ARKANSAS TEACHER RETIREMENT SYSTEM

Enabling Laws

Act 1418 of 2007
A.C.A. §24-7-101 et seq.

History and Organization

MISSION:
The Arkansas Teacher Retirement System (ATRS) is a cost sharing, multiple-employer, combination contributory/non-contributory defined benefit pension plan. ATRS provides age and service retirement benefits, Teacher Deferred Retirement Option Plan benefits, disability retirement benefits, survivor benefits, and lump sum death benefits for public school teachers and other educationally related employees as defined by Act 427 of 1973, as amended. ATRS is committed to providing high quality member services (including education and counseling), effectively and prudently managing the investment of the assets of the System, and making accurate and timely benefit payments to retired members or beneficiaries.

As of June 30, 2007, ATRS had 69,226 active members; 24,153 retired members and beneficiaries receiving benefits; 4,709 T-DROP participants; and 10,689 terminated plan members entitled to but not yet receiving benefits. The monthly benefits payroll averaged $40,979,784. The System had 344 participating employers. As of June 30, 2005, total assets had risen to over $13,000,000,000 with net assets available for benefits of over $11,600,000,000. The System's revenue sources consist of employer and employee contributions and investment earnings.

HISTORY OF THE AGENCY:
The Teacher Retirement System of the State of Arkansas was established by authority of the Arkansas General Assembly on March 17, 1937 pursuant to Act 266 of 1937. Numerous changes were made to the teacher retirement laws over the next 20 years. Act 93 of 1957 combined the existing laws and made further refinements. Act 93 of 1957 was superceded by Act 42 of 1971, which included the changes made since 1957. The teacher retirement laws were rewritten in entirety by Act 427 of 1973. Subsequent changes have been made in the form of amendments to Act 427. Statutes covering the Teacher Retirement System are primarily located in Title 24 of the Arkansas Code, particularly Chapter 7.

Act 541 of 1977 placed the system on the level-percent of payroll funding method and for the first time provided that the employer contribution rate is determined by the most recent actuarial valuation of the System. Act 472 of 1989 exercized the General Assembly's perogative to set the employer contribution rate. Act 340 of 2003 authorized the ATRS Board of Trustees to set the employer contribution rate beginning July 1, 2003 subject to legislative maximums. The current employer contribution rate is set at 14% of active member payroll.

Act 776 of 1979 provided for an alternate benefit formula multiplier of 1.125% of the final average salary times total years of service. Act 435 of 1981 increased the multiplier to 1.4% and Act 127 of 1983 increased it to 1.5% effective July 1, 1983, and to 1.59% effective July 1, 1984. Act 802 of 1987 increased the contributory multiplier of 1.59% to 1.65% effective July 1, 1987, to 1.70% effective July 1, 1988, and to 1.75% effective July 1, 1989. This act also set the multiplier for non-contributory service for the same effective dates at 1.0%, 1.0378%, 1.07% and 1.10% respectively. Act 44 of 1991 increased the 1.75% contributory multiplier to 1.85% effective July 1, 1991, 1.95% effective July 1, 1992, and provided certain financial conditions were met, to 2.05% effective July 1, 1993. This act also set the non-contributory multiplier for the same effective dates at 1.17%, 1.23% and 1.29% respectively. Act 992 of 1997 again increased the contributory multiplier to 2.065% and 1.305% for non-contributory service. Act 396 of 1999 authorized the Board of Trustees to raise the multipliers for contributory and non-contributory service to 2.125% and 1.365% respectively, which was implemented by the Board effective January 1, 2000. On July 1, 2001, the Board of Trustees raised the multipliers for contributory and non-contributory service to 2.15% and 1.39% respectively under the provisions of Act 396 of 1999. Beginning in 1997, ATRS is prohibited by various statutes from implementing any benefit enhancement if (1) it would cause ATRS' unfunded actuarial accrued liabilities to exceed a thirty-year amortization or (2) ATRS has unfunded actuarial accrued liabilities being amortized over a period exceeding thirty years until the unfunded actuarial accrued liability is reduced.

Act 504 of 1985 established a non-contributory plan for members of the system in addition to the contributory plan. Members were allowed to elect to be contributory or non-contributory and could change that election one time. Beginning July 1, 1993, the law was amended by Act 435 of 1993 to allow any member to change his/her election concerning member contributions once each fiscal year. Under Act 14 of 1991, effective July 1, 1991, all new members of the Teacher Retirement System automatically became members of the non-contributory plan but could elect to become contributory members prior to the preparation of the first payroll of the fiscal year. Act 435 of 1993, effective July 1, 1993, provided that any former active member who returns to service also automatically becomes a non-contributory member, with the option to become a contributory member, and must make the election in the same manner as a new member. Act 81 of 1999, amended by Act 907 of 1999, provided that new members who enter covered service after July 1, 1999 will be automatically enrolled in the contributory plan. Act 907 also provided that members who were working in a covered position prior to July 1, 2000 must before June 30, 2000 make an irrevocable election to be in either the contributory or non-contributory plan and that this election would remain in effect for the remainder of the member's covered service. In addition, this Act provided former active members who entered covered service after June 30, 1999, one year to make an irrevocable election of the contributory or non-contributory plan. In both cases of active and former active members, if no election was made by the prescribed deadline, the member was permanently enrolled in the plan in which he/she was enrolled on the deadline.

Act 653 of 1989 provided that any person employed full-time by a school district after July 1, 1989, must become a member of the Teacher Retirement System. Act 43 of 1991 removed the right of a part-time employee to be excluded from membership in the Teacher Retirement System. Act 1026 of 1993 provided that part-time school personnel who accumulate less than 30 days of service within a fiscal year are not eligible for membership in the Teacher Retirement System.

