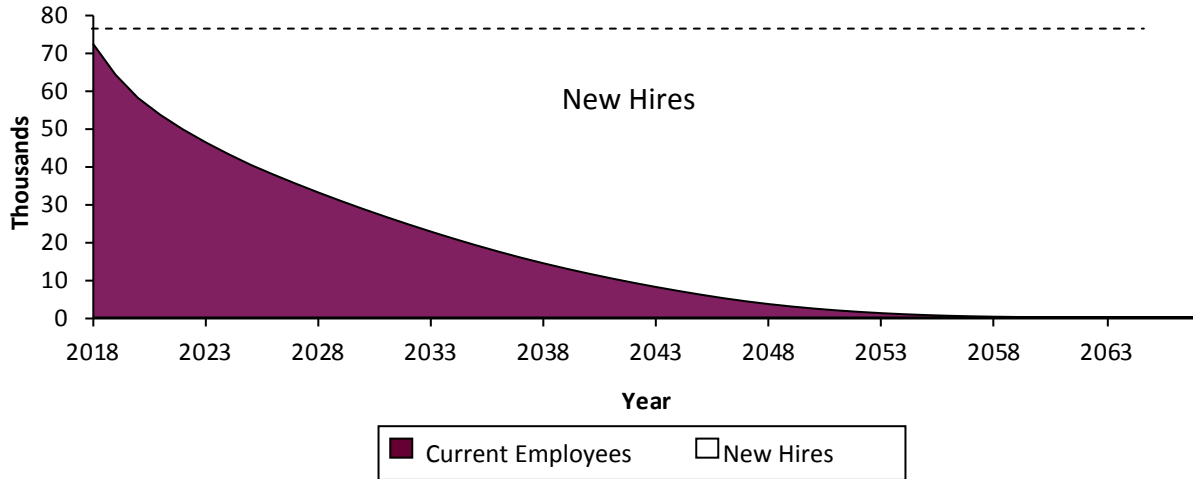
Legislated benefit or contribution rate change.

Actuarial Value of Assets as a Percent of Accrued Liabilities (Funded Ratio)



Expected Development of Present Population June 30, 2018 (Excludes Rehired Retirees)

Population Projection



■ Retirements
 ■ Non-Vested Separations
 ■ Deaths and Disabilities
 ■ Vested Separations

The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 72,341 active members (includes T-DROP). Eventually, 11% of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. Approximately 89% of the present population is expected to receive monthly retirement benefits. Approximately 4% of the present population is expected to become eligible for death-in-service or disability benefits. Within 9 years, over half of the covered membership is expected to consist of new hires.

SECTION C

SUMMARY OF BENEFITS

Summary of Provisions

June 30, 2018

1. **Voluntary Retirement – A.C.A. § 24-7-701.** A member may retire at age 60 with 5 or more years of credited service, or after 28 years of credited service regardless of age.
2. **Early Retirement – A.C.A. § 24-7-702.** A member who has more than 25 but less than 28 years of credited service and has not attained age 60 years may retire and receive an immediate early retirement annuity. The early annuity is an age & service annuity reduced by the lesser of (i) and (ii) below:
 - (i) 10/12 of 1% multiplied by the number of months by which early retirement precedes completion of 28 years of service, or
 - (ii) 10/12 of 1% multiplied by the number of months by which early retirement precedes the attainment of age 60 years.

Act 750 of 2017 allows the ATRS Board to set by resolution the early annuity reduction at a rate between 5% and 15% per year, to be prorated monthly if the System's actuary certifies that the amortization period to pay the unfunded liabilities exceeds 18 years. The Board adjusted the reduction to 10% per year beginning August 1, 2017 by Resolution 2017-14 on April 17, 2017.

3. **Deferred Retirement – A.C.A. § 24-7-707.** An inactive member who has 5 or more years of credited ATRS service will be entitled to an age & service annuity beginning at age 60, provided accumulated contributions are on deposit with the retirement system.
4. **Disability Retirement – A.C.A. § 24-7-704.** An active member with 5 or more years of actual and reciprocal service, who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age & service annuity. In order to qualify for disability retirement, the member must exhibit symptoms of physical or mental incapacitation while the member is an active member (Act 973 of 2011). A member who is eligible for age and service retirement (age 60 and 5 years of service or 28 years of service at any age) is no longer eligible to apply for disability retirement. Act 219 of 2015 requires an ATRS disability retiree to obtain a Social Security Administration determination letter finding that the retiree is disabled within 36 months of the effective date of disability retirement. If a member cannot provide the SSA determination letter within the 36 month period, benefits will be terminated, the member will be returned to active service, and all member history will be restored. The requirement to qualify for SSA disability shall not apply to a disability retiree who was age 57 or older before July 1, 2015, because that member would qualify for age & service benefits prior to requiring the SSA determination of disability. Additionally, the retiree may apply for an extension of the 36 month deadline if the retiree can demonstrate the SSA determination is in progress. Act 549 of 2017 allows a disabled retiree to return to work for an ATRS covered employer as a part-time employee or in a lesser position than held previously and not be disqualified from disability retirement.

Summary of Provisions

June 30, 2018

4. **Disability Retirement – A.C.A. § 24-7-704 (Cont.)** If a retiree tries to return to full time employment, and fails, the suspended disability benefit will be restored to what it would have been had they not tried to return to work, or a recomputed benefit using the additional service, whichever is higher. Additionally, this act allows a retiree who was unable to secure a fully favorable Social Security disability determination letter to seek the ATRS medical committee's review of the case and its findings, which may find that the member is still disabled according to the ATRS definition of “disabled”, shall be ruled as a final disposition in the matter.
5. **Final Average Salary (FAS) – A.C.A. § 24-7-736.** The ATRS Board made changes to the final average salary by Resolution 2017-33 on November 13, 2017. Effective in Fiscal Year 2019, a member’s final average salary is the average of the annual salaries paid during the period of 5 years of credited service producing the highest annual average. Except for inactive members, a benchmark 3-year FAS of as of 6/30/2018 is established as a minimum FAS. Beginning July 1, 2009, no salary paid in any year which is utilized in the computation of the members’ final average salary, shall exceed the percentage increase of the base year, unless the difference in value between the next-highest year and the base year is within the amount of the salary differential (defined below). (Act 611 of 2017). If a member has a break in covered employment for eight years or more between any of the member's highest salary years used in the calculation of final average salary, then anti-spiking checking does not apply to the next highest year in the formula (Act 225 of 2011 – effective date of law July 27, 2011). There will no longer be any stacking of part-time college/teaching work for school district employees (Act 513 of 2011). Act 555 of 2013 limits the use of a reciprocal system's calculation of FAS if the ATRS member's reciprocal service credit is less than the number of years used to calculate the FAS for ATRS. Beginning July 1, 2014, if a member has less than three years of reciprocal service (the number of years used to calculate ATRS' FAS), then ATRS will obtain the salary and service credit from the reciprocal system, and use that salary and service as if it had all been earned in ATRS to calculate a FAS for retirement. Act 720 of 2013 made a minor change to final average salary for members who stop work during their last year of employment immediately before retirement. The Board may adjust the final average salary calculation by board resolution provided that the percentage range is no lower than 105% nor higher than 120% per year; and the salary differential is no lower than \$1,250 nor higher than \$5,000. Act 611 of 2017. The ATRS Board adjusted the percentage lower to 110% and salary differential allowance to \$5,000 by Resolution 2017-13 on April 17, 2017.
6. **Age & Service Annuity and Disability Annuity – A.C.A. §§ 24-7-705, 24-7-727 (stipend).** The annuity payable will not be less than the total of: years of contributory service times 2.15% of FAS; plus years of noncontributory service times 1.39% of FAS (1.25% for service earned after 2019); plus stipend for all members with 10 or more years of ATRS actual service. Act 966 of 2013 allows the ATRS Board to set the contributory multiplier for service credit earned after June 30, 2013, within a range of 1.75% to 2.15%. The noncontributory multiplier for service credit earned after June 30, 2013, may be set within a range of 0.5% and 1.39%. In addition, this act would allow the Board to set special multiplier rates for the first 10 years of ATRS service earned after June 30, 2013, for both contributory and noncontributory service. This act is dependent upon the actuary's certification that the amortization period is in excess of 18 (Act 551 of 2017) years to pay unfunded liabilities prior to any reduction to the multipliers.

Summary of Provisions

June 30, 2018

6. **Age & Service Annuity and Disability Annuity – A.C.A. §§ 24-7-705, 24-7-727 (stipend) Cont. By Board Resolution 2017-31 on November 13, 2017, the noncontributory multiplier will become 1.25% beginning in FY 2020. By Board Resolution 2017-32 on November 13, 2017, the contributory multiplier and noncontributory multiplier for the first 10 years of service has been reduced to 1.75% and 1.0% respectively beginning July 1, 2018. Once a member accrues 10 years of service, all service including the first 10 years is then credited at the standard rate in place at the time the service was earned.**
7. **T-DROP – A.C.A. §§ 24-7-1301–1316.** A member with 28 or more years of service may participate in the Teacher Deferred Retirement Option Plan (T-DROP, Act 1096 of 1995). T-DROP participants do not make member contributions. A T-DROP deposit is made monthly to the participant's T-DROP account. The T-DROP deposit is the amount that would have been paid had the member retired, reduced by 1% for each year of contributory, noncontributory, and reciprocal service (Act 605 of 2013). Members who enter T-DROP with less than 30 years of service are subject to an additional 6% reduction for each year less than 30 years. Act 750 of 2017 allows the Board to adjust the additional T-DROP reduction factor between $\frac{1}{2}\%$ and 1% of the plan benefit for each month the member begins participating in the plan prior to having 30 years of credited service. T-DROP deposits are increased each year by 3% of the member's initial T-DROP deposit. T-DROP Deposits cease at the earlier of 10 years of T-DROP participation or separation from service. T-DROP participants may continue in covered employment after 10 years of T-DROP participation, but do not accumulate additional T-DROP deposits. T-DROP participants receive interest annually on the balance of the T-DROP account. Regular T-DROP interest is credited for 10 or less years of participation. Post 10-year T-DROP interest is credited for more than 10 years of participation.

Regular T-DROP interest is a combination of a fixed interest rate and an incentive interest rate. An incentive rate may be approved by the Board to encourage continued participation in T-DROP, if the estimated ATRS rate of return is 2% greater than the ATRS actuarial assumed rate of return in the preceding calendar year. Beginning in fiscal year 2019, the Board has set the Regular T-DROP fixed interest rate at 3% and the maximum incentive rate at 3% by Resolution 2017-35 on November 13, 2017. The fixed and incentive interest rates may be adopted by board resolution prior to the beginning of the fiscal year and would apply to subsequent fiscal years unless modified by the Board. For fiscal year 2019, the Board set the Regular T-DROP fixed interest rate at 3% and the incentive interest rate at 3%, resulting in a total interest rate of 6%, by Resolution 2018-09 on February 5, 2018.

Post 10-year T-DROP interest has been in effect since July 1, 2010. Act 1049 of 2017 allows the Post 10-year T-DROP interest rate (24-7-1307) to be determined as appropriate by the Board and adopted by the resolution prior to the beginning of the fiscal year in which the interest rate shall apply. Post 10-year T-DROP interest is a combination of a variable interest rate and an incentive interest rate, to encourage continued participation in T-DROP. The Post 10-year T-DROP variable interest rate formula is based on investment returns and other factors. On November 13, 2017, the ATRS Board by Resolution 2017-36 set the formula for the variable interest rate and the maximum combined variable and incentive interest rate for fiscal year 2019 and beyond. The Post 10-year T-DROP variable interest rate is calculated as 2% less than the system's rate of return, but not less than 4%, nor greater than 6%. The maximum Post 10-year T-DROP combined interest rate including the incentive interest rate is 7.5%. The Post 10-year T-DROP incentive interest rate can be awarded if the estimated ATRS rate of

Summary of Provisions

June 30, 2018

T-DROP – A.C.A. § 24-7-1301-1316 (Cont). return is 2% greater than the ATRS actuarial assumed rate of return in the preceding calendar year. For fiscal year 2019, the Board set the Post 10-year T-DROP variable interest rate at 6% and the incentive interest rate at 1%, resulting in a combined interest rate of 7%, by Resolution 2018-10 on February 5, 2018.

Upon actual retirement, the member may receive the T-DROP account balance in the form of a lump sum, a Cash Balance Account (CBA), or as an additional annuity. The T-DROP distribution may be a combination of lump sum, CBA, and additional annuity.

