

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL VALUATION AND EXPERIENCE GAIN/(LOSS)
ANALYSIS
JUNE 30, 2007

OUTLINE OF CONTENTS

Section	Pages	Items
	--	Cover letter
A		<i>Valuation Results</i>
	1	Comments
	2	Computed Contributions
	3	Summary Statement of Resources and Obligations
	4	Computed Actuarial Liabilities
	5	Expected Development of Present Population
	6	Recommended Transfers
	7-10	Comparative Statements
	11-12	Short Condition Test
B		<i>Valuation Data</i>
	1-6	Summary of Benefit Provisions Evaluated
	7	Revenues and Expenditures
	8-9	Assets
	10	Development of Funding Value of Assets
	11-18	Member Data
C		<i>Gain/(Loss) Analysis</i>
	1	Comments
	2	Changes in UAAL
	3-4	Experience Gain/(Loss): By Risk Area
	5	Experience Gain/(Loss): Comparative Statement
	6	Gain/(Loss) from Investment Return
	7-13	Actual and Expected Terminations by Decrement
D		<i>Actuarial Methods and Assumptions and Other Technical Assumptions</i>
	1-9	Methods and Assumptions
E		<i>District Judges Valuation Results, Valuation Data, and Financial Principles</i>
	1-3	Results
	4	Benefit Provisions
	5	Assets
	6-10	Valuation Data
	11	Gain/(Loss) Analysis
	12-13	<i>Actuarial and Required Supplemental Information Required by Statements No. 25 and No. 27 of the Governmental Accounting Standards Board</i>

OUTLINE OF CONTENTS

Section	Pages	Items
F		<i>District Judges Actuarial Methods and Assumptions and Other Technical Assumptions</i>
	1-6	Methods and Assumptions
G		<i>Financial Principles</i>
	1-2	Principles and Operational Techniques
	3	Financing Diagram
	4	The Actuarial Valuation Process
	5-6	Glossary
	7	Meaning of “Unfunded Actuarial Accrued Liabilities”
H	1-3	<i>Actuarial Supplemental Information Required by Statements No. 25 and No. 27 of the Governmental Accounting Standards Board</i>

November 19, 2007

The Board of Trustees
Arkansas Public Employees Retirement System
Little Rock, Arkansas

Ladies and Gentlemen:

The results of the ***June 30, 2007 actuarial valuation*** of the Arkansas Public Employees Retirement System together with ***the annual gain and loss analysis*** for the year ended June 30, 2007 are presented in this report. The purpose of the valuation and gain/loss analysis is to measure funding progress and to determine employer contribution rates for the coming year.

The actuarial methods and assumptions used in the actuarial valuation are summarized in Sections D and F of this report. The assumptions are established by the Board after consulting with the actuary.

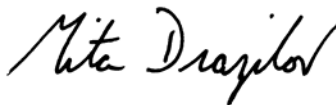
The valuation was completed using generally accepted actuarial principles in accordance with standards of practice prescribed by the Actuarial Standards Board and in conformance with Title 24 of the Arkansas Code. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results which are reasonable.

The cooperation of the Executive Director and the APERS staff in furnishing the materials required for these valuations is acknowledged with appreciation.


Respectfully submitted,



Norman L. Jones



Mita D. Drazilov



David L. Hoffman

DLH:sew

SECTION A

VALUATION RESULTS

COMMENTS

General Financial Objective. Section 24-2-701 of the Arkansas Code provides as follows:

The general financial objective of each Arkansas public employee retirement plan shall be to establish and receive contributions that, expressed as percentages of active member payroll, will remain approximately level from generation to generation of Arkansas citizens. More specifically, contributions received each year shall be sufficient both:

- (1) To fully cover the costs of benefit commitments being made to members for their service being rendered in that year; and
- (2)(A) 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.
- (B) Alternatively, if the costs of benefit commitments for service previously rendered are overfunded, the plan may deduct a level payment that, if deducted annually over a reasonable period of future years, will fully liquidate the overfunded portion of such costs.

Benefit Changes. New Contributory benefits increased from 2.00% to 2.03% for service after June 30, 2007. Non-Contributory benefits increased from 1.72% to 1.75% for service between July 1, 2005 and June 30, 2007.

APERS Status. Based upon the results of the June 30, 2007 actuarial valuation, **APERS continues to satisfy the general financial objective** of level contribution financing.

APERS Reserve Strength. As a by-product of achieving level contribution financing, actuarial accrued liabilities usually become more and more funded over a period of years. Funded ratios in the 80% to 95% range are common in public sector retirement plans. **The reserve strength of APERS remains strong**, both by absolute and relative measures, as shown by the Short Condition Test information shown on page A-12.

Employer Contribution Rates. Based upon experience through June 30, 2007 and changes in actuarial methods adopted by the Board in October 2005, the State and Local Government contribution rate will be 11.01% of covered payroll for the ensuing year.