Act 1096 of 1995 established the Teacher Deferred Retirement Option Plan (T-DROP), which allows members to defer receipt of benefit payments, and to continue to work in a position covered by Teacher Retirement. In order to make T-DROP more cost neutral, Acts 991 and 992 of 2003 made changes in the methods for determining plan contributions for new members in the T-DROP on or after September 1, 2003 and required that employer contributions recommence for members whose effective date in T-DROP is before September 1, 2003. Act 298 of 2007, effective July 1, 2007, changes the date for entering T-DROP to July 1; provides for the extension of employer contribution requirement for pre-September 2003 T-DROP members beyond July 1, 2011 and causes it to be the same as the regular employer contribution rate after July 1, 2013.

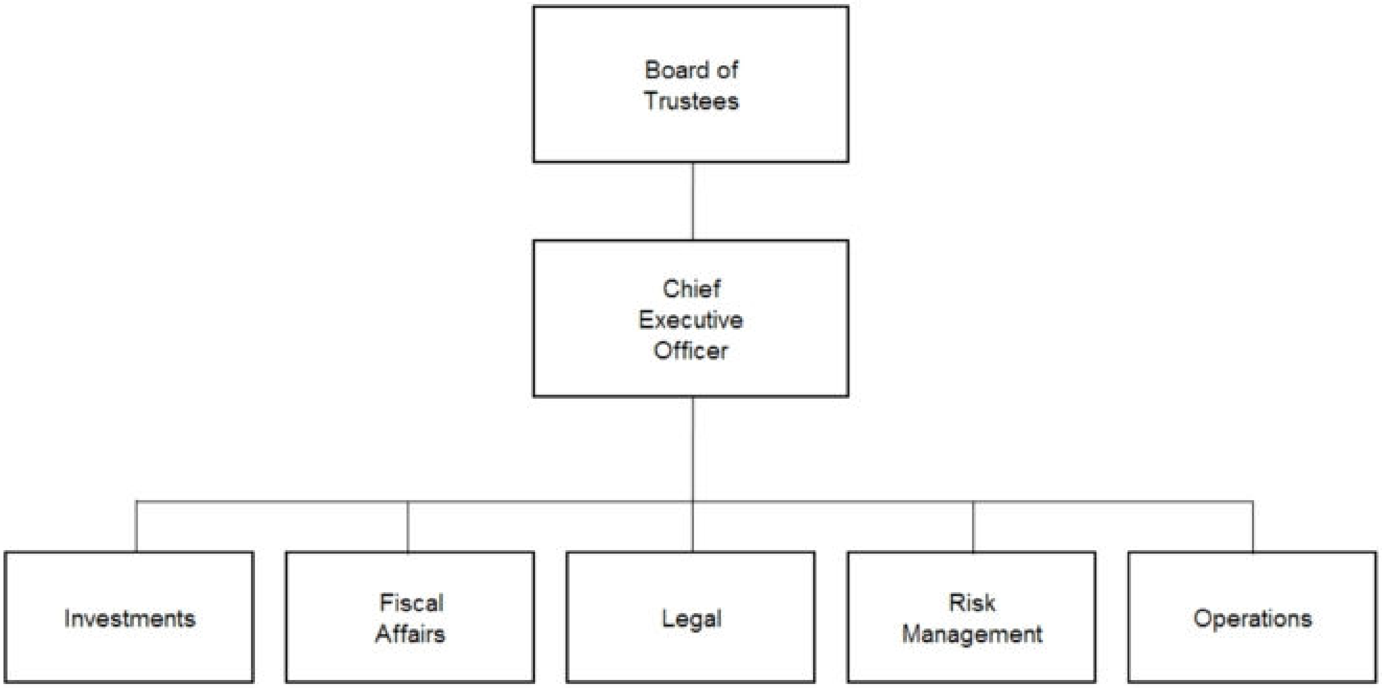
Act 461 of 2001 defined "Normal Retirement Age" as age 65, thus allowing members who reach that age to apply for retirement benefits without termination of employment. This Act also designates that members under age 65 must terminate employment for a minimum of 30 days to be eligible for retirement benefits.

Act 23 of the Second Extraordinary Session of 2003, as amended by Act 47, provides that effective July 1, 2005 and each July 1 thereafter, active members of ATRS who have previously elected to eliminate members contributions to make an irrevocable election to become contributory. The Acts further mandate that, effective July 1, 2005, any active member whose status changes from nonteacher status to teacher status under contract for 181 days or more shall become contributory. Act 93 of 2007, effective July 1, 2007, provides that beginning July 1, 2007, and each July 1 thereafter, active noncontributory members may make an irrevocable election to become contributory; inactive or rescinding members may make an irrevocable election to become contributory at the time of reemployment regardless of a previous noncontributory status; new members who are not under contract or are contracted less than 181 days enter the system as non-contributory but may make an irrevocable election to become contributory.

ADMINISTRATION:

The general administration and responsibility for the proper operation of the system and for making effective the provisions of the teacher retirement laws is vested in the 15-member Board of Trustees. The State Bank Commissioner, State Treasurer, State Auditor and the Commissioner of the Department of Education serve as ex-officio members on the Board. Eleven (11) members are elected to the Board; eight (8) are active members and three (3) represent retirees. The Board believes that its paramount purpose is to provide an adequate and equitable retirement plan for the members of the System, to protect its members in the event of total and permanent disability, and to provide in part for their dependents upon their deaths.