8. **Post-Retirement Increases – A.C.A. §§ 24-7-713, 24-7-727 (compound COLA).** Each July 1, annuities are adjusted to be equal to the base annuity times 100% plus 3% for each full year in the period from the effective date of the base annuity to the current July 1. The base annuity is the amount of the member's annuity on the later of July 1, 2001 or the effective date of retirement, as re-determined by Acts 396 of 1999 and 992 of 1997. The July 1, 2009 cost of living adjustment for retirees was compounded. The annuity was set to 103% of the June 30, 2009 retirement benefit amount. After it was calculated on July 1, 2009, the base amount was reset to be the July 1, 2009 benefit amount. Future cost of living raises will be established by the new updated base amount. Future cost of living adjustments will be evaluated on an annual basis to determine if a simple or compound cost of living increase will be given, depending on the financial condition of the System. Act 967 of 2013 gives the ATRS Board authority to reverse the compounding of a benefit and reset the base amount to the pre-compounding amount. If this reversal were to occur, it would include participants in the T-DROP plan. The future benefits of a member would not be reduced to recover any benefits paid to a member as a result of the compounding. In addition, the member's benefit on the date of the reversal would not be impacted, but future COLA's would be based upon the reset base amount. This act is dependent upon the actuary's certification that the amortization period is in excess of 30 years to pay unfunded liabilities prior to any reversal of the compounding of the COLA. Act 780 of 2017 allows the right to reverse the 2009 compound COLA when unfunded liabilities exceed an 18 year amortization. The act also allows a phase in of the change during months in which a COLA raise is given to prevent any retiree or option beneficiary from having an actual reduction in monthly benefit payments.
9. **Survivor Benefits – A.C.A. § 24-7-710.** Upon the death of an active member, who has 5 or more years of actual and reciprocal service, the following annuities are payable:
 - (a) The surviving spouse receives an annuity computed in the same manner as if the member had (i) retired the date of his death with entitlement to an annuity, (ii) elected Option A - 100% Survivor Annuity, and (iii) nominated the spouse as joint beneficiary. If the member has attained age 60 and has acquired 5 years of credited service or has acquired 25 years of credited service regardless of age, the annuity begins immediately; otherwise the annuity begins the month following the date the member would have attained age 60. Under certain circumstances, a lump sum distribution may be made to the beneficiary(ies) of the deceased member.

Summary of Provisions

June 30, 2018

Survivor Benefits – A.C.A. § 24-7-710. Cont.

- (b) A surviving child's benefit is prorated to an amount equal to 1% of the member's highest salary year for each quarter of a year credited as actual service in the system, up to 20% or up to a maximum of \$20,000 per year. If there is more than 1 surviving dependent, the benefits are capped to the lesser of 60% of the member highest salary or \$60,000 per year to be divided equally among the dependents. Act 505 of 2017. A child is dependent until the child's death, marriage, or attainment of age 18 (age 23 if the child is a full-time student).

10. **Lump Sum Death Benefit – A.C.A. § 24-7-720.** Beneficiaries of deceased active members or retirees with 10 or more years of ATRS credited service are eligible to receive a lump sum death benefit of up to \$10,000 (\$6,667 for noncontributory service-benefit). The amount will be prorated for members who have both contributory service and noncontributory service. Members with 15 or more years of contributory service will receive the full \$10,000 (Act 977 of 2011).
11. **Members' Contributions – A.C.A. § 24-7-406. Member Contributions – A.C.A. § 24-7-406.** Through FY 2019, contributory members contribute 6% of their salaries. Members that are participating in the T-DROP program or are working retirees do not make member contributions. If a member leaves service prior to becoming eligible to retire, the accumulated member contributions are returned upon request. No interest is credited to a member's contributions for the first year of membership; after 1 year, interest is credited. The ATRS Board set the interest rate on refunded contributions to 0.08% for fiscal year 2017 and beyond by Resolution 2017-17 on April 17, 2017. Act 550 of 2017 allows the ATRS Board to increase the employee contribution rate beyond 6% if the amortization period to pay the unfunded liabilities of the system exceeds 18 years. The Board set the member contribution rate to 6.25%, 6.50%, 6.75%, and 7.00% for FY 2020, FY 2021, FY2022, and FY 2023 and thereafter, respectively, by Resolution 2017-30 on November 13, 2017.

Effective July 1, 1986, a noncontributory plan was created. Effective July 1, 1999 the default choice for new members is contributory. Effective July 1, 1997, all future member contributions are tax-deferred in accordance with §414(h) of the Internal Revenue Code of the United States. Effective July 1, 2005, all noncontributory members whose status changes from support to teacher (contracted for more than 181 days), will become contributory. Each July 1, members who previously elected to be noncontributory may elect to change to contributory status under Act 385 of 2005. The election is irrevocable.

12. **Act 808 Retirement – A.C.A. § 24-4-732.** Any employee of a state agency who was an active member of the Arkansas Teacher Retirement System on April 8, 1987, and who qualified for retirement before January 1, 1988, could become a member of the Arkansas Public Employees Retirement System and retire from that system. All credited service was transferred to that system but the member's contributions were retained by the Arkansas Teacher Retirement System and the benefit amount is transferred monthly to the Arkansas Public Employees Retirement System. Each July 1, annuities are adjusted by 3% (compound escalator).

Summary of Provisions

June 30, 2018

13. **Act 793 Retirement – A.C.A. § 24-4-522.** Any employee who was a member of the rehabilitation services in 1977 was permitted to become a member of the Arkansas Public Employees Retirement System. Liabilities associated with prior service earned through June 30, 1978 remain in the Arkansas Teacher Retirement System. Future service is allocated to the Arkansas Public Employees Retirement System. Each July 1, annuities are adjusted by 3% (compound escalator).
14. **Retiree Benefit Stipend – A.C.A. § 24-7-713.** Each retired member as of June 30, 2008, with 5 or more years of ATRS credited service receives a \$75 per month stipend. Members in T-DROP do not receive the \$75 per month stipend until actual retirement. For all members retiring on or after July 1, 2008, a minimum of 10 years of ATRS credited service is required to receive the \$75 per month stipend. Act 603 of 2013 allows the ATRS Board to increase or decrease the stipend to a minimum of \$1 per month and a maximum of \$75 per month. This act is dependent upon the actuary's certification that the amortization period is in excess of 18 years to pay unfunded liabilities prior to any reduction in the current stipend. The stipend for fiscal year 2018 remains at \$75 per month. **By Board Resolution 2017-34 on November 13, 2017 the benefit stipend is removed from the base amount for all retirees and beneficiaries beginning in fiscal year 2019 and the benefit stipend will be reduced to \$50.00 for fiscal year 2020 and beyond. The Resolution contains a “hold harmless” provision that prevents the lowering of the stipend if it would actually reducing the total monthly benefit. This would only affect retirees when the COLA is less than \$25 per month.**
15. **Optional Forms of Benefits – A.C.A. § 24-7-706:**
- Option 1 (Straight Life Annuity)**
- A member will receive the maximum monthly benefit for which he/she qualifies, throughout his/her lifetime. No monthly benefits will be paid to his/her beneficiary after the member's death. Should a member die before he/she has drawn in benefits an amount equal to his/her contributions plus earned interest, the balance will be paid to a designated beneficiary. The designated beneficiary may be anyone chosen by the member.
- Option A (100% Survivor Annuity)**
- Under this option a member will receive a reduced annuity throughout his/her lifetime. Upon the member's death, the designated beneficiary will receive the same annuity for the balance of his/her lifetime.
- Option B (50% Survivor Annuity)**
- Under this option a member will receive a reduced annuity throughout his/her lifetime. Upon the member's death, the designated beneficiary will receive one-half (1/2) of this annuity for the balance of his/her lifetime.
- Option C (Annuity for Ten Years Certain and Life Thereafter)**
- A reduced monthly benefit payable for 120 months. After that time, a member's monthly allowance will revert to the amount he/she would have received under the regular plan and continue for life. If the member dies before receiving 120 payments, the designated beneficiary will receive a monthly benefit in the same amount until monthly benefits to both the member and the beneficiary equal 120 monthly payments. No further benefits are then payable to the beneficiary.

Option Factors are based upon a 5.0% interest rate and the RP-2014/MP2017 tables (static) adjusted with a 50% unisex mix.

Summary of Provisions

June 30, 2018

16. **Refund of Member Contributions – A.C.A. § 24-7-711.** Any termination refund made to a member or a lump sum payout made to a surviving spouse after July 1, 2011, cancels all service credit, including noncontributory service credit (Act 976 of 2011); any repurchase of refunded service will be as contributory years at actuarial cost (Act 69 of 2011). Act 140 of 2013 specifies that all membership rights (including noncontributory service credit) and beneficiary designations to the ATRS are cancelled when a member gets a refund of his or her contributions.
17. **Contract Buyout – A.C.A. § 24-7-735.** During periods of contract buyout/litigation/termination, members will not receive service credit if no on-call service or on site work is performed. ATRS will not allow the purchase of the time between actual work and the settlement (Act 163 of 2011) unless the settlement was made to resolve a claim of wrongful termination (Act 436 of 2017).
18. **Actuarial Cost of Service – A.C.A. §§ 24-1-107, 24-2-502, 24-7-202, 24-7-406, 24-7-501, 24-7-502, 24-7-612, 24-7-602, 24-7-603, 24-7-604, 24-7-606, 24-7-607, 24-7-610, 24-7-611.** Effective July 1, 2011, all service purchases will be at actuarial cost (Act 69 of 2011).
19. **Deceased Member Refund of Contributions – § 24-7-711.** Effective July 1, 2011, if a beneficiary is not eligible for survivor benefits, or if a surviving spouse is eligible and chooses a contribution refund, the interest on the refund stops the July 1 following the member's death (Act 136 of 2011).
20. **Limit Lookback to Five Years – A.C.A. §§ 24-7-202, 24-7-205.** Effective July 1, 2011, absent intentional nondisclosure, fraud, misrepresentation, criminal act, or obvious/documented error by an employer of ATRS members can no longer establish old service previously unreported unless such service is acquired by purchase at actuarial cost (Act 138 of 2011). Act 241 of 2017 allows ATRS to correct an understated service credit error upon which all required contributions have been paid, even if beyond the 5-year look-back period.
21. **Service Credit Requirements – A.C.A. §§ 24-7-501, 24-7-502, 24-7-601, 24-7-603, 24-7-604, 24-7-606, 24-7-607, 24-7-611.** Effective July 1, 2011, members must receive 160 days of service to be credited with a year of service credit (Act 974 of 2011).
22. **T-DROP Cash Balance Account.** Effective July 1, 2012, a T-DROP cash balance account was established that allows members exiting (retiring) from T-DROP to place all or a portion of their T-DROP proceeds into a Cash Balance Account (CBA) at ATRS. On November 13, 2017, by Resolution 2017-38 the Board set the CBA interest rate schedule based on years of participation as follows: 2.50% for year one, 2.75% for year two, 3.00% for year three, 3.25% for year four, 3.50% for year five, and 4.00% for year six and beyond. The Board granted all CBA participants a 1% incentive rate for fiscal year 2019 by Resolution 2018-11 on February 5, 2018.
23. **Delinquent Member Contributions – A.C.A. § 24-7-205.** Act 336 of 2013 allows members to forfeit service credit for any contributory fiscal year for which there is a balance due to the system.