District Judges. Results for the recently incorporated District Judges are presented in Section E. These results are not included in any of the numbers presented in Sections A, B, C and H.

**EMPLOYER CONTRIBUTION RATES COMPUTED JUNE 30, 2007
EXPRESSED AS PERCENTS OF ACTIVE MEMBER PAYROLL**

Contribution for	Contributions Expressed as %'s of Active Payroll and General Assembly Annual \$	
	State and Local #	General Assembly
Normal Cost:		
Age and service annuities (including DROP and reduced retirement)	9.26%	\$ 32,097
Separation benefits	1.83%	2,386
Disability benefits	0.76%	1,665
Death-in-service annuities	0.32%	1,304
Total	12.17%	\$ 37,452
Member contributions (ultimate)	5.00%	0
Employer Normal Cost	7.17%	\$ 37,452
Unfunded Actuarial Accrued Liabilities	3.84% *	1,101,585 *
Total Employer Contribution	11.01%	\$1,139,037

* *Unfunded actuarial accrued liabilities were amortized over a 18.0 year period.*

Included in this total is the Wildlife rate fixed at 22% of payroll and School rate fixed at 4% of payroll.

SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS
YEAR ENDED JUNE 30, 2007

Present Resources and Expected Future Resources

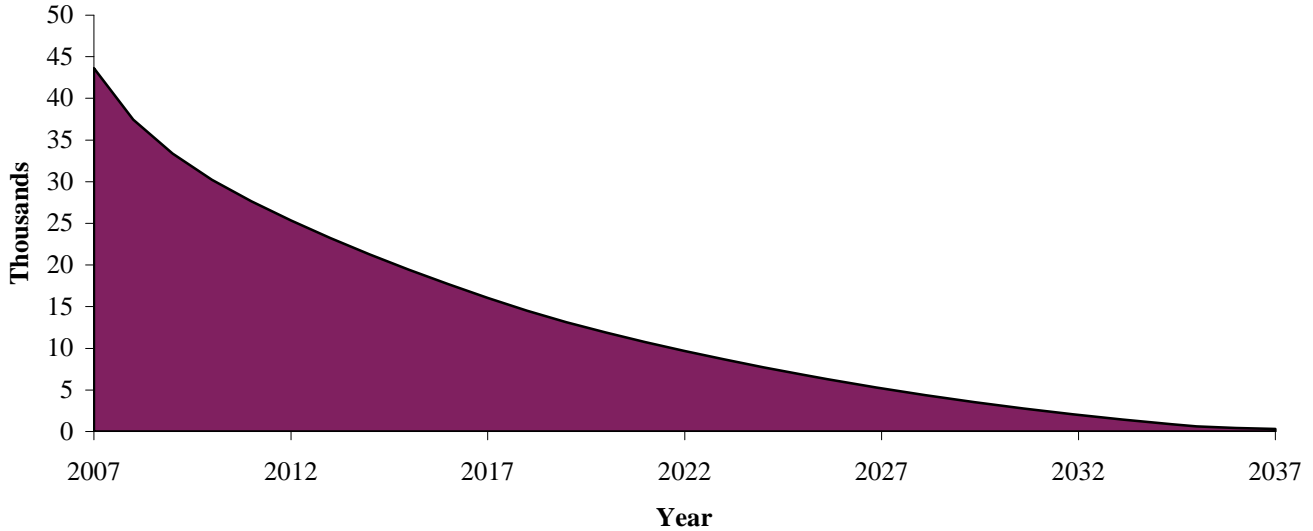
A.	Present Valuation Assets:	
	1. Net assets from system financial statements	\$5,981,614,449
	2. Market value adjustment	(484,088,429)
	3. Valuation assets	5,497,526,020
B.	Actuarial present value of expected future employer contributions:	
	1. For normal costs	725,256,205
	2. For unfunded actuarial accrued liability	676,287,582
	3. Total	1,401,543,787
C.	Actuarial present value of expected future member contributions	505,649,608
D.	Total Present and Expected Future Resources	\$7,404,719,415
A.	To retirees and beneficiaries:	
	1. Annual pensions	\$2,285,412,192
	2. DROP participants: future payments	605,080,431
	3. DROP Reserve: accrued balances	96,677,028
	4. Total	2,987,169,651
B.	To vested terminated members:	291,909,865
C.	To present active members:	
	1. Allocated to service rendered prior to valuation date - actuarial accrued liability	2,894,734,086
	2. Allocated to service likely to be rendered after valuation date	1,230,905,813
	3. Total	4,125,639,899
D.	Total Actuarial Present Value of Expected Future Benefit Payments	\$7,404,719,415