The trustees serve without compensation except reimbursement for any necessary expenses incurred in attending meetings of the Board or in performing other official duties as defined by the Board. The Board appoints the Executive Director for the system as well as an actuarial firm to serve as technical advisor on matters regarding the operation of the system on an actuarial basis. The Board has the authority to employ professional investment counsel and to appoint a medical board to advise the Board on disability claims. The Board meets at least quarterly and must have eight (8) members present for a quorum. At least eight (8) concurring votes are needed to reach a decision.



Agency Commentary

Since being hired for the combined role as Chief Executive Officer and Chief Investment Officer, the Arkansas Teacher Retirement System (ATRS) Director has pursued, with the Board's unqualified support, a somewhat ambitious agenda to address what the Agency perceived as various shortcomings, inefficiencies, conflicting and/or confusing policies and investment portfolio strategies. The Director's goal, in his tenure as CEO/CIO, is to advance the Teacher Retirement System to the level that would allow it to be viewed in the same light and competitive position with the finest defined benefit retirement plan systems in this country.

To achieve this standard involves working closely with the support of policy makers. There may not always have been a true appreciation for how important the Teacher Retirement System is to, not only the hundreds of thousands of its members, both active and retired, but also how important a resource it is for the economy and thus all the citizens of Arkansas. This impact will only grow as more and more members enter the retired ranks and the System's funds are funneled from the investment portfolio to recipients as benefits and thus into the daily economy. The Director estimates that the economic engine it provides today is approximately $1.5 billion/year and growing.

To provide for this growth in retirees, expected to double from 27,000 to 55,000 in the next 10-12 years along with the compounding of challenges to the System by longer life expectancies, ATRS will need to systematically step up its manpower to meet the anticipated growing demand for services.

This translates into an increase in benefits and refunds for our members, more staffing needs, enhanced data processing and support systems, the ability to compete effectively for the finest in investment management personnel to insure the future soundness of the Trust's ability to meet future liabilities, and developing and expanding the knowledge and skills of our staff and Board members so they are equipped to keep pace with the growing sophistication in investments and Board administration related challenges.

ATRS knows the State desires to remain competitive and develop the potential to offer one of the premier retirement systems in the country. To this effect, the Board, the Administration, the Legislature and others related to policy making for the System need to accept and address this challenge now. The financial and policy support that the Administration and Legislature has provided to the Board in the past has been exceptional and has allowed the System to keep pace, but now that pace is rapidly changing. Federal efforts at regulatory efforts are on the rise. State Legislatures around the country are involved with calls for divestment strategies, for example. Additionally, the investment arena is rapidly trying to stay up with the growing global marketplace by ratcheting up the sophistication of its offerings. In short, it is a very challenging time for pension plans and our State.

The ATRS budget request is designed to best prepare the System to meet these times and the growing demands downstream. ATRS is certainly sensitive to the sudden downturn of the nation's economic health and its negative impact on state cash flows. This is unlikely to reverse in the near future. As a result, this Agency made every effort to reallocate Base Level appropriation and take a hard look at cutting back as much as possible on existing programs.

Our Regular Salaries and Personal Services Matching increase requests for the biennium are approximately $1.2 million annually. Our request for Maintenance & General Operations (Operating Expenses, Conference & Travel Expenses, Professional Fees, Capital Outlay and Data Processing) represents an overall decrease of $539,090 in FY10 and $505,929 in FY11 when offset by our requested decreases in Data Processing Services and Investment Counsel line items, totaling a $1.5 million reduction to existing budget each year. The requested appropriation increase for Benefits Non-Employee and Refund/Reimbursements is $2.4 million for FY10 and $101.6 million for FY11.

For FY10, 79% of the net total agency change level of $3.0 million relates to paying member benefits and contracted services. For FY11, 99% of the net total agency change level of $102.3 million relates to paying member benefits and contracted services.

The budget calls for repositioning funds (largely sourced from the investment assets of the Fund itself and less, each year, from employer and employee contributions) from savings realized in the Data Processing, Investment Counsel and Professional Fees categories and reassigning those savings to cover increases to several non-benefit categories including Capital Outlay, personnel and professional development. This year the System will receive 14% of member salaries from employers and 6% from employees. This will produce approximately $400 million in income to the System. The annual distribution to annuitants will surpass an estimated $600 million by the end of the biennium period. The remaining operational costs are covered from Trust assets.

ATRS operates as a trust fund. The Agency's revenue is sourced from the investment assets of the Fund itself and less, each year, from employer or employee contributions.

The categories with proposed adjustments from FY09 levels are as follows:

Regular Salaries - An increase of approximately 26% is requested. This is to cover a requested 19 new positions in critical need areas including a proposed call center and increases in the key areas of accounting, informational technology, and member support services. There is also funding to add the separate position of Chief Investment Officer that would allow for a splitting of the currently combined CEO/CIO role, no longer an appropriate structure for a System of the size and increasing sophistication of ATRS. Competitive salary for a CIO today is in the range of $200K- $250K/year. The State should insist on being in position to attract the top talent that a $12 billion-plus portfolio demands. The personnel category also covers planned increases in several existing staff funding levels per the newly proposed pay plan that will allow the System to be successful in retaining an experienced, talented workforce.

Personnel Services Matching - This category is increased to address the benefit costs of the proposed increased staffing and adjustments to existing salaries.

Operating Expenses - This category is increased to address actuarial costs and costs associated with replacing the Agency's outdated general ledger software before technical assistance becomes unavailable.