Summary of Provisions

June 30, 2018

24. **Purchase of "Air Time" as a Result of Wrongful Termination – A.C.A. §§ 24-7-702, 24-7-735, 6-17-413.** Act 521 of 2013 allows a member to purchase service credit under a settlement agreement or court order to resolve a claim of wrong termination if the service credit is purchased from the date of termination by an ATRS employer to the date of the resolution of the dispute. This service credit would be purchased at actuarial cost.
25. **Buyout of Inactive Members—A.C.A. § 24-7-505.** Act 606 of 2013 allows the ATRS Board to create a voluntary "buyout plan" for inactive vested members. The System will make a one-time lump sum payment to a member, a surviving spouse, or an alternate payee in exchange for a member, surviving spouse, or alternate payee's cancellation of membership and retirement benefit rights. The buyout plan will be established by Board rules. The rule is 16-1 Cash and Savings Help Program for Members (CASH). This particular plan offering ended June 30, 2015. Depending upon the success of the plan, it may be extended by the Board. Act 647 of 2017 allows the buyout plan to be extended, modified, or expanded by board resolution. The ATRS Board expanded the CASH program to include all inactive vested members, regardless of service type by Resolution 2017-18 on May 10, 2017. The ATRS Board offered the FY 2019 CASH program for all inactive vested members to end on June 30, 2019 by Resolution 2017-35 on October 1, 2018.
26. **Private School Service—A.C.A. § 24-7-607.** Prior to Act 90 of 2015, private school service had to be recognized by the Arkansas Department of Education as positions that required the issuance of teaching licenses. The certification of this service credit was performed by one employee of the Arkansas Department of Education, and that one employee retired. Upon that employee's retirement, the Arkansas Department of Education no longer certified private school service credit. No certifications occurred for approximately a year until legislation could be passed to allow ATRS to make this determination. In addition, a distinction was made between certified and noncertified private school service credit. Certified private school service (basically administrative and teaching) could be purchased at actuarial cost, up to 15 years. Noncertified private school service could be purchased at actuarial cost, up to 5 years.
27. **Military Service Credit—A.C.A. § 24-7-602.** Act 301 of 2015 made technical corrections to the ATRS laws. In the military service credit section, ATRS was not in compliance with a state law that was passed in 2009, Act 295, which repealed the requirement for free military service credit to be granted only if the service was not credited under any other plan except Social Security and the requirement that receipt of a pension from the federal military retirement system paid solely for disability shall not be considered as having service with another retirement plan. The military technical corrections bill raised questions by some of the legislators, and Act 558 of 2015 was passed to further clarify military service credit. Compulsory military service was changed throughout the law to read: "federal military draft". The word "honorable" was inserted before discharge in order for the member to obtain free military service credit throughout the law.
28. **Lump-Sum Payment of Reserve Value of Small Annuity—A.C.A. 24-7-716.** Prior to passage of Act 225 of 2015, ATRS would pay out a reserve value to a member whose monthly benefit was less than \$20 per month. This was optional for the member. The reserve value was calculated by multiplying the annual annuity by the reserve factor for the member's age. Act 225 of 2015 repealed this law.

Summary of Provisions

June 30, 2018

29. **Pension Advance Prohibition – A.C.A. § 24-7-715.** Prohibits a pension advance company from obtaining a retiree's benefit to repay a loan. Act 199 of 2017.
30. **Accrued Sick Leave – A.C.A. § 24-7-601.** Allows unused accrued sick leave, whether paid or unpaid, to count as service credit to determine retirement eligibility for survivor benefits and lump sum death benefits. One day of service shall be added to the service credit for the fiscal year of the member's death for each day of unused sick leave. This does not include catastrophic leave and other unused donated leave. Act 200 of 2017.
31. **Spousal Survivor Benefit – A.C.A. § 24-7-710.** Members may direct an alternative residual beneficiary to receive a lump sum payment of the member's residue amount or T-DROP balance. No spousal survivor benefits will be payable if an alternative beneficiary who is not the surviving spouse is designated by the member. Act 243 of 2017.
32. **Settlement Agreements – A.C.A. § 24-7-202, § 24-7-735.** Salary or service credit may be purchased as part of a settlement agreement between a member and his/her employer. Salary will be added to the salary at the time of purchase and will be determined using the same factors used to calculate an additional monthly benefit in the annuitization of a T-DROP distribution. It is assumed the member would have retired immediately at the time of the purchase. Act 436 of 2017.
33. **Outsourcing – A.C.A. § 24-7-506.** This Act defines outsourcing to mean employment for an ATRS covered employer through a third party, private employer, independent contractor, or other contractual relationship. This Act defines that a person who performs services that are necessary for the normal daily operation for an ATRS covered employer is considered an Embedded Employee. This Act gives the ATRS covered employer a one-time decision to choose between two options for handling their Embedded Employees. The decision must be made within 60 days after the effective date of this Act or that first outsourcing. The first option for the ATRS covered employer is to become a participating employer and make embedded employees participating members of ATRS. The second option for the ATRS covered employer is to become a Surcharge Employer and opt to pay a surcharge on the Embedded Employee's salary to ATRS to help cover the actuarial cost. The surcharge starts at ½% the first year and slowly rises to 3% over 4 years with a hard cap of 4%. The Embedded Employees of a Surcharge Employer will not be members of ATRS. The services necessary for normal daily operations include: substitute teaching, teacher's aides, food service, transportation service, custodial service, security services, and school nursing. Only those working on the premises are subject to the surcharge. The surcharge is ONLY on SALARY of embedded employees. All salary is reported in the aggregate with the contractor's salary amount being the final word unless it is clearly in error. The Division of Youth Services shall be a participating Employer and may designate any or all Embedded Employees as members of ATRS. The law shall not apply to post-secondary higher education institutions. Act 575 of 2017.

Summary of Provisions

June 30, 2018

34. **Concurrent Reciprocal Service Credit – A.C.A. § 24-7-601.** This act allows ATRS members with the option of waiving their ATRS service in the event the member had concurrent service in two (2) state-supported retirement systems. This Act gives the member the option to surrender either ATRS service or the reciprocal plan service. If a member worked full time under a reciprocal retirement system and only part-time under ATRS, this Act will allow the member to waive the ATRS service to obtain a higher benefit based upon the full time service in the other system. This act will allow concurrent reciprocal members the option to voluntarily elect to waive service in ATRS. The member's employer-accrued contributions and employee-accrued contributions in the system remain with the system. Act 612 of 2017.
35. **Employer Contribution Rate – A.C.A. § 24-7-401.** Employer contributions are collected on active members, T-DROP participants (even those who work beyond the 10-year participation period), and working retirees (Act 743 of 2009). Through fiscal year 2019, the employer contribution rate is 14%. For the fiscal year beginning July 1, 2018, the Board may modify the employer contribution rate for future fiscal years above 14% in increments of 0.25% per fiscal year provided the system has a greater than 18-year amortization period to pay unfunded liabilities without an employer contribution rate of more than 14% limited to a maximum employer contribution rate of 15%. Act 821 of 2017. The Board set the employer contribution rate to 14.25%, 14.50%, 14.75%, and 15.00% for FY 2020, FY 2021, FY2022, and FY 2023 and thereafter, respectively, by Resolution 2017-40 on November 13, 2017.
36. **Forfeiture of Benefits by Certain Persons – A.C.A. §§ 24-1-301, 302, 303, 304, 305.** Act 756 of 2017 provides for a beneficiary's forfeiture of benefits under a public retirement system when the beneficiary unlawfully kills a member or retirant.

Sample Benefit Computations for a Member Retiring June 30, 2018

The data for the Example member is shown below.

A.	<u>\$35,000</u>	Final Average Compensation
B.	<u>32</u>	Total Service Credit
C.	<u>27</u>	Contributory Service Credit
D.	<u>60</u>	Age of Retiree
E.	<u>55</u>	Age of Spouse
F.	<u>100%</u>	Percentage of Retirement Allowance to Continue to Spouse after Retiree's Death (Retiree Chooses this Percentage)

The computations that would be made for this case are:

	<u>Annual</u>
G. Non-Contributory Base: $1.39\% \times A \times B$	\$15,568
H. Extra for Contributory: $0.76\% \times A \times C$	<u>7,182</u>
I. Subtotal Benefit: G + H	22,750
J. Health Stipend	<u>900</u>
K. Total Benefit: I + J	23,650
L. Adjustment for Line F election: $(1 - 0.78571) \times I$	<u>4,875</u>
M. Annual Amount Payable	\$18,775

Projected Benefits, taking into account increases after retirement would be:

<u>Year Ended June 30</u>	<u>Annual Amount</u>
2019	\$18,775
2020	19,311
2021	19,847
2022	20,383
2023	20,919

Thereafter, the amount would increase by \$536 annually for life.

Sample T-DROP Benefit Computations for a Member Entering T-DROP June 30, 2018

The data for the Example member is shown below.

A.	<u>\$35,000</u>	Final Average Compensation
B.	<u>28</u>	Total Service Credit
C.	<u>28</u>	Contributory Service Credit
D.	<u>55</u>	Age of Retiree

The computations that would be made for this case are:

	<u>Annual Amount</u>
E. Non-Contributory Base: $1.39\% \times A \times B$	\$13,622
F. Extra for Contributory: $0.76\% \times A \times C$	7,448
G. Reduction for T-DROP Plan: (1% for each year of contributory service) $0.28 \times (E+F)$	5,900
H. Reduction for Entering T-DROP with less than 30 years of service (6% for each year less than 30): $0.12 \times (E + F - G)$	<u>1,820</u>
I. Annual Deposit $E + F - G - H$	\$13,350

Projected Deposits, taking into account increases after DROP, and 5 years duration would be:

<u>Year Ended June 30</u>	<u>Amount Deposited</u>
2019	\$13,350
2020	13,751
2021	14,151
2022	14,552
2023	<u>14,952</u>
Total	\$70,756

The amount deposited, **plus** credited interest, can be paid as a lump sum or as an annuity. A portion of the deposits can also be placed into a Cash Balance account.

SECTION D

FINANCIAL INFORMATION

This information is presented in draft form for review by the System's auditor. Please let us know if there are any items the auditor changes so that we may maintain consistency with the System's financial statements.

Asset Valuation Method

An essential step in the valuation process is comparing valuation assets with computed liabilities. Valuation assets are those assets that are recognized for funding purposes.

Asset valuation methods are distinguished by the timing of the recognition of investment income. Total investment income is the sum of ordinary income and capital value changes. Under a pure market value approach, ordinary investment income and all capital value changes would be recognized immediately. Because of market volatility, use of pure market values in retirement funding can result in volatile contribution rates and unstable financial ratios, contrary to ATRS objectives.

Under the ATRS asset valuation method (see page D-3), assumed investment return is recognized fully each year. Differences between actual and assumed investment return are phased-in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, the funding value will tend to be less than the market value. Conversely, during periods when investment performance is less than the assumed rate, funding value will tend to be greater than market value. If assumed rates are exactly realized for 3 consecutive years, funding value will become equal to market value.

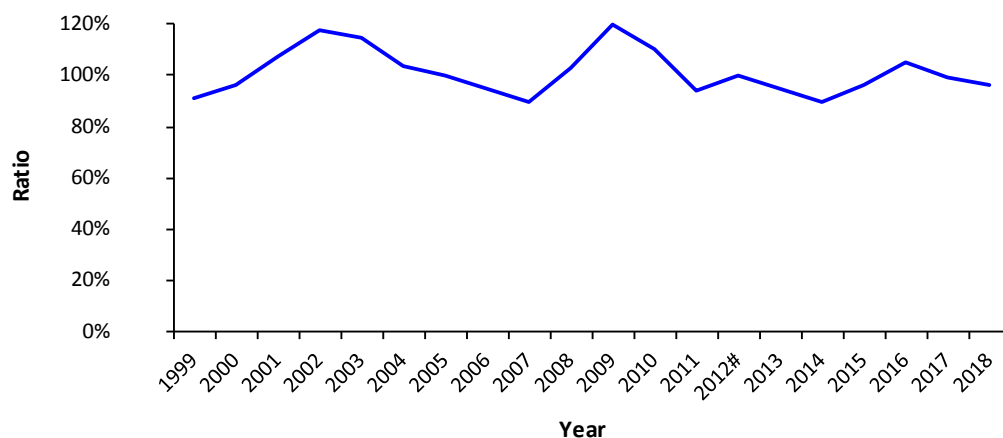
A multi-year comparison of market value to funding (actuarial) value is on the following page.

Asset Valuation Method

Valuation Date June 30	Market Value of Assets (1)	Actuarial Value of Assets (2)	Ratio of AV to MV (2) / (1)
1999	\$ 7,403	\$ 6,740	91%
2000	7,978	7,620	96%
2001	7,643	8,166	107%
2002	7,084	8,328	118%
2003	7,050	8,113	115%
2004	8,122	8,424	104%
2005	8,811	8,817	100%
2006	9,868	9,332	95%
2007	11,637	10,519	90%
2008	11,018	11,319	103%
2009	8,847	10,617	120%
2010	9,884	10,845	110%
2011	11,895	11,146	94%
2012#	11,484	11,484	100%
2013	12,830	12,247	95%
2014	14,856	13,375	90%
2015	15,036	14,434	96%
2016	14,559	15,239	105%
2017	16,285	16,131	99%
2018	17,493	16,756	96%

Actuarial Value set equal to Market Value.

Ratio of Actuarial Value to Market Value



This year the market value of assets is greater than the actuarial value (see page A-2 for a more detailed explanation). To prevent unreasonably large differences between market value and funding value, there is a requirement that the recognized assets must always be between 80% and 120% of the market value (see page D-3).