**COMPUTED ACTUARIAL LIABILITIES AND
ALLOCATION USING ENTRY AGE ACTUARIAL COST METHOD
AS OF JUNE 30, 2007**

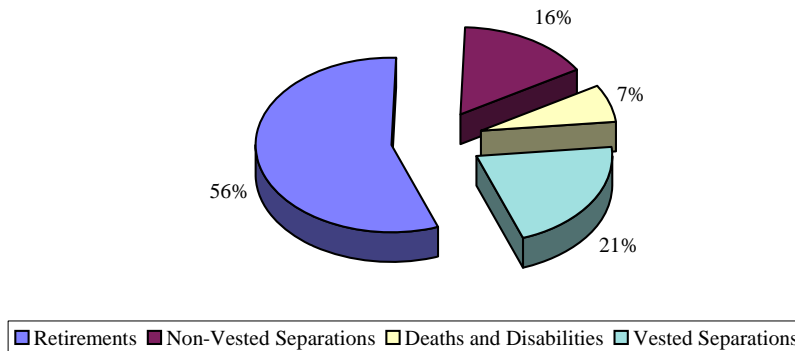
Actuarial Present Value of	Total Present Value	Portion Covered By Future Normal Cost Contributions	Actuarial Accrued Liabilities (1) - (2)
Benefits to be paid to current retirees, beneficiaries, and future beneficiaries of current retirees	\$2,285,412,192	\$ 0	\$2,285,412,192
Age and service allowances based on total service likely to be rendered by present active members	2,578,256,264	680,736,925	1,897,519,339
DROP participant benefits likely to be paid to present active members and current DROP participants.	1,832,485,933	255,858,703	1,576,627,230
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	464,814,948	185,077,610	279,737,338
Disability benefits likely to be paid to present active members	164,553,494	76,865,615	87,687,879
Death in service benefits likely to be paid on behalf of present active members	79,196,584	32,366,960	46,829,624
Total	\$7,404,719,415	\$1,230,905,813	\$6,173,813,602
Applicable Assets (Funding Value)	5,497,526,020	0	5,497,526,020
Liabilities to be covered by future Contributions	\$1,907,193,395	\$1,230,905,813	\$ 676,287,582

EXPECTED DEVELOPMENT OF PRESENT POPULATION JUNE 30, 2007

Closed Group Population Projection



Closed Group Population Projection



The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 43,613 active members. Eventually, 16% of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. About 77% of the present population is expected to receive monthly retirement benefits either by retiring directly from active service, retiring from DROP, or retiring from vested deferred status. About 7% of the present population is expected to become eligible for death-in-service or disability benefits. Within 7 years, over half of the covered membership is expected to consist of new hires.

**RECOMMENDED TRANSFERS
TO FULLY FUND THE DEFERRED ANNUITY ACCOUNTS AND RETIREMENT RESERVE ACCOUNTS**

Each year the actuary recommends transfers to the Deferred Annuity Accounts and the Retirement Reserve Accounts from the Employer Accumulation Accounts. These transfers place in the Deferred Annuity Account and the Retirement Reserve Account sufficient assets to cover the computed liabilities for future deferred annuity payments to present reported inactive members and for future retirement annuities to present retired members.

This year's transfer amounts are given below:

Division	Employer Accumulation Accounts Before Transfers	Transfers as of July 1, 2007 To:		Employer Accumulation Accounts After Transfers
		Deferred Annuity Accounts	Retirement Reserve Accounts	
State	\$2,770,233,984	\$25,580,563	\$254,419,203	\$2,490,234,218
Wildlife	(21,510,000)	279,580	3,665,622	(25,455,202)
Penitentiary	(310,714)	0	(23)	(310,691)
State Const. Off.	(765,994)	71,129	(258,948)	(578,175)
Governors	(4,030,996)	0	30,665	(4,061,661)
Quasi-Judicial	(562,414)	0	9,710	(572,124)
State Capitol Pol.	1,692,604	0		1,692,604
Admin. Off. Courts	411,700	0		411,700
Total State	2,745,158,170	25,931,272	257,866,229	2,461,360,669
Gen. Assembly	(6,659,756)	(126,117)	(3,145,946)	(3,387,693)
County	500,562,889	8,818,799	55,723,871	436,020,219
County Const. Off.	(87,826)	0	(95,129)	7,303
Total County	500,475,063	8,818,799	55,628,742	436,027,522
Municipal	244,885,131	4,153,726	19,910,461	220,820,944
School	167,756,430	458,261	10,943,910	156,354,259
Non-State	5,357,411	115,978	168,835	5,072,598
Total	\$3,656,972,449	\$39,351,919	\$341,372,231	\$3,276,248,299

**VALUATION RESULTS
COMPARATIVE STATEMENT
(\$ MILLIONS)**

Valuation Date June 30,	Actuarial Accrued Liabilities & Reserves	Valuation Assets	% Funded	Unfunded Actuarial Accrued Liabilities & Reserves			Contribution Rate Computed Percents	
				Dollars	Amortiz. Period *	% of Payroll	General Assembly	State & Local**
1998 @#	\$2,921	\$ 3,297	112.9 %	\$(376)	30	(41) %		10.00 %
1999 @	3,479	3,712	106.7	(233)	30	(23)	98.05 %	10.00
2000	3,803	4,121	108.4	(318)	30	(32)		10.00
2001 @	4,111	4,342	105.6	(231)	50	(22)	148.78	10.00
2002 #	4,398	4,404	100.1	(6)	6	(1)	150.95	10.00
2003 #	4,674	4,416	94.5	258	30	22	222.80	11.09
2004	5,005	4,438	88.7	567	30	48	201.39	12.54
2005 @#	5,619	4,584	81.6	1,035	22	85	459.47	12.54
2006	5,936	4,949	83.4	987	19	78	464.67	12.54
2007	6,173	5,498	89.1	675	18	52	410.58	10.88
2007 @	6,174	5,498	89.1	676	18	52	410.58	11.01