Conference and Travel - This category has for some time represented an unrealistic amount required to maintain a properly trained staff in several key areas, including investments, IT, legal and human resources. The staff oversees an investment portfolio currently in the range of $12 billion dollars. It represents one of largest investment pools in the state. Within this portfolio, there is a growing focus on commitments to investment areas such as alternatives, private equity and real estate partnerships. These areas require that staff be informed and able to recommend, along with its outside consultants, appropriate actions to the Board. The investment portfolio, given the market volatility on these times, can fluctuate $50-$100 MILLION EVERY DAY! Preparing the Board for its decisions and taking the necessary steps to best position the portfolio to help minimize the negative impacts from such market volatility can only be realized by employing a well-informed and trained investment, IT, legal and related staff. It is important to stress that this proposed increased allocation is broader than just investment related staff. The ATRS legal department is deeply involved, not only in reviewing and resolving sophisticated investment agreements; side letters etc. with private markets investments but also is engaged in the arena of managing securities class actions and Board related litigation that helps to protect millions of dollars in Trust assets. Through interaction at special conferences and professional training workshops with colleagues from other systems, ATRS staff can greatly add further benefit to the System. The same is true with the informational technology, accounting, and human resource personnel. To start to build the needed skills and incorporate the effects of the rising cost of fuel on travel expenses, an increase in Conference & Travel Expenses of $44,000 over Base Level is requested for FY10 and $42,000 for FY11.

Data Processing and Investment Counsel - These are appropriation categories that ATRS can reduce without negative impact to the System, even in light of earlier comments about the growing sophistication of systems, investments and so forth. We have generally operated with an excess in these categories. The proposed revised levels will be adequate even as the Board expands its commitment to alternatives and likely will consider retaining a special advisor in the “alternatives” category of absolute return/inflation hedged type investments. ATRS has submitted a request to discontinue program appropriation of $1,500,000 in FY10 and $1,500,000 in FY11 for both line items. The data processing appropriation reduction is $1,000,000 for FY10 and $1,000,000 for FY11. The Investment Counsel appropriation reduction is $500,000 for FY10 and $500,000 for FY11.

Capital Outlay - This area has been running historically low primarily due to having made few new expenditures in the Informational Technology software and systems support area. However, now ATRS is faced with the need to commit funds to upgrade systems that have become antiquated. It doesn't take more than a few years for this to happen, given the rapid developments in technology. These upgrades will be done largely in-house to minimize costs. The same holds true for the maintenance and support services. Another planned increase in this category relates to a possible conversion of board and committee meetings to "paperless". ATRS proposes to handle the needed upgrades through an increase in this category from the FY09 level of $50,000 to $270,800 for FY10 and, incorporating a 10.5% reduction in the annual commitment in year two, reducing the level to $242,500 for FY11.

Benefits Non-Employee and Refunds/Reimbursements - Expected growth in the number of retirees as noted above and the potential effects of a compound COLA for our retirees has required ATRS to request an increase for Benefits Non-Employee and Refunds/Reimbursements combined of approximately $2.4 million for FY10 and $101.6 million for FY11.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT

AUDIT OF :

ARKANSAS TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2007

Findings	Recommendations
Analytical review procedures disclosed a significant increase in travel reimbursement for the position of Executive Director after Paul Doane was hired on April 1, 2007. The Director indicated the need to gain familiarity with an extensive and broad portfolio and the resulting dramatic realignment of the portfolio asset mix were contributing factors for an increase in travel. A review of the Director's travel reimbursement (TR-1) forms indicated out-of-state travel expenses of $34,515 during the period April 1, 2007 through April 30, 2008. Although travel reimbursements did not exceed appropriations, the Director: • Traveled out-of-state to conferences or meetings approximately 47% of the time. The Director received reimbursement for eighteen trips to Boston, MA and three to New Mexico, States in which the Director maintains residences. • Indicated attending 83 meetings. Fourteen of these meetings were with representatives from State Street Corporation and/or Oppenheimer Capital, firms providing custodial or management services to the Agency. Historically, investment firms assumed the expense of Agency consultations. These firms, located in Boston and New York, were previous employers of the Director. To confirm validity of certain meetings, 20 participants were contacted and 11 participants acknowledged meeting with the Director. The inability to confirm meetings with the remaining nine participants could have been affected by the quality of information the Director provided on TR-1 forms.	Due to the complexity and unusual circumstances associated with the Executive Director's travel reimbursements, we recommend travel be adequately explained and documented. Agency personnel should become thoroughly familiar with state travel regulations and establish procedures to prevent future violations. The Board should review the matters discussed above and secure repayment from the Director for travel expenses unsubstantiated for Agency business and/or in conflict with state laws and regulations. Sound business practices suggest the Board endorse, and obtain regular reports relating to, the Director's travel.

Findings	Recommendations

• Received reimbursement for travel expenses related to Massachusetts Public Employee Retirement Administration Commission (PERAC) meetings. In December 2006, the Director was appointed, and continues to serve, as a commissioner to PERAC which is responsible for oversight, guidance, monitoring, and regulation of 106 Massachusetts public pension systems. While attending seven PERAC meetings, the Director also met with Agency vendors in the Boston area, however, the Agency reimbursed the Director for all travel expenses associated with six of these trips.
 	
• Collected reimbursement, in apparent conflict with state laws and travel regulations, for:
  • A Cape Air frequent flyer discount book of ten tickets ($750) for which the use or purpose was not documented;
  • Commuter expense, after attending meetings, from Boston and New York areas to residence in Massachusetts;
  • An American Airlines Admiral Club membership ($250); and
  • Room and meal charges in excess of state travel regulations relating to 13 TR-1 forms.
 	