Development of Funding Value of Assets

Year Ended June 30:	2015	2016	2017	2018	2019	2020	2021
A. Funding Value Beginning of Year	\$ 13,374,765,500	\$ 14,433,823,989	\$ 15,238,522,015	\$ 16,131,466,927			
B. Market Value End of Year	15,035,701,313	14,558,576,729	16,284,808,245	17,492,627,740			
C. Market Value Beginning of Year	14,856,276,668	15,035,701,313	14,558,576,729	16,284,808,245			
D. Non-Investment Net Cash Flow	(444,707,451)	(504,645,210)	(555,761,481)	(606,938,770)			
E. Investment Return							
E1. Market Total: B - C - D	624,132,096	27,520,626	2,281,992,997	1,814,758,265			
E2. Assumed Rate	8.00%	8.00%	8.00%	7.50%	7.50%		
E3. Amount for Immediate Recognition	1,052,192,942	1,134,520,111	1,196,851,302	1,187,099,816			
E4. Amount for Phased-In Recognition: E1-E3	(428,060,846)	(1,106,999,485)	1,085,141,695	627,658,449			
F. Phased-In Recognition of Investment Return							
F1. Current Year: 0.25 x E4	(107,015,212)	(276,749,871)	271,285,424	156,914,612	Unknown	Unknown	Unknown
F2. First Prior Year	364,334,749	(107,015,212)	(276,749,871)	271,285,424	156,914,612	Unknown	Unknown
F3. Second Prior Year	194,253,461	364,334,749	(107,015,212)	(276,749,871)	\$ 271,285,424	\$ 156,914,612	Unknown
F4. Third Prior Year	-	194,253,459	364,334,750	(107,015,210)	(276,749,872)	271,285,423	\$ 156,914,613
F5. Total Recognized Investment Gain	451,572,998	174,823,125	251,855,091	44,434,955	151,450,164	428,200,035	156,914,613
G. Funding Value End of Year:							
G1. Preliminary Funding Value End of Year: A+D+E2+F6	14,433,823,989	15,238,522,015	16,131,466,927	16,756,062,928			
G2. Upper Corridor Limit: 120% x B	18,042,841,576	17,470,292,075	19,541,769,894	20,991,153,288			
G3. Lower Corridor Limit: 80% x B	12,028,561,050	11,646,861,383	13,027,846,596	13,994,102,192			
G4. Funding Value End of Year	14,433,823,989	15,238,522,015	16,131,466,927	16,756,062,928			
H. Actual/Projected Difference between Market and Funding Value	601,877,324	(679,945,286)	153,341,318	736,564,812	585,114,648	156,914,613	0
I. Market Rate of Return	4.26 %	0.19 %	15.98 %	11.36 %			
J. Funding Rate of Return	11.43 %	9.23 %	9.68 %	7.78 %			
K. Ratio of Funding Value to Market Value	96.00 %	104.67 %	99.06 %	95.79 %			

The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment income (line E4) are phased-in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than Market Value. ***The Funding Value of Assets is unbiased with respect to Market Value.*** At any time it may be either greater or less than Market Value. If assumed rates (applied to the funding value of assets) are exactly realized for 3 consecutive years, it will become equal to Market Value.

The assets of the Retirement System, as of June 30, 2018, were reported to your actuary to be \$17,492,627,740. This amount, together with a market value adjustment of \$736,564,812 this year, is used to finance the Retirement System liability.

Accounts	Assets at June 30	
	2018	2017
Regular Accounts		
Members' Deposit Accounts		
Contributions	\$ 1,287,855,312	\$ 1,229,715,817
Interest	9,645,971,617	8,648,950,788
Total	10,933,826,929	9,878,666,605
T-Drop Member Deposit Accounts		
Contributions	23,942,761	24,594,867
Interest	27,387,222	31,995,573
Total	51,329,983	56,590,440
Cash Balance Account	109,036,167	91,084,101
Employer's Accumulation Account	(5,509,753,553)	(4,840,656,333)
Retirement Reserve Account	11,366,265,784	10,545,265,390
Act 808 Retirement Reserve Account	12,599,124	13,986,693
T-Lump Payable	417,126,689	430,583,531
Survivors Benefit Account	102,835,207	99,931,749
Total Regular Accounts	17,483,266,330	16,275,452,176
Other Accounts		
Income Expense Account	9,361,410	9,356,069
Other Special Reserves	-	-
Miscellaneous	-	-
Total Other Accounts	9,361,410	9,356,069
Total Accounting Value of Assets	17,492,627,740	16,284,808,245
Market Value Adjustment	(736,564,812)	(153,341,318)
Funding Value of Assets	\$ 16,756,062,928	\$ 16,131,466,927

Market Value of Assets

The net market value of assets at year-end was \$17,492,627,740 and was invested as shown below.

	Market Value at June 30	
	2018	2017
Cash	\$ 318,615,761	\$ 273,336,545
Receivables		
Unsettled Trades and Accrued Return	69,884,770	58,987,011
Member Contributions	7,880,721	8,368,529
Employer Contributions	26,178,880	28,371,709
Other	250,097	203,914
Total Receivables	104,194,468	95,931,163
Investments		
Government Securities	25,842,362	15,055,571
Domestic Equities	2,849,088,275	2,342,524,863
International Equities	961,598,275	987,229,454
Commingled Funds	7,041,685,885	7,313,897,063
Corporate Bonds	706,597,635	642,108,955
Asset and Mortgage-backed Securities	40,072,559	40,631,854
Mortgages (CMO's)	1,970,135	-
Conventional Mortgages	-	-
Alternative Investments	5,196,546,158	4,297,122,835
Limited Partnerships	70,411,826	70,178,093
Real Estate	57,238,826	59,095,506
Other Investments	208,000,000	224,000,000
Investment Derivative Instruments	939,281	(284,155)
Total Investments	17,159,991,217	15,991,560,039
Invested Securities Lending	506,400,659	431,215,542
Net Equipment	251,858	276,426
Total Assets	18,089,453,963	16,792,319,715
Liabilities		
Survivor Benefits for Minors	238,734	342,588
Other Payables	8,830,843	6,924,468
Securities Related Payables	81,447,941	69,054,717
Securities Lending Collateral	506,308,705	431,189,697
Total Liabilities	596,826,223	507,511,470
Net Market Value	\$ 17,492,627,740	\$ 16,284,808,245
Change from Prior Year	1,207,819,495	1,726,231,516

Market Value Reconciliation

Assets developed during the year as follows:

	Year Ended June 30	
	2018	2017
Net Market Value July 1	\$ 16,284,808,245	\$ 14,558,576,729
Additions		
Employer Contributions	424,488,126	414,954,939
Employee Contributions	138,766,747	133,109,940
Appreciation	1,747,857,306	2,210,725,328
Interest	30,987,644	25,667,651
Dividends	81,573,200	76,202,416
Real Estate	7,596,033	7,516,675
Other	1,247,762	8,547,919
Securities Lending Activity	5,075,453	4,620,171
Total Additions	2,437,592,271	2,881,345,039
Deductions		
Age & Service Benefits	958,281,766	907,314,702
Disability Benefits	39,770,821	38,833,696
Option Benefits	28,756,398	26,843,481
Survivor Benefits	10,848,118	10,470,562
Reciprocal Service	52,914,304	49,175,662
Act 808	2,725,690	2,874,444
Refunds	9,455,405	10,874,003
Active Member Death	304,927	474,719
T-DROP Benefits	44,827,681	42,969,143
CBA Benefits	11,297,546	9,735,670
CASH Benefit Program	11,010,987	4,260,278
Investment Expense	50,242,703	43,461,569
Administrative Expense	9,336,430	7,825,594
Total Deductions	1,229,772,776	1,155,113,523
Miscellaneous	-	-
Net Market Value June 30	\$ 17,492,627,740	\$ 16,284,808,245

Schedule of Funding Progress (Dollar amounts in Millions)

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Entry Age AAL	(3) UAAL (2)-(1)	(4) Funding Ratio (1)/(2)	(5) Annual Payroll	Liabilities as a % of Payroll		
						Unfunded (3)/(5)	Funded (1)/(5)	Total (2)/(5)
1999+	\$ 6,740	\$ 6,834	\$ 94	98.6%	\$ 1,429	6.6%	471.6%	478.2%
2000+	7,620	7,879	259	96.7%	1,485	17.4%	513.2%	530.6%
2001+	8,166	8,561	395	95.4%	1,557	25.4%	524.4%	549.8%
2002*	8,328	9,062	734	91.9%	1,628	45.1%	511.5%	556.6%
2003+	8,113	9,445	1,332	85.9%	1,683	79.1%	482.1%	561.2%
2004	8,424	10,050	1,626	83.8%	1,748	93.0%	481.9%	574.9%
2005	8,817	10,973	2,156	80.4%	1,962	109.9%	449.4%	559.3%
2006	9,332	11,623	2,291	80.3%	2,080	110.1%	448.7%	558.8%
2007+	10,519	12,329	1,810	85.3%	2,191	82.6%	480.1%	562.7%
2008+	11,319	13,334	2,015	84.9%	2,268	88.8%	499.1%	587.9%
2009	10,617	14,019	3,402	75.7%	2,318	146.8%	458.0%	604.8%
2010+	10,845	14,697	3,852	73.8%	2,381	161.8%	455.5%	617.3%
2011+*	11,146	15,521	4,375	71.8%	2,728	160.4%	408.6%	569.0%
2012	11,484	16,139	4,655	71.2%	2,714	171.5%	423.2%	594.7%
2013+*	12,247	16,718	4,471	73.3%	2,727	164.0%	449.1%	613.1%
2014	13,375	17,310	3,935	77.3%	2,758	142.7%	484.9%	627.6%
2015	14,434	18,136	3,702	79.6%	2,777	133.3%	519.8%	653.1%
2016	15,239	18,812	3,573	81.0%	2,785	128.3%	547.2%	675.5%
2017+*	16,131	20,298	4,167	79.5%	2,814	148.1%	573.2%	721.3%
2018	16,756	20,935	4,179	80.0%	2,872	145.5%	583.4%	728.9%

+ Legislated benefit or contribution rate change.

* Revised actuarial assumptions.

A system with a high ratio of assets or liabilities to payroll will tend to experience more volatility than a system with a lesser ratio, assuming a similar asset allocation.

Risks Associated With Measuring the Accrued Liability and Actuarially Determined Contribution

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns;
2. Asset/Liability mismatch – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. Longevity risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
6. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

Plan Maturity Measures

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures are discussed in the following pages. A historical summary of these plan maturity measures can be found on page D-11.

Funded Ratio

The Funded ratio is the most widely known measure of a plan's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and potentially to re-evaluate the assumed rate of return.

Ratio of Net Cash Flow to Market Value of Assets

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

Ratio of Unfunded Actuarial Accrued Liability to Payroll

The ratio of unfunded liability to payroll gives an indication of the plan sponsor's ability to actually pay off the unfunded liability. A value above approximately 300% or 400% may indicate difficulty in discharging the unfunded liability within a reasonable time frame.

Ratio of Actuarial Value of Assets to Payroll

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the actuarial value of assets is 2.0 times the payroll, a return on assets 5% different than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

Ratio of Actuarial Accrued Liability to Payroll

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time. Total AAL / Total Payroll is expected to grow as the System matures.

Plan Maturity Measures (Concluded)

Standard Deviation of Investment Return to Payroll

This measure illustrates the impact of a one standard deviation change in investment return as a percent of payroll. Investment return experience other than expected ultimately affects the employer contribution rates. The higher the ratio of this risk metric, the greater the expected volatility in employer contribution rates. Absent changes in investment policy, this metric is expected to increase as the assets grow to 100% of the AAL.