* Amortization period is for State division prior to 2001, State and Local division for 2001 and later. General Assembly unfunded actuarial accrued liabilities are amortized over a 30-year period.

** Local Government rate was 6.00% for the 1998 valuation, 7.00% for the 1999 valuation, and 8.00% for the 2000 valuation.

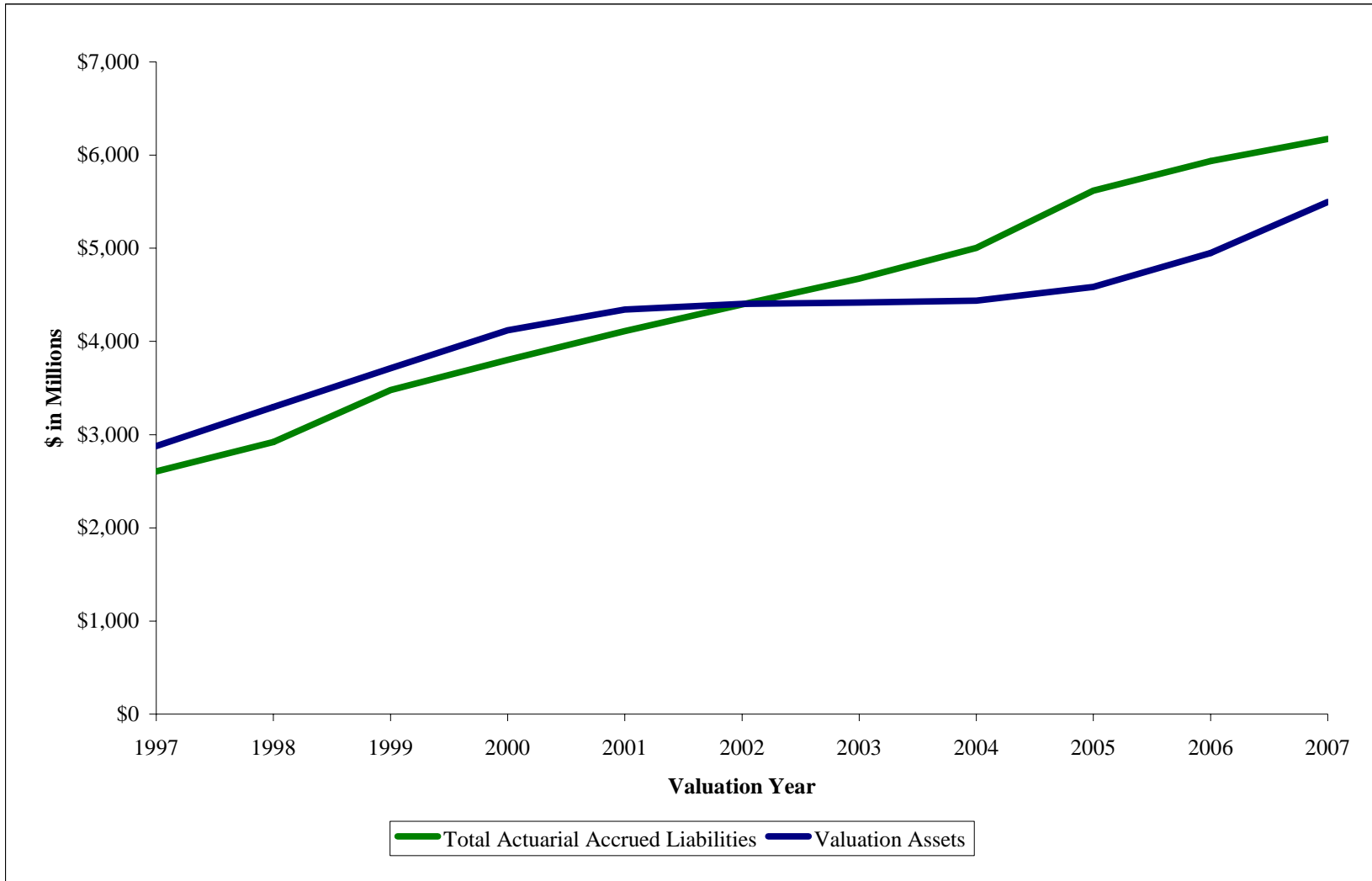
@ After legislated changes in benefit provisions

After changes in actuarial assumptions.