Both the Director and his assistant, who compiled the travel records, were new to Arkansas state government and were not familiar with certain state travel regulations. The Director indicated he will reimburse any incidences determined to be in violation of state travel regulations.	

An employee was temporarily assigned to a higher payroll position with an increase in pay on August 12, 2007. Six months later the employee was returned to the position formerly occupied with no reduction in salary in apparent violation of Department of Finance and Administration - Office of Personnel Management (DFA-OPM) regulations and Ark. Code Ann. § 21-5-211(3) (A) which states: "Any employee who is assigned to a position in a classification the employee formerly occupied within a twelve-month period after promotion from the classification shall be eligible for a rate of pay no greater than that for which the employee would have been eligible had the employee remained in the lower graded classification." The Agency's failure to return the employee to the proper rate of pay resulted in a salary overpayment of $8,818 for the period February 10, 2008 through August 23, 2008.	The Agency review state laws and regulations concerning position grade changes and salary adjustments and establish procedures to prevent future salary overpayments. The Agency should also contact DFA-OPM to determine the appropriate procedures necessary to revolve the salary overpayment.

Findings

The Agency did not adhere to established internal controls or maintain adequate supporting documentation for real estate and partnership investments valued at $136,492,821. The Agency contracted a firm to develop, and monitor adherence with, investment internal control policies and procedures as well as ensuring existing files comply with internal controls. The contracts with this firm, continuously in effect from July 24, 2001 through the latest amendment dated August 20, 2008, total $1,575,000 and are primarily for the services described above. Five of the Agency's fifteen real estate and partnership investment files revealed the following exceptions:

- Two files lacked a detailed general ledger of all transactions related to the applicable investment.
- Journal entries and accompanying documentation to support and adequately explain individual transactions were not available for two files.
- Two files did not include required bank account statements and reconciliations.

Further, examination of these five files revealed additional problems not specifically covered by the Agency's policies and procedures.

- The Agency sold the real estate portion of an investment in two nursing homes during the year ended June 30, 2006, but retained the accounts receivable as an Agency asset. A subsidiary ledger of individual accounts receivable, which totaled $1,024,557 at June 30, 2007, was not included in the Agency investment files; therefore, subsequent collections, recorded as reductions of total accounts receivable, could not be reconciled to individual accounts.
- The Agency discovered two unrecorded checking accounts, used by the prior management company of the nursing homes, with no supporting documentation for checks written from, or deposits made to, these accounts. Eleven undocumented disbursements totaling $12,277 were by the prior management company after the investment was sold. The Agency subsequently recorded bank balances totaling $21,629.

These circumstances indicate inadequate staff training, lack of proper supervision, and inability of staff to follow policies and procedures which could jeopardize the security of investment assets and adversely affect the reliability of the Agency's financial statements.

Recommendations

The Agency maintain investment files according to established policies and procedures. The Agency should also obtain a subsidiary accounts receivable listing to support the current asset balances and determine if the undocumented disbursements by the prior management company are for valid obligations of the Agency.

Findings	Recommendations
Review of 122 benefit calculations revealed seven errors. The Agency did not adjust five benefits timely for salary changes after the original benefit calculations. Two retirement benefits were not properly calculated using the 110% salary limitation rule, designed to prevent an extra preretirement payment from unfairly affecting retirement benefits. These errors resulted in benefit overpayments to two retirees and underpayments to five retirees. The subsequent correction of benefit calculation errors could cause an unnecessary hardship on members of the system.	The Agency recalculate benefits timely after member salary changes.

Employment Summary

	Male	Female	Total	%
White Employees	12	45	57	76 %
Black Employees	3	11	14	19 %
Other Racial Minorities	1	3	4	5 %
Total Minorities			18	24 %
Total Employees			75	100 %

Cash Fund Balance Description as of June 30, 2008

Fund Account	Balance	Type	Location
3750000	$0	Checking	Metropolitan National Bank

Statutory/Other Restrictions on use:

ACA 19-4-801 establishes that the agency can use a cash fund. ACA 24-7-403 restricts the use to benefits, refunds and other disbursements in accordance with ACA 24-7 et seq.

Statutory Provisions for Fees, Fines, Penalties:

None

Revenue Receipts Cycle:

Monthly

Fund Balance Utilization:

Fund balance is returned to the Trust Fund at the end of the year.

Publications

A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
Agency Comprehensive Annual Financial Report	24-7-305(d)(1), 24-2-702	Y	Y	800	Reports on the financial health of ATRS; provides necessary information to ATRS board; required by GFOA and other entities

Department Appropriation Summary

	Historical Data						Agency Request and Executive Recommendation											
	2007-2008		2008-2009		2008-2009		2009-2010						2010-2011					
Appropriation	**Actual**	**Pos**	**Budget**	**Pos**	**Authorized**	**Pos**	**Base Level**	**Pos**	**Agency**	**Pos**	**Executive**	**Pos**	**Base Level**	**Pos**	**Agency**	**Pos**	**Executive**	**Pos**
2QV Property Management	284,741	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0	500,000	0
2QW Teacher Retirement System-Operations	120,798,830	82	170,859,981	82	170,668,587	82	171,081,156	82	174,051,349	101	172,529,584	88	171,169,006	82	184,230,541	101	182,630,062	88
C26 Teacher Retirement System-Cash	474,001,520	0	741,825,000	0	741,825,000	0	741,825,000	0	741,868,210	0	741,868,210	0	741,825,000	0	831,068,441	0	831,068,441	0
Total	595,085,091	82	913,184,981	82	912,993,587	82	913,406,156	82	916,419,559	101	914,897,794	88	913,494,006	82	1,015,798,982	101	1,014,198,503	88