Additional Risk Assessment

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Risk Measures (Based on Market Value of Assets)

Valuation Date June 30	(1) Accrued Liabilities (AAL)	(2) Market Value of Assets	(3) Unfunded AAL (1)-(2)	(4) Valuation Payroll	(5) % Change in Payroll	(6) Funded Ratio (2)/(1)	(7) Annuitant Liabilities (AnnLiab)	(8) AnnLiab/AAL (7)/(1)	(9) Liability/Payroll (1)/(4)	(10) Assets/Payroll (2)/(4)	(11) Est. Portfolio Std. Dev.	(12) Std. Dev. % of Pay (10)x(11)	(13) Unfunded/Payroll (3)/(4)	(14) Net External Cash Flow (NECF)	(15) NECF/Assets (9)/(2)	(16) Portfolio Rate of Return	(17) 10-year Trailing Average
2008#	\$ 13,334	\$ 11,018	\$ 2,316	\$ 2,268	3.5%	82.6%	\$ 5,544	41.6%	587.9%	485.8%			102.1%	\$ (135)	-1.2%	-4.2%	
2009	14,019	8,847	5,172	2,318	2.2%	63.1%	6,041	43.1%	604.8%	381.7%			223.1%	(172)	-1.9%	-18.3%	
2010#	14,697	9,884	4,813	2,381	2.7%	67.2%	6,516	44.3%	617.3%	415.1%			202.2%	(203)	-2.1%	14.2%	3.6%
2011#*	15,521	11,895	3,626	2,728	14.6%	76.6%	7,132	46.0%	569.0%	436.1%			132.9%	(201)	-1.7%	22.6%	6.1%
2012	16,139	11,484	4,655	2,714	-0.5%	71.2%	7,649	47.4%	594.7%	423.2%			171.5%	(285)	-2.5%	-1.1%	6.6%
2013#	16,718	12,830	3,888	2,727	0.5%	76.7%	8,181	48.9%	613.1%	470.5%			142.6%	(337)	-2.6%	14.9%	8.0%
2014	17,310	14,856	2,454	2,758	1.1%	85.8%	8,777	50.7%	627.6%	538.6%			89.0%	(395)	-2.7%	19.2%	8.2%
2015	18,136	15,036	3,100	2,777	0.7%	82.9%	9,778	53.9%	653.1%	541.5%			111.6%	(445)	-3.0%	4.3%	7.7%
2016	18,812	14,559	4,253	2,785	0.3%	77.4%	10,430	55.4%	675.5%	522.8%			152.7%	(505)	-3.5%	0.2%	6.3%
2017#*	20,298	16,285	4,013	2,814	1.0%	80.2%	11,337	55.9%	721.3%	578.7%			142.6%	(556)	-3.4%	16.0%	6.0%
2018	20,935	17,493	3,442	2,872	2.1%	83.6%	11,851	56.6%	728.9%	609.0%	12.7%	77.3%	119.9%	(607)	-3.5%	11.4%	7.6%

(*) ATRS had experience studies in these years leading to a change or "true up" in actuarial assumptions. A pattern of periodic studies is a sign of a well-run system and suggests the extent to which the liability measures the actuary provides are likely to be realistic.

(#) ATRS had benefit changes in these years. Benefit increases cause liabilities to rise; benefit decreases cause liabilities to fall. In either case benefit changes affect the year by year comparability of the measures on this page.

(6). The Funded ratio is the most widely known measure of a plan's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and potentially to re-evaluate the assumed rate of return.

(9) and (10) The ratios of liabilities and assets to payroll gives an indication of both maturity and volatility. Many systems have values between 500% and 700%. Values significantly above that range may indicate difficulty in supporting the benefit level as a level % of payroll.

(13) The ratio of unfunded liability to payroll gives an indication of the plan sponsor's ability to actually pay off the unfunded liability. A value above approximately 300% or 400% may indicate difficulty in discharging the unfunded liability within a reasonable time frame.

(14) and (15) The ratio of Net External Cash Flow to assets is an important measure of sustainability. Negative ratios are common and expected for a maturing system. In the longer term, this ratio should be on the order of approximately -4%. A ratio that is significantly more negative than that for an extended period could be a leading indicator of potential exhaustion of assets.

(16) and (17) Investment return is probably the largest single risk that most systems face. The year by year return and the 10-year geometric average give an indicator of the realism of the systems assumed return. The averages are of course distorted by the extraordinary events of 2008.

SECTION E

COVERED MEMBER DATA

Active Members in Valuation June 30, 2018
by Attained Age and Years of Service
(Excludes T-Drop and Rehired Retirees)

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	796							796	\$ 1,641,716
20-24	2,055	12						2,067	44,683,576
25-29	4,895	1,137	8					6,040	210,874,340
30-34	3,282	3,276	854	7				7,419	278,283,628
35-39	2,979	2,188	2,969	668	6			8,810	350,491,479
40-44	2,348	1,961	2,084	2,304	565	1		9,263	394,466,956
45-49	1,947	1,772	2,023	1,826	2,178	502		10,248	454,608,348
50-54	1,606	1,193	1,660	1,503	1,509	1,363	53	8,887	371,657,107
55-59	1,337	1,072	1,345	1,391	1,400	994	90	7,629	288,691,092
60	213	183	248	231	263	198	13	1,349	52,005,402
61	224	177	179	189	212	193	18	1,192	43,736,681
62	235	168	173	187	195	152	10	1,120	41,701,151
63	160	137	136	139	126	116	8	822	29,259,758
64	158	113	148	103	78	104	18	722	24,811,409
65	108	121	98	76	77	84	11	575	20,247,106
66	111	73	66	26	26	16	10	328	8,984,667
67	105	64	44	16	12	7	5	253	5,860,464
68	103	49	17	12	8	5		194	3,975,709
69	100	40	20	3	4		3	170	2,927,456
70 & Up	392	236	89	27	6	6	5	761	12,324,752
Totals	23,154	13,972	12,161	8,708	6,665	3,741	244	68,645	\$2,641,232,797

Group Averages:

Age: 44.2 years

Service: 10.2 years

WOMEN Active Members in Valuation June 30, 2018
by Attained Age and Years of Service
(Excludes T-Drop and Rehired Retirees)

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	266							266	\$ 738,600
20-24	1,535	3						1,538	35,098,063
25-29	3,717	849	4					4,570	156,083,068
30-34	2,562	2,476	683	3				5,724	206,723,865
35-39	2,463	1,688	2,304	517	4			6,976	264,640,681
40-44	1,890	1,568	1,649	1,808	430			7,345	297,271,187
45-49	1,475	1,441	1,692	1,500	1,680	421		8,209	347,808,445
50-54	1,167	886	1,400	1,285	1,211	1,044	37	7,030	280,554,050
55-59	920	769	1,048	1,180	1,196	815	72	6,000	220,059,227
60	136	130	194	190	231	174	12	1,067	40,439,325
61	145	117	130	149	171	159	15	886	31,646,111
62	141	116	131	151	166	140	6	851	31,166,501
63	100	83	92	105	97	103	6	586	20,336,218
64	97	64	116	73	59	91	15	515	17,551,440
65	57	83	68	60	67	69	9	413	14,698,584
66	55	45	46	19	22	16	8	211	6,086,999
67	49	41	29	14	10	6	3	152	3,432,286
68	56	30	11	9	6	5		117	2,562,072
69	57	17	11	3	2		2	92	1,498,543
70 & Up	185	110	49	18	5	4	5	376	5,996,661
Totals	17,073	10,516	9,657	7,084	5,357	3,047	190	52,924	\$ 1,984,391,926

Group Averages:

Age: 44.2 years

Service: 10.5 years

MEN Active Members in Valuation June 30, 2018
by Attained Age and Years of Service
(Excludes T-Drop and Rehired Retirees)

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	530							530	\$ 903,116
20-24	520	9						529	9,585,513
25-29	1,178	288	4					1,470	54,791,272
30-34	720	800	171	4				1,695	71,559,763
35-39	516	500	665	151	2			1,834	85,850,798
40-44	458	393	435	496	135	1		1,918	97,195,769
45-49	472	331	331	326	498	81		2,039	106,799,903
50-54	439	307	260	218	298	319	16	1,857	91,103,057
55-59	417	303	297	211	204	179	18	1,629	68,631,865
60	77	53	54	41	32	24	1	282	11,566,077
61	79	60	49	40	41	34	3	306	12,090,570
62	94	52	42	36	29	12	4	269	10,534,650
63	60	54	44	34	29	13	2	236	8,923,540
64	61	49	32	30	19	13	3	207	7,259,969
65	51	38	30	16	10	15	2	162	5,548,522
66	56	28	20	7	4		2	117	2,897,668
67	56	23	15	2	2	1	2	101	2,428,178
68	47	19	6	3	2			77	1,413,637
69	43	23	9		2		1	78	1,428,913
70 & Up	207	126	40	9	1	2		385	6,328,091
Totals	6,081	3,456	2,504	1,624	1,308	694	54	15,721	\$ 656,840,871

Group Averages:

Age: 44.1 years

Service: 9.1 years

Summary of Active Members (Excludes T-Drop and Rehired Retirees)

	Teachers		Support		Total Active Members	
	No.	Valuation Payroll	No.	Valuation Payroll	No.	Valuation Payroll
Women	27,659	\$ 1,383,773,843	25,265	\$ 600,618,083	52,924	\$ 1,984,391,926
Men	7,804	445,225,606	7,917	211,615,265	15,721	656,840,871
All	35,463	\$ 1,828,999,449	33,182	\$ 812,233,348	68,645	\$ 2,641,232,797

	Teachers	Support	Total
Members Contributing Now	33,208	18,645	51,853
Members Not Contributing	2,255	14,537	16,792
All	35,463	33,182	68,645

June 30	Number	Group Averages			Active Member Payroll (\$ Millions)
		Age	Service	Annual Earnings	
2001	61,389	43.7	9.5	\$25,365	\$1,557
2002	62,011	43.8	9.4	26,254	1,628
2003	62,432	44.0	9.5	26,963	1,683
2004	63,185	44.2	9.5	27,660	1,748
2005	65,793	44.2	9.4	29,826	1,962
2006	67,710	44.3	9.3	30,714	2,080
2007	69,226	44.4	9.3	31,645	2,191
2008	70,172	44.5	9.4	32,319	2,268
2009	70,655	44.7	9.5	32,804	2,318
2010	72,208	44.7	9.7	32,980	2,381
2011	72,293	44.8	9.9	33,995	2,458
2012	71,195	45.0	10.1	34,362	2,446
2013	70,660	45.0	10.2	34,920	2,467
2014	70,225	44.7	10.2	35,673	2,505
2015	68,945	44.6	10.3	36,717	2,531
2016	68,368	44.4	10.2	37,235	2,546
2017	68,337	44.3	10.2	37,707	2,577
2018	68,645	44.2	10.2	38,477	2,641

Deferred Vested Members at June 30, 2018 by Attained Age

Age	Number	Estimated Annual Benefits	Contribution Balance
Below 40	1,818	\$ 10,052,437	\$ 24,759,396
40	253	1,547,234	3,741,618
41	238	1,561,296	3,939,802
42	278	1,709,499	3,799,489
43	281	1,751,072	3,998,100
44	323	1,919,185	4,065,227
45	287	1,825,790	4,013,846
46	349	1,982,159	3,978,554
47	416	2,534,638	4,957,470
48	370	2,215,289	4,343,438
49	388	2,413,356	4,457,601
50	424	2,281,585	3,730,739
51	444	2,494,368	4,724,835
52	451	2,405,484	4,225,854
53	546	3,010,309	5,209,371
54	549	2,838,701	5,156,930
55	514	3,053,402	5,172,277
56	552	3,021,614	5,368,090
57	557	3,240,925	6,658,682
58	546	3,199,266	6,217,905
59	628	3,626,220	6,864,829
60 & Up	2,262	7,100,148	12,809,781
Future Beneficiaries #	70	429,689	0
Totals	12,544	\$ 66,213,666	\$ 132,193,834

These are beneficiaries of deceased active members who are eligible for a pension at age 62.

An inactive member is no longer actively working but has sufficient service credit to qualify for a monthly benefit at retirement age.

All Members Participating in T-DROP at June 30, 2018 by Attained Age

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
48	1	\$ 39,640	\$ 38,485	\$ 39,527	\$ 117,787
49	3	53,896	52,116	61,406	164,009
50	25	482,983	466,276	587,931	1,444,023
51	68	1,353,177	1,302,938	1,746,351	4,011,310
52	126	2,625,447	2,497,705	4,649,416	7,860,198
53	188	4,047,840	3,815,309	8,566,574	11,963,168
54	248	5,315,726	4,933,298	14,494,958	15,533,123
55	292	6,401,600	5,870,075	20,664,136	18,390,471
56	342	7,759,495	6,997,377	30,916,347	21,760,491
57	350	7,891,752	6,961,454	38,038,412	21,559,777
58	342	8,074,721	7,134,688	43,547,686	21,803,112
59	336	7,619,836	6,911,780	49,046,310	21,429,459
60	341	7,105,729	6,846,717	51,377,392	21,324,487
61	288	5,377,825	5,508,891	42,274,838	17,310,885
62	238	4,461,788	4,822,780	35,571,578	14,982,613
63	171	2,675,497	3,295,450	27,620,876	10,334,093
64	146	2,361,362	2,800,363	22,863,277	9,176,128
65	92	1,337,471	1,819,153	16,624,092	5,553,826
66	44	678,681	812,509	6,695,701	2,598,894
67	23	476,999	423,100	2,865,569	1,377,152
68	11	140,339	178,605	1,904,818	732,477
69	7	152,191	146,055	904,411	471,452
70	7	154,729	129,626	1,169,786	443,520
71	6	109,757	131,761	1,488,311	432,786
76	1	1,507	1,277	11,376	62,442
Totals	3,696	\$ 76,699,988	\$ 73,897,788	\$ 423,731,079	\$ 230,837,683

A T-DROP member continues to work, but does not accrue retirement benefits. A reduced benefit is paid into the T-DROP account (see pages C-3 and C-4) during T-DROP participation. Deposits to T-DROP cease at 10 years of T-DROP participation. T-DROP participants may continue in covered employment after 10 years of participation, but do not accumulate additional service credit or make member contributions. ATRS receives full employer contributions on behalf of these people.