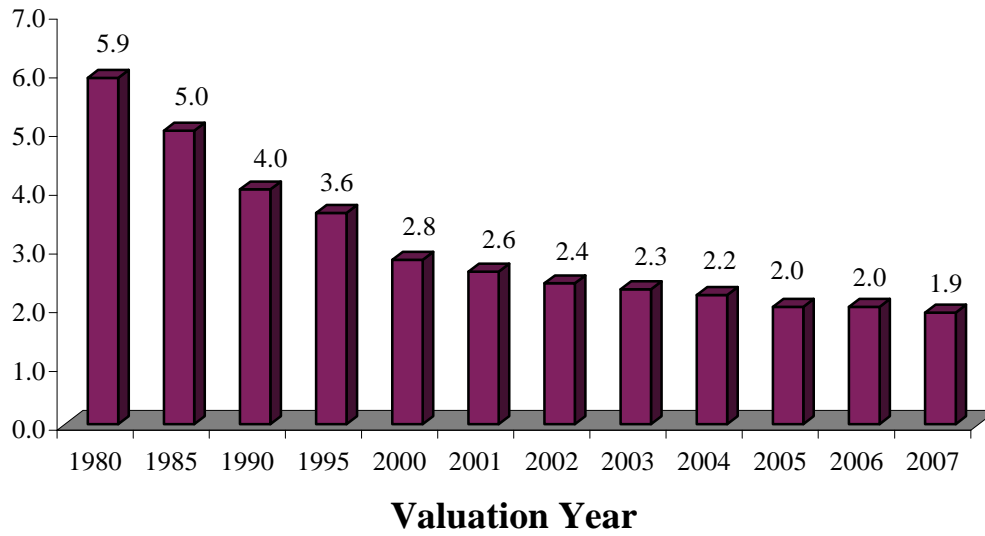
**ACTIVE MEMBERS AND RETIRED LIVES
HISTORICAL COMPARATIVE SCHEDULE**

Valuation Date	Active Members				Retired Lives			
	No.	Valuation Payroll			No.	Active per Retired	Annual Benefits	
		\$ Millions	Average	% Incr.			\$ Millions	As a % of Pay
6/30/84	*	*	*	*	7,036	*	\$ 19.1	4.4%
6/30/85	*	*	*	*	7,331	*	22.0	4.8%
6/30/86	*	*	*	*	7,649	*	24.1	4.9%
6/30/87	*	*	*	*	8,074	*	30.2	6.0%
6/30/88	*	*	*	*	9,155	*	39.6	7.5%
6/30/89	*	*	*	*	9,418	*	42.9	7.6%
6/30/90	*	*	*	*	9,747	*	44.9	7.4%
6/30/91	*	*	*	*	10,110	*	49.2	7.6%
6/30/92	39,752	\$ 698.2	\$ 17,564	NA	10,456	3.8	51.9	7.4%
6/30/93	39,849	733.4	18,404	4.8%	10,840	3.7	56.8	7.7%
6/30/94	40,940	778.7	19,021	3.3%	11,213	3.7	60.7	7.8%
6/30/95	42,041	834.5	19,850	4.4%	11,683	3.6	70.1	8.4%
6/30/96	42,712	889.3	20,821	4.9%	12,073	3.5	76.2	8.6%
6/30/97	43,068	938.5	21,791	4.7%	12,644	3.4	84.8	9.0%
6/30/98	43,047	974.7	22,644	3.9%	13,480	3.2	94.6	9.7%
6/30/99	43,064	1,008.9	23,427	3.5%	14,688	2.9	119.3	11.8%
6/30/00	43,121	1,050.0	24,351	3.9%	15,544	2.8	133.6	12.7%
6/30/01	42,556	1,070.1	25,146	3.3%	16,643	2.6	150.0	14.0%
6/30/02	42,230	1,111.5	26,320	4.7%	17,748	2.4	167.6	15.1%
6/30/03	42,879	1,147.9	26,772	1.7%	18,838	2.3	186.0	16.2%
6/30/04	42,826	1,175.8	27,455	2.6%	19,872	2.2	203.4	17.3%
6/30/05	42,938	1,214.9	28,295	3.1%	21,080	2.0	232.9	19.2%
6/30/06	43,453	1,267.1	29,159	3.1%	22,234	2.0	254.7	20.1%
6/30/07	43,630	1,302.6	29,855	2.4%	22,409	1.9	274.8	21.1%