Funding Sources		**%**		**%**				**%**		**%**		**%**		**%**		**%**		**%**
Cash Fund 4000045	474,001,520	79.7	741,825,000	81.2			741,825,000	81.2	741,868,210	81.0	741,868,210	81.1	741,825,000	81.2	831,068,441	81.8	831,068,441	81.9
Trust Fund 4000050	121,083,571	20.3	171,359,981	18.8			171,581,156	18.8	174,551,349	19.0	173,029,584	18.9	171,669,006	18.8	184,730,541	18.2	183,130,062	18.1
Total Funds	595,085,091	100.0	913,184,981	100.0			913,406,156	100.0	916,419,559	100.0	914,897,794	100.0	913,494,006	100.0	1,015,798,982	100.0	1,014,198,503	100.0
Excess Appropriation/(Funding)	0		0				0		0		0		0		0		0	
Grand Total	595,085,091		913,184,981				913,406,156		916,419,559		914,897,794		913,494,006		1,015,798,982		1,014,198,503	

The FY09 Budget amount for appropriation 2QW exceeds Authorized amount due to salary and matching rate adjustments during the 2007-2009 biennium.

Agency Position Usage Report

FY2006 - 2007						FY2007 - 2008						FY2008 - 2009					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total			Filled	Unfilled	Total	Total	
73	65	8	73	0	10.96 %	82	73	9	82	0	10.98 %	82	75	7	82	0	8.54 %

Analysis of Budget Request

Appropriation: 2QV - Property Management

Funding Sources: TER - Teacher Retirement Fund

The Property Management Program of the Arkansas Teacher Retirement System pays for the necessary expenses to maintain properties that the System holds as investments. These expenses include, but are not limited to, attorney fees, foreclosure expenses, selling expenses, audit costs, appraisal expenses, property management fees, property rehabilitation costs, travel expenses related to property management, property repairs, property maintenance, advertising expenses, and property operating expenses.

The Agency Request is for Base Level.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: 2QV - Property Management

Funding Sources: TER - Teacher Retirement Fund

	Historical Data			Agency Request and Executive Recommendation					
	2007-2008	2008-2009	2008-2009	2009-2010			2010-2011		
Commitment Item	Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Property Managment 5900046	284,741	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total	284,741	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Funding Sources									
Trust Fund 4000050	284,741	500,000		500,000	500,000	500,000	500,000	500,000	500,000
Total Funding	284,741	500,000		500,000	500,000	500,000	500,000	500,000	500,000
Excess Appropriation/(Funding)	0	0		0	0	0	0	0	0
Grand Total	284,741	500,000		500,000	500,000	500,000	500,000	500,000	500,000

Analysis of Budget Request

Appropriation: 2QW - Teacher Retirement System-Operations

Funding Sources: TER - Teacher Retirement Fund

The Arkansas Teacher Retirement System provides age, service, survivor, and disability benefits for public school teachers and other covered employees. This appropriation is funded by trust funds of the Teacher Retirement System.

Base Level salaries for classified positions reflect the recommendations of the Pay Plan Study as well as the recommendation for three positions transitioning from unclassified to classified positions. Unclassified positions reflect similar adjustments in line item salaries. A 2.3% Cost of Living Allowance is reflected in the second year of the biennium. The Base Level request for Regular Salaries may include board member Stipends payments and Career Service payments for eligible employees. Personal Services Matching includes a $75 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of $425.

The Agency's Change Level request totaling $2,970,193 in FY10 and $13,061,535 in FY11 reflects the following:

Regular Salaries and Personal Services Matching increases of $1,165,251 in FY10 and $1,189,328 in FY11 to support 19 new positions, including: a Systems Specialist (C124), a Public Information Manager (C123), a Senior Software Support Analyst (C123), a Retirement Section Manager (C123), two (2) Accounting Coordinators (C121), a Retirement Investment Specialist (C119), an Investment Analyst (C117), three (3) Retirement Counselors (C117), three (3) Accountant I (C116), three (3) Administrative Analysts (C115), an Administrative Specialist III (C112), and a Cheif Investment Officer (Grade 99). These positions will be used to assure the Agency is sufficiently staffed to accommodate unusually large increases in the number of retired members and the services provided to those members.

Operating Expenses increases of $646,031 in FY10 and $709,962 in FY11 for replacement of outdated general ledger software due to discontinued support for current system and in an effort to go paperless; and increased actuarial service costs for income and benefits forecasting that were previously expensed in the Data Processing commitment item.

Conference & Travel Expenses increase of $44,079 in FY10 and $41,609 in FY11 to provide for additional travel to conferences and seminars that allow Agency staff to keep current with companies the Trust does business with and to stay abreast of the latest investment and planning strategies.

Benefits-Non-Employee increase of $8,700,000 in FY11 to provide sufficient appropriation for benefits based on actuarial projections and historical trend analyses.

Investment Counsel decrease of $500,000 in each year of the biennium to relinquish unused appropriation to help offset increases in member benefits.

Data Processing Services decrease of $1,000,000 in each year of the biennium to help offset increases in member benefits.

Capital Outlay increases of $270,800 in FY10 and $242,500 in FY11 so ATRS can migrate to a paperless technology, improving processing efficiencies and to replace the general ledger software. The software provider, IBM, will no longer support the software with any technical expertise. The request for Capital Outlay is included in the Agency's Information Technology Plan.

Refunds/Reimbursements increases of $2,344,032 in FY10 and $3,678,136 in FY11 to ensure sufficient appropriation for payments made to employers and employees who are leaving State employment.