Active, TDROP and Return to Work Members as of June 30, 2018

June 30	Number				Total Payroll
	Active	TDROP	RTW	Total	\$Millions
2011	72,293	4,487	4,093	80,873	\$ 2,818
2012	71,195	4,432	4,001	79,628	2,803
2013	70,660	4,265	4,025	78,950	2,819
2014	70,225	4,127	3,845	78,197	2,851
2015	68,945	3,974	3,741	76,660	2,874
2016	68,368	3,864	3,829	76,061	2,888
2017	68,337	3,811	3,881	76,029	2,922
2018	68,645	3,696	4,029	76,370	2,986

The actuarial valuation assumes the number of working members will remain constant at the current level. In some recent years the total number of working members has decreased. A decreasing population means less contribution income for the Retirement System than expected and can lead to funding difficulties in extreme cases.

Annuities Being Paid Retirees and Beneficiaries July 1, 2018 by Type of Annuity Being Paid

Type of Annuity	No.	Annual Amounts		
		Original Annuities	Base Annuities	Current Annuities
RETIREMENT RESERVE ACCOUNT				
Age & Service				
Option 1 (Basic single life)	33,248	\$ 507,035,219	\$ 609,891,379	\$ 779,411,534
Option A (Joint & 100% Survivor)	5,209	87,829,685	102,597,702	130,749,149
Option B (Joint & 50% Survivor)	2,572	57,703,522	70,554,424	89,770,275
Option C (10-year certain)	659	10,422,882	10,938,995	13,569,429
Beneficiaries	1,117	19,257,602	18,802,728	24,724,384
Totals	42,805	682,248,910	812,785,228	1,038,224,771
Disability				
Option 1	2,310	23,267,757	26,107,177	33,897,320
Option A	371	4,030,545	4,132,034	5,280,156
Option B	81	1,110,180	1,215,283	1,557,452
Option C	29	248,561	232,361	307,643
Beneficiaries	287	3,143,953	3,406,530	4,591,965
Totals	3,078	31,800,996	35,093,385	45,634,536
Act 793	175	\$ 961,981	\$ 1,833,085	1,833,085
Totals	46,058	715,011,887	849,711,698	1,085,692,392
SURVIVOR'S BENEFIT ACCOUNT				
Beneficiaries of Deceased Members	716	\$ 7,571,527	\$ 8,687,570	\$ 11,042,074
OTHER ANNUITIES				
Act 808	50	924,310	2,613,552	2,613,552
RETIREMENT SYSTEM TOTALS				
Total Annuities Being Paid	46,824	\$ 723,507,724	\$ 861,012,820	\$ 1,099,348,018

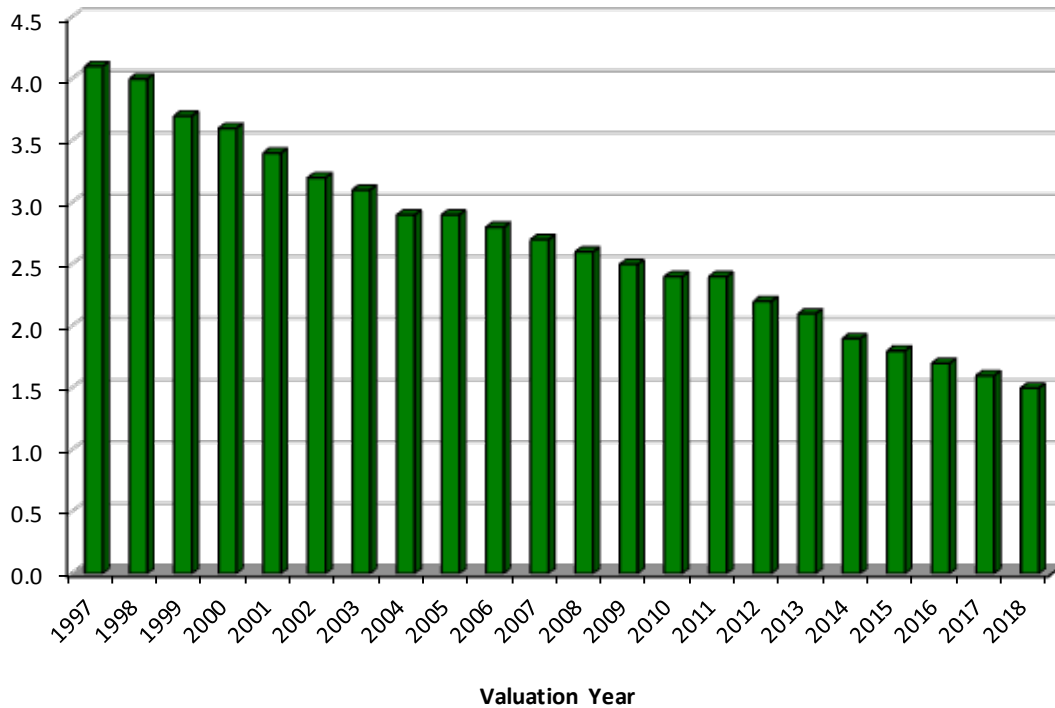
The Original Annuity is the annuity at the date of retirement.

The Base Annuity is the amount from which the 3.0% COLA is calculated.

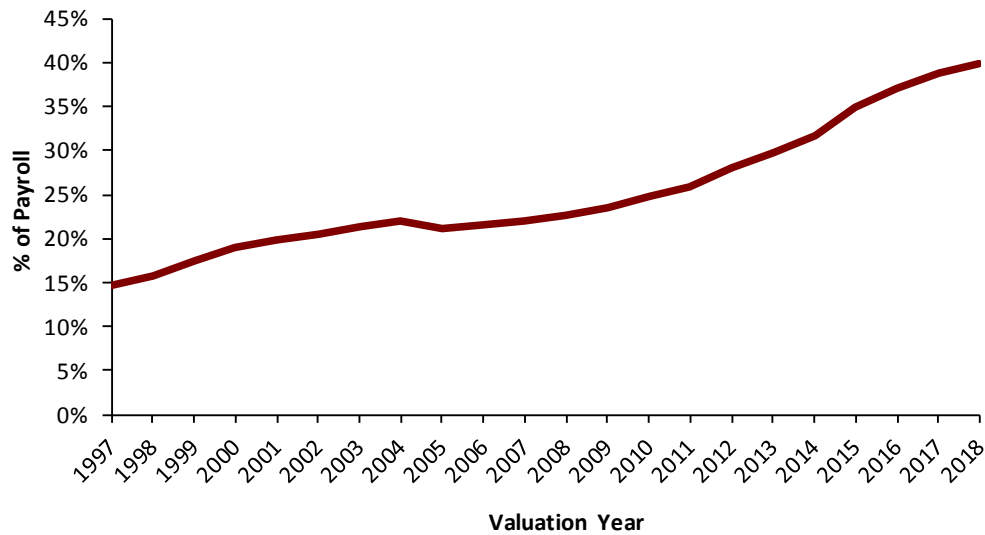
The Current Annuity is the annuity payable at July 1, 2018 (Includes July 1 COLA).

Historical Graphs

Active Members Per Retired Life *



Retirement Benefits Being Paid
as a Percent of Member Payroll *



* Beginning with the June 30, 2011 valuation, active members include T-DROP participants and payroll.

Benefit Changes During Recent Years of Retirement & Related Changes in Purchasing Power (1980 \$)

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				1980 \$	% of 1980
1980	\$ - - - -	\$ 5,000	- - - -	\$ 5,000	100%
1981	75	5,075	(9.6)%	4,632	93%
1982	152	5,227	(7.1)%	4,456	89%
1983	152	5,379	(2.6)%	4,471	89%
1984	431	5,810	(4.2)%	4,633	93%
1985	438	6,248	(3.7)%	4,802	96%
1986	509	6,757	(1.7)%	5,103	102%
1987	197	6,954	(3.7)%	5,067	101%
1988	400	7,354	(3.9)%	5,154	103%
1989	503	7,857	(5.1)%	5,236	105%
1990	497	8,354	(4.7)%	5,319	106%
1991	230	8,584	(4.7)%	5,220	104%
1992	762	9,346	(3.1)%	5,513	110%
1993	792	10,138	(3.0)%	5,806	116%
1994	820	10,958	(2.5)%	6,123	122%
1995	303	11,261	(3.0)%	6,107	122%
1996	303	11,564	(2.8)%	6,103	122%
1997	1,657	13,221	(2.3)%	6,821	136%
1998	1,214	14,435	(1.7)%	7,324	146%
1999	323	14,758	(2.0)%	7,344	147%
2000	1,039	15,797	(3.7)%	7,583	152%
2001	1,220	17,017	(3.2)%	7,907	158%
2002	672	17,689	(1.1)%	8,132	163%
2003	468	18,157	(2.1)%	8,174	163%
2004	468	18,625	(3.3)%	8,120	162%
2005	468	19,093	(2.5)%	8,118	162%
2006	468	19,561	(4.3)%	7,973	159%
2007	468	20,029	(2.7)%	7,950	159%
2008	468	20,497	(5.0)%	7,747	155%
2009	468	20,965	1.4 %	8,038	161%
2010	629	21,594	(1.1)%	8,193	164%
2011	648	22,242	(3.6)%	8,149	163%
2012	648	22,890	(1.7)%	8,249	165%
2013	648	23,538	(1.8)%	8,336	167%
2014	648	24,186	(2.1)%	8,392	168%
2015	648	24,834	(0.1)%	8,606	172%
2016	648	25,482	(1.0)%	8,744	175%
2017	648	26,130	(1.6)%	8,822	176%
2018	648	26,778	(2.9)%	8,788	176%

* The \$5,000 benefit used to begin this schedule is an arbitrary amount. A smaller beginning amount could show a smaller purchasing power loss in percent loss.

Based on Consumer Price Index, All Urban Consumers, United States City Average (June values).

Benefit Changes During Recent Years of Retirement & Related Changes in Purchasing Power (1990 \$)

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				1990 \$	% of 1990
1990	\$ - - - -	\$ 5,000	- - - -	\$ 5,000	100%
1991	150	5,150	(4.7)%	4,919	98%
1992	457	5,607	(3.1)%	5,195	104%
1993	475	6,082	(3.0)%	5,471	109%
1994	492	6,574	(2.5)%	5,770	115%
1995	182	6,756	(3.0)%	5,755	115%
1996	182	6,938	(2.8)%	5,751	115%
1997	330	7,268	(2.3)%	5,889	118%
1998	667	7,935	(1.7)%	6,324	126%
1999	177	8,112	(2.0)%	6,340	127%
2000	849	8,961	(3.7)%	6,756	135%
2001	826	9,787	(3.2)%	7,143	143%
2002	387	10,174	(1.1)%	7,346	147%
2003	270	10,444	(2.1)%	7,385	148%
2004	270	10,714	(3.3)%	7,337	147%
2005	270	10,984	(2.5)%	7,336	147%
2006	270	11,254	(4.3)%	7,205	144%
2007	270	11,524	(2.7)%	7,185	144%
2008	270	11,794	(5.0)%	7,002	140%
2009	270	12,064	1.4 %	7,265	145%
2010	362	12,426	(1.1)%	7,405	148%
2011	373	12,799	(3.6)%	7,366	147%
2012	373	13,171	(1.7)%	7,456	149%
2013	373	13,544	(1.8)%	7,535	151%
2014	373	13,917	(2.1)%	7,585	152%
2015	373	14,290	(0.1)%	7,779	156%
2016	373	14,663	(1.0)%	7,903	158%
2017	373	15,036	(1.6)%	7,974	159%
2018	373	15,409	(2.9)%	7,943	159%

* The \$5,000 benefit used to begin this schedule is an arbitrary amount. A smaller beginning amount could show a smaller purchasing power loss in percent loss.

Based on Consumer Price Index, All Urban Consumers, United States City Average (June values).