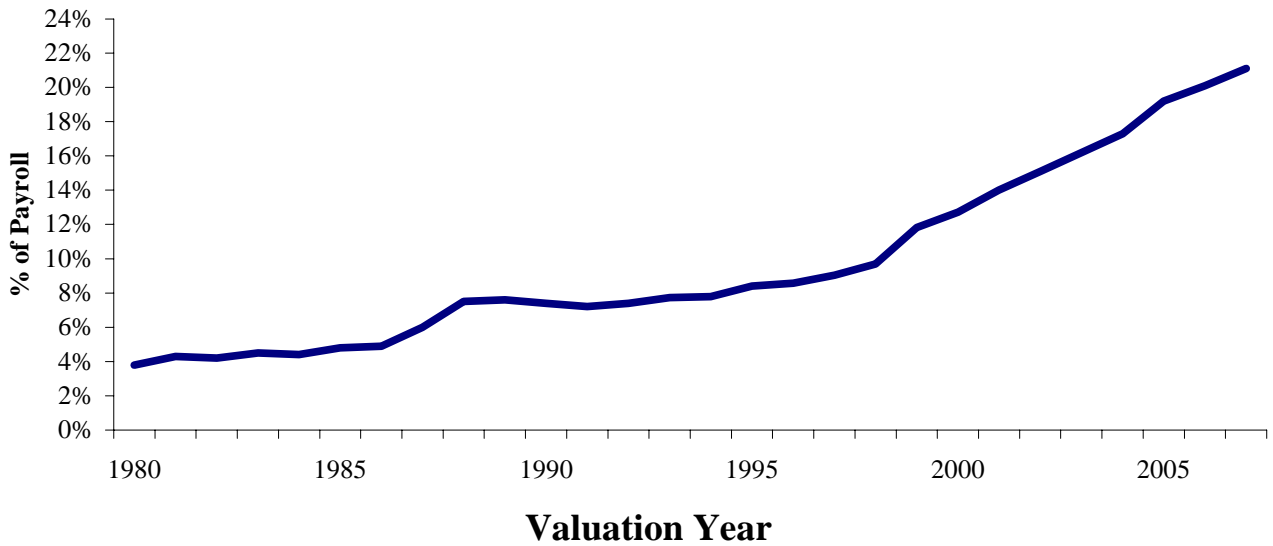
ACTUARIAL ACCRUED LIABILITIES & ASSETS



Active Members Per Retired Life



Retirement Benefits Being Paid as a Percent of Member Payroll



SHORT CONDITION TEST

The APERS 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 condition 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) Active member contributions on deposit;
- 2) The liabilities for future benefits to present retired lives;
- 3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, the liabilities for active 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 unusual circumstances). In addition, the liabilities for service already rendered by active 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 uncommon.

SHORT CONDITION TESTS
10-YEAR COMPARATIVE STATEMENT
(\$ IN MILLIONS)

Val'n. Date: June 30	Entry Age Accrued Liability			Valuation Assets	Portion of Present Values Covered by Present Assets			
	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)	Total
STATE DIVISION (including sub-divisions)								
1998@	\$17.2	\$ 640.3	\$1,395.9	\$2,328.5	100%	100%	119%	113%
1999@#	16.9	784.0	1,634.2	2,637.1	100%	100%	112%	108%
2000	15.8	747.5	1,865.7	2,943.3	100%	100%	117%	112%
LOCAL GOVERNMENT DIVISION								
1998@	\$ 8.8	\$ 337.9	\$ 501.1	\$ 968.1	100%	100%	124%	114%
1999#	8.8	446.9	587.9	1,074.7	100%	100%	105%	103%
2000	7.6	440.0	706.0	1,178.1	100%	100%	103%	102%
STATE AND LOCAL GOVERNMENT DIVISION								
2001#	\$23.4	\$1,305.0	\$2,759.2	\$4,335.5	100%	100%	109%	106%
2002@	20.5	1,502.7	2,850.8	4,397.2	100%	100%	101%	101%
2003@	20.5	1,624.7	3,004.7	4,408.3	100%	100%	92%	95%
2004	20.5	1,762.2	3,197.6	4,429.9	100%	100%	83%	89%
2005@	15.5	1,878.2	3,701.7	4,576.1	100%	100%	72%	82%
2006	15.5	1,990.6	3,907.3	4,941.1	100%	100%	75%	84%
2007	29.7	2,268.5	3,855.4	5,489.3	100%	100%	83%	89%
2007#	29.7	2,268.5	3,856.7	5,489.3	100%	100%	83%	89%

After legislated changes in benefit provisions.

@ After changes in financial assumptions.

SECTION B

VALUATION DATA

**SUMMARY OF PROVISIONS EVALUATED
(EXCLUDES SPECIAL PROVISIONS FOR GENERAL ASSEMBLY)
(LAST CHANGED AS OF 7/1/2007)**

The Old Contributory Plan is available to persons who became members of APERS before January 1, 1978. The Non-Contributory Plan applies to all persons first hired after January 1, 1978 and before July 1, 2005 in APERS-covered employment. The New Contributory Plan applies to all persons hired after July 1, 2005 in APERS-covered employment or Non-Contributory members who elect to participate in the New Contributory Plan before January 1, 2005.

New Contributory Plan

Non-Contributory Plan

VOLUNTARY RETIREMENT

With a full benefit, after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age. For sheriff and public safety members, the age 65 requirement is reduced 1 month for each 2 months of actual service, but not below age 55 (age 52 for sheriff members with a minimum of 10 years of actual service).