The Executive Recommendation provides for Base Level and an additional $1,448,428 in FY10 and $11,461,056 in FY11 to support the following:

Regular Salaries and Personal Services Matching increases of $333,596 in FY10 and $340,420 in FY11 for a Systems Specialist, a Senior Software Support Analyst, a Retirement Section Manager, and (3) Retirement Counselors to support an increased number of retirees projected by the Agency.

Data Processing/Investment Counsel decreases of $1,500,000 each year.

Capital Outlay increase of $270,800 in FY10 and $242,500 in FY11.

Benefits-Non-Employee increase of $8,700,000 in FY11.

Refunds/Reimbursements increase of $2,344,032 in FY10 and $3,678,136 in FY11.

Appropriation Summary

Appropriation: 2QW - Teacher Retirement System-Operations

Funding Sources: TER - Teacher Retirement Fund

		Historical Data			Agency Request and Executive Recommendation					
		2007-2008	2008-2009	2008-2009	2009-2010			2010-2011		
Commitment Item		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	2,775,130	3,252,755	3,096,986	3,407,773	4,280,909	3,636,331	3,479,687	4,372,893	3,713,497
#Positions		**82**	**82**	**82**	**82**	**101**	**88**	**82**	**101**	**88**
Extra Help	5010001	94,332	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
#Extra Help		**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**
Personal Services Matching	5010003	954,360	1,097,928	1,062,303	1,214,085	1,506,200	1,319,123	1,230,021	1,526,143	1,336,631
Overtime	5010006	17,350	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Operating Expenses	5020002	1,909,760	2,934,889	2,934,889	2,934,889	3,580,920	2,934,889	2,934,889	3,644,851	2,934,889
Conference & Travel Expenses	5050009	28,337	30,759	30,759	30,759	74,838	30,759	30,759	72,368	30,759
Professional Fees	5060010	166,671	343,650	343,650	343,650	343,650	343,650	343,650	343,650	343,650
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Benefits-Non Employee	5100023	107,845,617	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	158,700,000	158,700,000
Refunds/Reimbursements	5110014	5,510,949	6,550,000	6,550,000	6,550,000	8,894,032	8,894,032	6,550,000	10,228,136	10,228,136
Capital Outlay	5120011	13,687	50,000	50,000	0	270,800	270,800	0	242,500	242,500
Professional Sevices	5900043	158,100	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Data Processing Services	5900044	74,031	3,000,000	3,000,000	3,000,000	2,000,000	2,000,000	3,000,000	2,000,000	2,000,000
Investment Counsel	5900046	1,250,506	3,000,000	3,000,000	3,000,000	2,500,000	2,500,000	3,000,000	2,500,000	2,500,000
Total		120,798,830	170,859,981	170,668,587	171,081,156	174,051,349	172,529,584	171,169,006	184,230,541	182,630,062
Funding Sources										
Trust Fund	4000050	120,798,830	170,859,981		171,081,156	174,051,349	172,529,584	171,169,006	184,230,541	182,630,062
Total Funding		120,798,830	170,859,981		171,081,156	174,051,349	172,529,584	171,169,006	184,230,541	182,630,062
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
Grand Total		120,798,830	170,859,981		171,081,156	174,051,349	172,529,584	171,169,006	184,230,541	182,630,062

The FY09 Budget amount in Regular Salaries and Personal Services Matching exceeds the authorized amount due to salary and matching rate adjustments during the 2007-2009 biennium.

Special Language provides carry forward of appropriation. For FY09, the Agency did not request to carry forward appropriation.

Change Level by Appropriation

Appropriation: 2QW - Teacher Retirement System-Operations
Funding Sources: TER - Teacher Retirement Fund

Agency Request

	Change Level	2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	**Base Level**	**171,081,156**	**82**	**171,081,156**	**100.0**	**171,169,006**	**82**	**171,169,006**	**100.0**
C01	Existing Program	3,878,362	19	174,959,518	102.3	13,934,073	19	185,103,079	108.1
C03	Discontinue Program	(1,500,000)	0	173,459,518	101.4	(1,500,000)	0	183,603,079	107.3
C04	Reallocation	0	0	173,459,518	101.4	0	0	183,603,079	107.3
C08	Technology	591,831	0	174,051,349	101.7	627,462	0	184,230,541	107.6

Executive Recommendation

	Change Level	2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	**Base Level**	**171,081,156**	**82**	**171,081,156**	**100.0**	**171,169,006**	**82**	**171,169,006**	**100.0**
C01	Existing Program	2,677,628	6	173,758,784	101.6	12,718,556	6	183,887,562	107.4
C03	Discontinue Program	(1,500,000)	0	172,258,784	100.7	(1,500,000)	0	182,387,562	106.6
C04	Reallocation	0	0	172,258,784	100.7	0	0	182,387,562	106.6
C08	Technology	270,800	0	172,529,584	100.8	242,500	0	182,630,062	106.7