Benefit Changes During Recent Years of Retirement & Related Changes in Purchasing Power (2000 \$)

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				2000 \$	% of 2000
2000	\$ ----	\$ 5,900	----	\$ 5,900	100%
2001	177	6,077	(3.2)%	5,886	100%
2002	252	6,329	(1.1)%	6,065	103%
2003	179	6,508	(2.1)%	6,108	104%
2004	179	6,687	(3.3)%	6,078	103%
2005	179	6,867	(2.5)%	6,086	103%
2006	179	7,046	(4.3)%	5,987	101%
2007	179	7,225	(2.7)%	5,978	101%
2008	179	7,404	(5.0)%	5,834	99%
2009	179	7,583	1.4 %	6,061	103%
2010	228	7,811	(1.1)%	6,178	105%
2011	234	8,045	(3.6)%	6,145	104%
2012	234	8,280	(1.7)%	6,221	105%
2013	234	8,515	(1.8)%	6,287	107%
2014	234	8,749	(2.1)%	6,328	107%
2015	234	8,983	(0.1)%	6,490	110%
2016	234	9,217	(1.0)%	6,593	112%
2017	234	9,451	(1.6)%	6,652	113%
2018	234	9,685	(2.9)%	6,626	112%

* The \$5,900 benefit used to begin this schedule is an arbitrary amount. A smaller beginning amount could show a smaller purchasing power loss in percent loss.

Based on Consumer Price Index, All Urban Consumers, United States City Average (June values).

Benefit Changes During Recent Years of Retirement & Related Changes in Purchasing Power (2010 \$)

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				2010 \$	% of 2010
2010	\$ ----	\$ 5,900	----	\$ 5,900	100%
2011	177	6,077	(3.6)%	5,868	99%
2012	177	6,254	(1.7)%	5,940	101%
2013	177	6,431	(1.8)%	6,003	102%
2014	177	6,608	(2.1)%	6,043	102%
2015	177	6,785	(0.1)%	6,197	105%
2016	177	6,962	(1.0)%	6,296	107%
2017	177	7,139	(1.6)%	6,352	108%
2018	177	7,316	(2.9)%	6,328	107%

* The \$5,900 benefit used to begin this schedule is an arbitrary amount. A smaller beginning amount could show a smaller purchasing power loss in percent loss.

Based on Consumer Price Index, All Urban Consumers, United States City Average (June values).

SECTION F

FINANCIAL PRINCIPLES

Financial Principles and Operational Techniques

Promises Made and To Be Paid For. As each year is completed, the System, in effect, hands an “IOU” to each member then acquiring a year of service credit. The “IOU” says: “The Arkansas Teacher Retirement System owes you one year’s worth of retirement benefits, payments in cash commencing when you qualify for retirement.”

The related **key financial questions** are:

Which generation of taxpayers contributes the money to cover the IOU?

The present taxpayers, who receive the benefit of the member’s present year of service?

Or the future taxpayers, who happen to be in Arkansas at the time the IOU becomes a cash demand?

The financial objective of the ATRS is that this year’s taxpayers contribute the money to cover the IOUs being handed out this year so that **the employer contribution rate will remain approximately level from generation to generation** -- our children and our grandchildren will not have to contribute greater percents of pay than we contribute now. This objective was set forth in Act 793 of 1977.

(There are systems which have **a design for deferring contributions to future taxpayers**, lured by a lower contribution rate now and putting aside the fact that the contribution rate must then relentlessly grow much greater over decades of time -- consume now, and let your children face higher contribution rates after you retire.)

An inevitable byproduct of the level-cost design is the accumulation of reserve assets for decades and the income produced when the assets are invested. **Investment income** becomes the **third and largest contributor** for benefits to employees, and is interlocked with the contribution amounts required from employees and employers.

Translated to actuarial terminology, this level-cost objective means that the contribution rates must total at least the following:

Normal Cost (the cost of members’ service being rendered this year)

... plus ...

Interest on Unfunded Actuarial Accrued Liabilities (unfunded accrued liabilities are the difference between (i) liabilities for service already rendered and (ii) the accrued assets of the plan).

Computing Contributions to Support System Benefits. From a given schedule of benefits and from the employee data and asset data furnished, the actuary determines the contribution rates to support the benefits, by means of **an actuarial valuation**. An actuarial valuation has a number of ingredients such as: the rate of investment income which plan assets will earn; the rates of withdrawal of active members who leave covered employment before qualifying for any monthly benefit; the rates of mortality; the rates of disability; the rates of pay increases; and the assumed age or ages at actual retirement. In an actuarial valuation, assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the System can indicate the degree of accuracy of the assumptions.

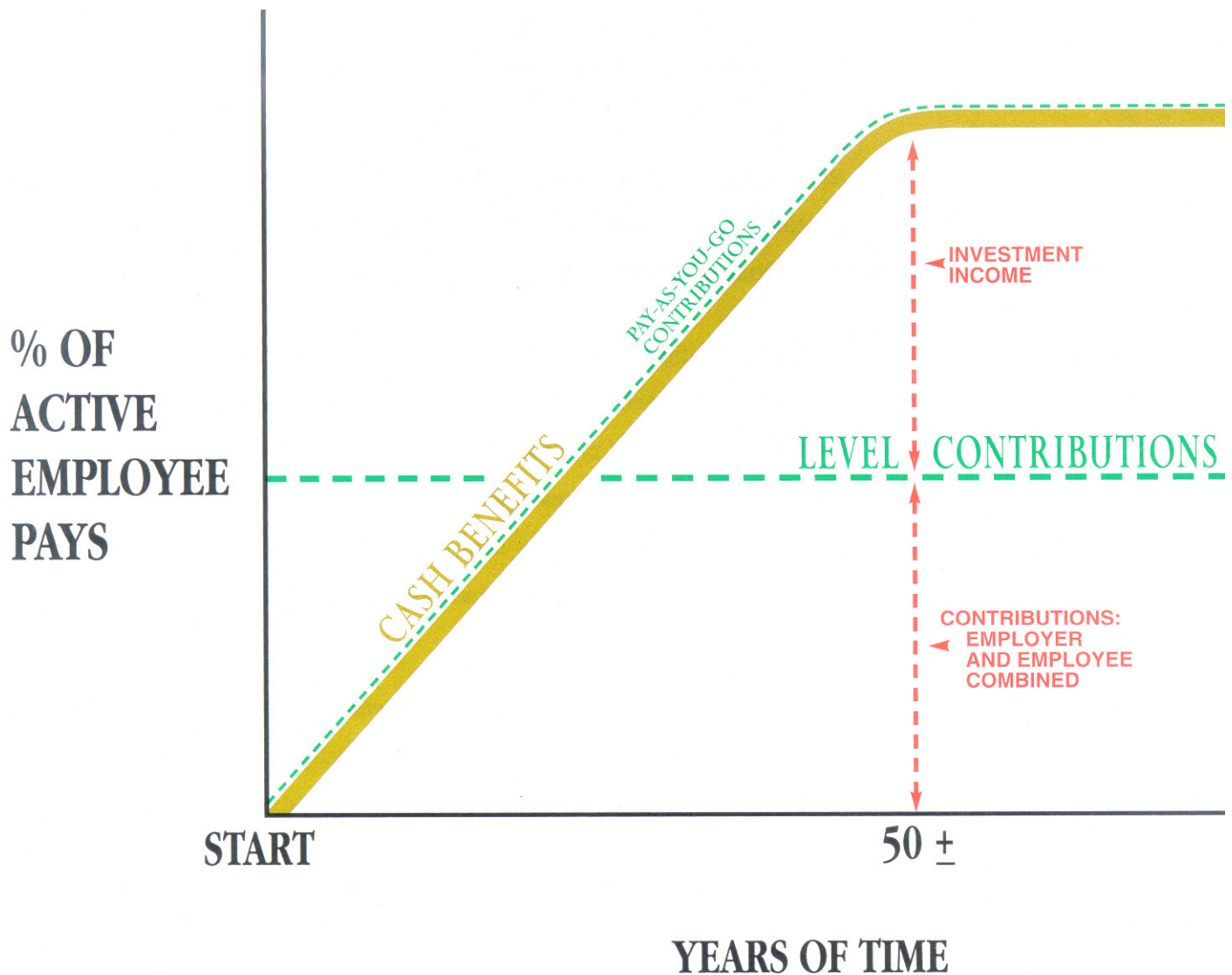
Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the accuracy of the various financial assumptions or the skill of the actuary and the precision of the calculations made. The System copes with these continually changing differences by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continual adjustments in financial position.

The Actuarial Valuation Process

The financing diagram on the next page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program), and is thus an **increasing contribution method**; and the **level contribution method** which equalizes contributions between the generations.

The actuarial valuation is the mathematical process by which the level contribution rate is determined, and the flow of activity constituting the valuation may be summarized as follows:

- A. **Census Data**, furnished by plan administrator
 - Retired lives now receiving benefits
 - Former employees with vested benefits not yet payable
 - Active employees
- B. + **Asset data** (cash & investments), furnished by plan administrator
- C. + **Benefit provisions** that establish eligibility and amounts of payments to members
- D. + **Assumptions concerning future financial experiences in various risk areas**, which assumptions are established by the Board of Trustees after consulting with the actuary.
- E. + **The funding method** for employer contributions (the long-term planned pattern for employer contributions)
- F. + **Mathematically combining the assumptions, the funding method, and the data**
- G. = Determination of:
 - Plan financial position**, and/or
 - New Employer Contribution Rate**



CASH BENEFITS LINE. This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

LEVEL CONTRIBUTION LINE. Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

Economic Risk Areas

- Rates of investment return
- Rates of pay increase
- Changes in active member group size

Non-Economic Risk Areas

- Ages at actual retirement
- Rates of mortality
- Rates of withdrawal of active members (turnover)
- Rates of disability

SECTION G

ACTUARIAL ASSUMPTIONS

Selection of Assumptions Used in Actuarial Valuations

Economic Assumptions

Investment return

Pay increases to individual employees:
the portion for economic changes

Active member group size and
total payroll growth

Demographic Assumptions

Actual ages at service retirement

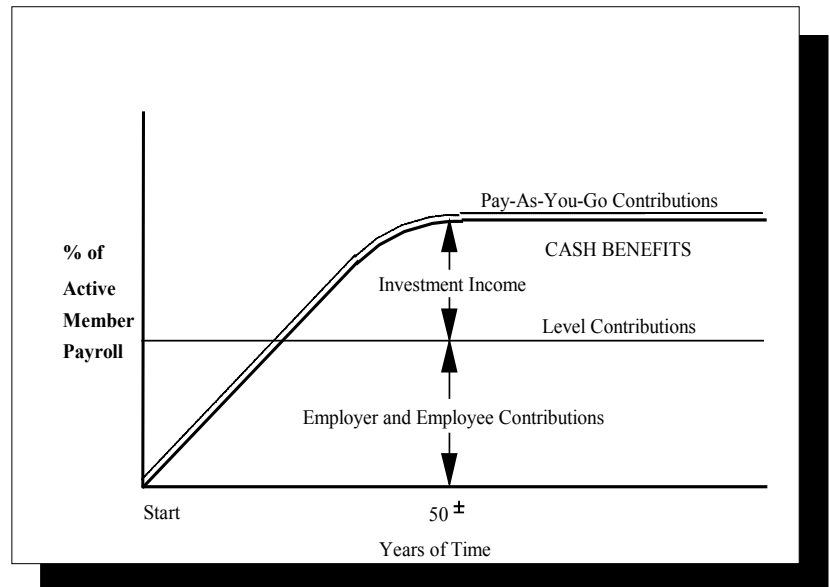
Pay increases to individual members:
the portion for merit & seniority

Disability while actively employed

Separations before retirement

Mortality after retirement

Mortality before retirement



Relationship Between Plan Governing Body and the Actuary

The actuary should have the primary responsibility for choosing the **demographic** assumptions used in the actuarial valuation, making use of specialized training and experience.

The actuary and other professionals can provide guidance concerning the choice of suitable economic assumptions, but the basis of the economic assumptions is the assumed rate of **inflation**, a quantity which defies accurate prediction. Given an assumed rate of future inflation, it is very important that this rate be applied in a consistent manner in deriving the assumed rate of investment return, the economic portion of the assumption on pay increases to individual employees, and the assumed rate of growth of active member payroll. Consistent application of assumptions is an area in which the actuary has specialized training.

Summary of Assumptions Used in Actuarial Valuations for the Arkansas Teacher Retirement System Assumptions Adopted by Board of Trustees After Consulting with Actuary

The rationale for the assumptions is the July 1, 2010 through June 30, 2015 5-Year Experience Study.

Economic Assumptions

The **price inflation** assumption is 2.50% although no specific Price Inflation is needed for this valuation. It is assumed that the 3% COLA will always be paid.

The **wage inflation** assumption is 2.75%. This consists of 2.50% related to pure price inflation and 0.25% related to general economic improvements.

The investment return rate used in the valuation was 7.50% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return over wage inflation in this valuation is defined to be the portion of investment return which is more than the wage inflation rate. Considering wage inflation recognition of 2.75%, the 7.50% rate translates to an assumed real rate of return over wage inflation of 4.75%. This rate was first used for the **June 30, 2017** valuation. The assumed real rate of return over price inflation is 5%.