With a full benefit, after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age. For sheriff and public safety members, the age 65 requirement is reduced 1 month for each 2 months of actual service, but not below age 55 (age 52 for sheriff members with a minimum of 10 years of actual service).

With a reduced benefit, after age 55 with 5 years of service or any age with 28 years of service. The reduction is equal to ½ of 1% for each month retirement precedes normal retirement age.

With a reduced benefit, after age 55 with 5 years of service or any age with 28 years of service. The reduction is equal to ½ of 1% for each month retirement precedes normal retirement age.

FINAL AVERAGE COMPENSATION (FAC)

Average of highest 36 calendar months of covered compensation.

Average of highest 36 calendar months of covered compensation.

FULL AGE & SERVICE RETIREMENT BENEFIT

2.03% of FAC times years of service (2.00% for service prior to July 1, 2007).

1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2007). If retirement is prior to age 62, an additional .33% of FAC times years of service will be paid until age 62. The portion of the APERS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at the time of retirement. The minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

SUMMARY OF PROVISIONS EVALUATED

New Contributory Plan

Non-Contributory Plan

BENEFIT INCREASES AFTER RETIREMENT

Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.

Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.

MEMBER CONTRIBUTION RATES

5% of covered compensation. Member contributions are refundable if APERS-covered employment terminates before a monthly benefit is payable (if contributions were for 5 or more years, interest credits are included in the refund). Members will earn interest on the contributions at a rate of 4% annually.

No employee contributions for service after January 1, 1978. If there is service before January 1, 1978, contributions for that period are refundable later in the same manner as under the Contributory Plan.

VESTED RETIREMENT BENEFITS

5 years service, and leaving APERS-covered employment before full retirement age. Deferred full retirement benefit, based on service and pay at termination, begins at age 65. A death benefit is payable to surviving spouse of member who dies before benefit commencement.

5 years service, and leaving APERS-covered employment before full retirement age. Deferred full retirement benefit, based on service and pay at termination, begins at age 65. A death benefit is payable to surviving spouse of member who dies before benefit commencement.

In place of deferred full benefit, at age 55 or older a qualifying member can elect an immediate reduced benefit equal to full amount reduced by ½ of 1% for each month of difference in benefit beginning ages.

In place of deferred full benefit, at age 55 or older a qualifying member can elect an immediate reduced benefit equal to full amount reduced by ½ of 1% for each month of difference in benefit beginning ages.

TOTAL AND PERMANENT DISABILITY

Disabled after 5 years service, including credit for 18 of the 24 months preceding disability.

Disabled after 5 years service, including credit for 18 of the 24 months preceding disability.

Amount is computed as an age & service benefit, based on service and pay at disability.

Amount is computed as an age & service benefit, based on service and compensation at disability.

SUMMARY OF PROVISIONS EVALUATED

New Contributory Plan

Non-Contributory Plan

DEATH AFTER RETIREMENT

If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

Member contributions before 1978 are protected in the same manner as under the Contributory Plan.

A retiring member can also elect an optional form of benefit, which provides beneficiary protection paid for by reducing the retired member's benefit amount. Should the member elect a straight life benefit and die within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain conditions.

A retiring member can also elect an optional form of benefit, which provides beneficiary protection paid for by reducing the retired member's benefit amount. Should the member elect a straight life benefit and die within 12 months of the date of retirement, a benefit may be payable to the surviving spouse under certain conditions.

DEATH WHILE IN APERS-COVERED EMPLOYMENT

Member's accumulated contributions are refundable.

Member's accumulated contributions before 1978 are refundable.

If the member had 5 years service, monthly benefits are payable instead. Surviving spouse receives a benefit computed as if member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately.

If the member had 5 years service, monthly benefits are payable instead. Surviving spouse receives a benefit computed as if member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately.

Each dependent child receives benefit of 10% of compensation (maximum of 25% for all children).

Each dependent child receives benefit of 10% of compensation (maximum of 25% for all children).

Dependent parents benefits are payable if neither spouse nor children's benefits are payable.

Dependent parents benefits are payable if neither spouse nor children's benefits are payable.

SUMMARY OF PROVISIONS EVALUATED CREDITED SERVICE

Membership Group	Service Credits
Public Safety Members (including State Capitol Police and Wildlife Sub-Division members) hired before July 1, 1997.	1-1/2 times regular rate with 5 years actual service required to meet benefit eligibility rules.
Governor	3 times regular rate with 5 years actual service required to meet death-in-service eligibility and 4 years actual service required for other benefit eligibility.
Elected State Constitutional Officers	2-1/2 times regular rate with 5 years actual service required to meet benefit eligibility.
General Assembly	Regular crediting rate with 5 years of actual service required to meet death-in-service eligibility and 10 years of actual service required for other benefit eligibility.
Other Elected Public Officials	2 times regular rate with 5 years actual service required to meet benefit eligibility.
All Other Members	Regular rate.