	Justification
C01	An increase of approximately 25% has been requested in salaries appropriation. The increase is for 19 additional positions in critical need areas and also covers planned increases in several existing staff funding levels per the proposed pay plan. An increase in Operating Expenses appropriation over Base Level of $325,000 is requested for both years for actuarial service costs previously expensed under the Data Processing Services line item. An increase of $44,079 and $41,609 for FY10 and FY11, respectively, is requested for Conference & Travel Expenses. The rising fuel costs, prudent investment portfolio managment, and the need for training for our new general ledger accounting software are the driving forces behind this request. Historical trend analysis and actuarial projections have lead to our request to increase the Refund appropriation by $2,344,032 for FY10 and $3,678,136 for FY11. They have also directed our request to increase the Pension Benefits appropriation by $8,700,000 for FY11.
C03	ATRS has taken the Governor's request seriously and has moved to relinquish base level appropriation in the Data Processing Services line item and the Investment Counsel line item. The Agency is reducing the appropriation below Base Level in Data Processing Services by $1,000,000 in FY10 and by $1,000,000 in FY11. The Agency is reducing the appropriation below base level in Investment Counsel by $500,000 in FY10 and by $500,000 in FY11.
C04	Reallocations within our Operating Expenses appropriation were identified to address increased actuarial expenses ($349,800 in FY10; $330,700 in FY11), Board Member expenses and official business travel. These items were addressed by reducing budget amounts in other areas where current budget exceeded actual expenditures.
C08	Due to the increasing complexity of investment markets, enhancements needed for our member system, environmental concerns leading us to go paperless, obtaining needed processing efficiencies throughout the Agency, and the need to replace our general ledger software before we can no longer get support and technical service for it, ATRS requests an increase in appropriation in the Operating Expenses and Capital Outlay expense categories to meet ATRS's information technology needs. The Agency requests an increase in Operating Expenses of $321,031 in FY10 and $384,962 in FY11 for Software, Data Processing Supplies, and Misc. Technical Services. The Agency requests an increase for Capital Outlay of $270,800 for FY10 and $242,500 for FY11. Technological purchases are addressed in the Agency's IT Plan under the paragraph "Future Hardware Purchases."

CARRY FORWARD OF ANY UNEXPENDED BALANCE OF APPROPRIATION AND/OR FUNDING FROM FISCAL YEAR 2008 TO FISCAL YEAR 2009

Agency: Teacher Retirement System

Program: Teacher Retirement System-Operations

Act #: 1418 of 2007 Section(s) #: 3 & 6

Estimated Carry Forward Amount $ 0.00 Appropriation [X] Funds [ ]

Funding Source: Trust

Accounting Information:

Business Area: 0375 Funds Center: 2QW Fund: TER Functional Area: RETR

Line Item	Commitment Item	Estimated Carry Forward Amount	Actual Carry Forward Amount
Total		$ 0.00	$ 0.00

Current law requires a written statement be submitted to the DFA Office of Budget stating the reason(s) to carry forward appropriation and/or funding for a program or a specific line item within a program from the first fiscal year of the biennium to the second fiscal year of the biennium.

Justification for carry forward of unexpended balance of appropriation and/or funding:

We do not project a need to carry forward any appropriation for fiscal year 2009.

Actual Funding Carry Forward Amount $ 0.00

Current status of carry forward appropriation/funding:

Paul V. Doane
Executive Director

08-04-2008
Date

Analysis of Budget Request

Appropriation: C26 - Teacher Retirement System-Cash

Funding Sources: 375 - Arkansas Teacher Retirement Fund-Cash

The Arkansas Teacher Retirement System cash fund allows the Agency to make payments to beneficiaries by check or direct deposit.

The Agency's Change Level Request totaling $43,210 in FY10 and $89,243,441 in FY11 reflects the following:

Benefits-Non Employee increase in FY11 of $88,800,000 to cover the expected growth in the number of retirees in the biennium.

Refunds/Reimbursements increase of $43,210 in FY10 and $443,441 in FY11 to cover anticipated retirement benefits increases based on actuarial projections and historical analyses.

The Executive Recommendation provides for the Agency Request.

Appropriation Summary

Appropriation: C26 - Teacher Retirement System-Cash

Funding Sources: 375 - Arkansas Teacher Retirement Fund-Cash

		Historical Data			Agency Request and Executive Recommendation					
		2007-2008	2008-2009	2008-2009	2009-2010			2010-2011		
Commitment Item		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Benefits-Non Employee	5100023	473,047,035	739,200,000	739,200,000	739,200,000	739,200,000	739,200,000	739,200,000	828,000,000	828,000,000
Refunds/Reimbursements	5110014	954,485	2,625,000	2,625,000	2,625,000	2,668,210	2,668,210	2,625,000	3,068,441	3,068,441
Total		474,001,520	741,825,000	741,825,000	741,825,000	741,868,210	741,868,210	741,825,000	831,068,441	831,068,441
Funding Sources										
Cash Fund	4000045	474,001,520	741,825,000		741,825,000	741,868,210	741,868,210	741,825,000	831,068,441	831,068,441
Total Funding		474,001,520	741,825,000		741,825,000	741,868,210	741,868,210	741,825,000	831,068,441	831,068,441
Excess Appropriation/(Funding)		0	0		0	0	0	0	0	0
Grand Total		474,001,520	741,825,000		741,825,000	741,868,210	741,868,210	741,825,000	831,068,441	831,068,441

Change Level by Appropriation

Appropriation: C26 - Teacher Retirement System-Cash
Funding Sources: 375 - Arkansas Teacher Retirement Fund-Cash

Agency Request

Change Level		2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	**Base Level**	**741,825,000**	**0**	**741,825,000**	**100.0**	**741,825,000**	**0**	**741,825,000**	**100.0**
C01	Existing Program	43,210	0	741,868,210	100.0	89,243,441	0	831,068,441	112.0

Executive Recommendation

Change Level		2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	**Base Level**	**741,825,000**	**0**	**741,825,000**	**100.0**	**741,825,000**	**0**	**741,825,000**	**100.0**
C01	Existing Program	43,210	0	741,868,210	100.0	89,243,441	0	831,068,441	112.0

Justification	
C01	An increase in Benefits-Non Employee is requested per actuarial projections and historical trend analyses.