Pay increase assumptions for individual active members are shown on pages G-7 and G-8. Part of the assumption for each age is for a merit and/or seniority increase, and the other 2.75% recognizes wage inflation. These rates were first used for the **June 30, 2017** valuation.

The Active Member Group size is assumed to remain constant at its present level.

Total active member payroll is assumed to increase 2.75% per year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the **June 30, 2017** valuation.

Non-Economic Assumptions

The mortality tables used were the RP-2014 Healthy Annuitant, Disabled Annuitant and Employee Mortality headcount weighted tables for males and females. Mortality rates were adjusted for future mortality improvements using projection scale MP-2017 from 2006. Related values are shown on page G-4. These tables were first used for the **June 30, 2017** valuation.

A limited fluctuation credibility procedure was used to determine the appropriate scaling factor of each gender and each member classification (see the 2010-2015 Experience Study), and are shown below:

	Scaling Factor
Healthy Male Retirees	101%
Healthy Female Retirees	91%
Disabled Male Retirees	99%
Disabled Female Retirees	107%
Male Active Members	94%
Female Active Members	84%

The probabilities of retirement for members eligible to retire are shown on pages G-5 and G-6. The rates for full retirement and reduced retirement were first used in the **June 30, 2017** valuation.

The probabilities of withdrawal from service, death-in-service and disability are shown for sample ages on pages G-7 and G-8. These rates were first used in the **June 30, 2017** valuation.

The entry age actuarial cost method of valuation was used in determining accrued liabilities and normal cost.

Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (the total of principal & interest) which are level percents of payroll contributions.

These cost methods were first used in the June 30, 1986 valuation.

Asset Valuation Method. A market value related asset method is used as described on page D-1. This method was first used in the June 30, 1995 valuation. It was modified following the 1997-2002 Experience Study to include an 80% - 120% market value corridor.

The data about persons now covered and about present assets was furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date. Members whose salaries were not supplied and that entered T-DROP were assumed to have the group average pay of those with salary data as of the valuation date that entered T-DROP.

Single Life Retirement Values

Sample Attained Ages in 2018*	Present Value of \$1.00 Monthly for Life		Present Value of \$1 Monthly for Life Increasing 3.0% Annually		Future Life Expectancy (years)		Percent Dying within Next Year	
	Men	Women	Men	Women	Men	Women	Men	Women
40	\$150.70	\$154.16	\$198.53	\$205.02	42.55	46.81	0.33 %	0.28 %
45	146.72	151.37	191.06	199.33	37.75	42.00	0.41 %	0.32 %
50	141.50	147.46	181.73	191.81	33.05	37.19	0.54 %	0.36 %
55	134.83	142.03	170.34	182.02	28.47	32.40	0.72 %	0.45 %
60	126.51	134.97	156.83	169.92	24.07	27.73	0.98 %	0.60 %
65	116.42	125.90	141.21	155.25	19.93	23.22	1.37 %	0.82 %
70	104.16	114.26	123.29	137.59	16.02	18.87	1.98 %	1.25 %
75	89.58	100.14	103.25	117.45	12.39	14.82	3.10 %	2.07 %
80	73.44	84.12	82.32	95.94	9.18	11.19	5.15 %	3.51 %
85	57.20	67.26	62.43	74.61	6.53	8.11	8.83 %	6.16 %
Base	2635 x 1.01	2636 x 0.91	2635 x 1.01	2636 x 0.91				
Projection	939	940	939	940				

* Applicable to calendar year 2018. Rates and life expectancies in future years are determined by the MP-2017 projection scale.

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100.00	100%	100%
65	115.00	95%	97%
70	130.00	88%	92%
75	145.00	78%	86%
80	160.00	66%	77%
Ref		2635 x 1.01	2636 x 0.91

Probabilities of Retirement for Members

Retirement Ages	% of Active Participants Retiring with Unreduced Benefits			
	Education		Support	
	Male	Female	Male	Female
48	8%	7%	8%	6%
49	8%	7%	8%	6%
50	8%	7%	8%	6%
51	8%	7%	8%	6%
52	8%	7%	8%	6%
53	8%	7%	8%	6%
54	8%	7%	8%	6%
55	8%	9%	8%	6%
56	8%	9%	8%	6%
57	8%	11%	8%	11%
58	8%	11%	8%	11%
59	17%	14%	8%	15%
60	17%	17%	13%	13%
61	24%	17%	13%	15%
62	24%	29%	28%	23%
63	27%	26%	25%	19%
64	27%	24%	25%	23%
65	54%	50%	47%	50%
66	54%	53%	47%	44%
67	54%	39%	47%	38%
68	54%	39%	47%	38%
69	54%	39%	47%	38%
70	54%	39%	47%	38%
71	54%	39%	47%	38%
72	54%	39%	47%	38%
73	54%	39%	47%	38%
74	54%	39%	47%	38%
75	100%	100%	100%	100%
Ref	2634	2635	2636	2637

These rates are based upon data presented in the 2010-2015 experience study and were first used in the 2017 valuation.

Probabilities of Reduced Retirement for Members

Retirement Ages	% of Active Participants Retiring with Reduced Benefits			
	Education		Support	
	Male	Female	Male	Female
50	1.5%	1.0%	0.5%	1.5%
51	1.5%	1.0%	1.0%	1.5%
52	1.5%	1.5%	1.5%	2.0%
53	1.5%	2.0%	2.0%	2.0%
54	2.0%	2.0%	2.5%	2.0%
55	2.5%	2.5%	3.0%	2.0%
56	3.0%	2.5%	3.5%	2.0%
57	5.0%	2.5%	4.5%	2.5%
58	5.0%	2.5%	4.5%	2.5%
59	3.5%	2.5%	4.5%	2.5%
Ref	2640	2638	2641	2639

These are 50% of the rates presented in the 2010-2015 experience study and were first used in the 2017 valuation. These rates anticipate reduced election of early retirement due to the increase in the early retirement reduction from 5% to 10%.

Duration of T-DROP for Members

Present T-DROP members are assumed to remain in T-DROP according to the following table:

Entry Age	Assumed Duration Years
50-56	7
57	6
58	5
59+	4

Teachers

Separations From Active Employment Before Age and Service Retirement & Individual Pay Increases

Sample Ages in 2018*	Percent of Active Members Separating within the Next Year						
	Service	Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					17.80%	12.60%
	1					13.10%	11.10%
	2					12.10%	10.10%
	3					8.60%	8.70%
	4					5.70%	6.50%
25	5 & Up	0.06%	0.02%	0.03%	0.03%	4.50%	5.40%
30		0.06%	0.02%	0.03%	0.03%	3.60%	4.30%
35		0.07%	0.03%	0.03%	0.04%	2.70%	2.90%
40		0.08%	0.05%	0.05%	0.09%	2.00%	2.00%
45		0.12%	0.07%	0.16%	0.19%	1.60%	1.60%
50		0.20%	0.11%	0.40%	0.43%	1.30%	1.40%
55		0.33%	0.19%	0.86%	0.73%	1.10%	1.20%
60		0.56%	0.28%	1.15%	1.00%	0.90%	1.00%
65		0.97%	0.39%	1.15%	1.00%	0.70%	0.80%
Ref:		2633 x 0.94	2634 x 0.84	747 x 1	748 x 1	1029 1381	1030 1382

* Applicable to calendar year 2018. Rates and life expectancies in future years are determined by the MP-2017 projection scale.

Age	Pay Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	5.00%	2.75%	7.75%
25	2.90%	2.75%	5.65%
30	2.40%	2.75%	5.15%
35	1.90%	2.75%	4.65%
40	1.40%	2.75%	4.15%
45	0.70%	2.75%	3.45%
50	0.30%	2.75%	3.05%
55	0.00%	2.75%	2.75%
60	0.00%	2.75%	2.75%
65	0.00%	2.75%	2.75%
Ref:	472		

Support Employees

Separations From Active Employment Before Age and Service Retirement & Individual Pay Increases

Sample Ages in 2018*	Percent of Active Members Separating within the Next Year						
	Service	Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					49.90%	47.50%
	1					30.10%	28.30%
	2					19.40%	19.10%
	3					15.30%	14.90%
	4					11.80%	12.10%
25	5 & Up	0.06%	0.02%	0.03%	0.02%	9.20%	9.70%
30		0.06%	0.02%	0.09%	0.04%	7.30%	6.90%
35		0.07%	0.03%	0.09%	0.05%	5.60%	5.00%
40		0.08%	0.05%	0.10%	0.07%	4.50%	4.40%
45		0.12%	0.07%	0.22%	0.16%	3.70%	4.00%
50		0.20%	0.11%	0.51%	0.34%	3.30%	3.60%
55		0.33%	0.19%	0.86%	0.59%	3.30%	3.30%
60		0.56%	0.28%	1.11%	0.76%	3.30%	2.80%
65		0.97%	0.39%	1.11%	0.80%	2.80%	2.10%
Ref:		2633 x 0.94	2634 x 0.84	749 x 1	750 x 1	1031 1383	1032 1384

* Applicable to calendar year 2018. Rates and life expectancies in future years are determined by the MP-2017 projection scale.

Age	Pay Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	5.00%	2.75%	7.75%
25	3.75%	2.75%	6.50%
30	2.60%	2.75%	5.35%
35	2.40%	2.75%	5.15%
40	2.10%	2.75%	4.85%
45	1.00%	2.75%	3.75%
50	0.50%	2.75%	3.25%
55	0.00%	2.75%	2.75%
60	0.00%	2.75%	2.75%
65	0.00%	2.75%	2.75%
Ref:	473		

Miscellaneous and Technical Assumptions

June 30, 2018

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements are assumed to occur mid-year, with the exception of normal and early retirement, which are assumed to occur at the beginning of the year. This implies that people who worked the entire school year are reported as active members even if they retired at the end of the year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and the service nearest whole year on the date of the valuation.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability does not operate during the first 5 years of service. Disability and turnover do not operate during retirement eligibility.
Normal Form of Benefit:	The assumed normal form of benefit is the straight life form.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made. The payroll used for this purpose is payroll for all active members plus payroll for members in the T-DROP and retirees who returned to work.
Liability Adjustments	For simplicity, retiree benefits (not applicable to Act 793 & Act 808 retirees) were modeled assuming a stipend reduction from \$75 to \$50 per month and removal of the stipend from the base benefit (from which the simple COLA is determined) effective as of the valuation date. The actual effective dates are Fiscal Years 2020 and 2019, respectively. This model produced a liability of \$11,728,317,377. An additional liability of \$13,979,700 was estimated to account for the later effective dates. This liability is included with Option 1 Straight Life) on page B-4.

Miscellaneous and Technical Assumptions

June 30, 2018

Data Adjustments:

Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date.

Members whose salaries were not supplied and that entered the T-DROP were assumed to have the group average pay of those with salary data as of the valuation that entered the T-DROP.

SECTION H

GLOSSARY

Glossary

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Accumulated Benefit Obligation. The actuarial present value of vested and non-vested benefits based on service to date and past and current salary levels.

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial Present Value of Credited Projected Benefits or Pension Benefit Obligation. The present value of future benefits based on service to date and the effect projected salary increases.

Actuary. A person who is trained in the applications of probability and compound interest to solve problems in business and finance that involve payment of money in the future, contingent upon the occurrence of future events. Most actuaries in the United States are Members of the American Academy of Actuaries. The Society of Actuaries is an international research, education and membership organization for actuaries in the life and health insurance, employee benefits, and pension fields. It administers a series of examinations leading initially to Associateship and the designation A.S.A. and ultimately to Fellowship with the designation F.S.A. The federal government certifies actuaries to practice under ERISA with the designation of E.A.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Glossary

Experience Gain (Loss). A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Plan Termination Liability. The actuarial present value of future plan benefits based on the assumption that there will be no further accruals for future service and salary. The termination liability will generally be less than the liabilities computed on a “going concern” basis and is not normally determined in a routine actuarial valuation.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

Valuation Assets. The value of current plan assets recognized for valuation purposes. Generally based on book value plus a portion of unrealized appreciation or depreciation.

November 19, 2018

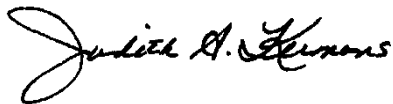
Mr. Clint Roden
Executive Director
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Re: Report of June 30, 2018 Actuarial Valuation of Active and Inactive Members

Dear Mr. Roden

Enclosed are 15 copies of the report. If you need anything else, please call.

Sincerely,



Judith A. Kermans, EA, FCA, MAAA

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Enclosures