ARKANSAS PUBLIC EMPLOYEES DEFERRED RETIREMENT OPTION PLAN

Members with 28 years of actual service in APERS or in combination with a reciprocal system are eligible to participate.

Members, for a maximum of 7 years, may continue employment and have 75% of their accrued benefit (at date of participation with 30 or more years of service) paid into the Deferred Retirement Option Plan in lieu of any further benefit accruals.

The payments into the Deferred Retirement Option Plan accumulate with interest at 6% on the mean balance and are paid to the member at termination of active membership in either a lump sum or as an annuity.

SUMMARY OF PROVISIONS EVALUATED
GENERAL ASSEMBLY SUB-DIVISION
ADDITIONAL BENEFIT PROVISIONS

VOLUNTARY RETIREMENT ELIGIBILITY

Age 65 with 10 or more years of credited service, 28 years of actual service regardless of age, or age 55 with 12 or more years of actual service, 10 of which must be as a member of the General Assembly. In addition, a member of the general Assembly who was a member of the General Assembly on July 1, 1979, or holding any other Arkansas elective office on July 1, 1979, is eligible to retire with 17.5 years of actual service regardless of age.

VESTING

Termination of employment prior to normal retirement age after completing 10 or more years of credited service.

RETIREMENT BENEFIT

\$35.00 per month times years of General Assembly service. The amount is \$40.00 per month per year of service for any member who served as Speaker of the House of Representatives or President Pro Tempore of the Senate.

DISABILITY

Eligibility: 10 years of credited service.

Amount: Accrued retirement benefit.

DEATH-IN-SERVICE

Eligibility: 5 years of service.

Amount - Less than 10 years in General Assembly: Same as for regular members.

Amount - 10 or more years in General Assembly: 100% of the benefit the member would have been entitled to had he or she been at retirement age payable to an eligible surviving spouse.

DEATH-AFTER-RETIREMENT

100% of the benefit the member was receiving payable to an eligible surviving spouse.

PARTICIPATION

A member of the General Assembly may, at any time, elect either (i) to be covered by regular benefit provisions, or (ii) to discontinue an APERS membership.

SUMMARY OF PROVISIONS EVALUATED
ILLUSTRATION OF BENEFIT CHANGES DURING RECENT
YEARS OF RETIREMENT & RELATED CHANGES IN PURCHASING POWER

Year Ended June 30	Increase Beginning of Year	Benefit Dollars In Year	Inflation (Loss) In Year#	Purchasing Power At Year End	
				1985 \$	% of 1985
1985	--	\$ 8,000	(3.7)%	\$8,000	100%
1986	\$ 240	8,240	(1.7)%	8,102	101%
1987	240	8,480	(3.7)%	8,041	101%
1988	240	8,720	(3.9)%	7,958	99%
1989	240	8,960	(5.1)%	7,780	97%
1990	240	9,200	(4.7)%	7,630	95%
1991	240	9,440	(4.7)%	7,478	93%
1992	661	10,101	(3.1)%	7,761	97%
1993	303	10,404	(3.0)%	7,761	97%
1994	584	10,988	(2.5)%	7,996	100%
1995	275	11,263	(3.0)%	7,958	99%
1996	1,064	12,327	(2.8)%	8,472	106%
1997	345	12,672	(3.0)%	8,506	106%
1998	760	13,432	(2.3)%	8,761	110%
1999	309	13,741	(1.7)%	8,896	111%
2000	990	14,731	(3.7)%	9,194	115%
2001	442	15,173	(3.2)%	9,172	115%
2002	713	15,886	(1.1)%	9,502	119%
2003	477	16,363	(2.1)%	9,586	120%
2004	491	16,854	(3.0)%	9,586	120%
2005	506	17,360	(3.2)%	9,570	120%
2006	521	17,881	(4.1)%	9,465	118%
2007	715	18,596	(2.4)%	9,617	120%
2008	558	19,154			

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

REVENUES AND EXPENDITURES
JULY 1, 2006 THROUGH JUNE 30, 2007
MARKET VALUE
(\$ IN MILLIONS)

	Division		Totals
	State and Local Gov't.	General Assembly	
Balance 7/1/2006	\$5,127.3	\$8.2	\$5,135.5
Revenues			
Member contr.	12.1	0.0	12.1
Employer contr.	161.8	1.4	163.2
Transfers	6.4	0.0	6.4
Other	2.5	(0.0)	2.5
Investment ret.*	910.0	1.4	911.4
Total	1,092.8	2.8	1,095.6
Expenditures			
Benefits paid	242.7	2.1	244.8
Expenses	4.7	0.0	4.7
Total	247.4	2.1	249.5
Balance 6/30/2007	\$5,972.7	\$8.9	\$5,981.6

* Net of investment expenses.

Note: Results may not total due to rounding.

**STATE & LOCAL GOVERNMENT DIVISION
(EXCLUDING GENERAL ASSEMBLY)
REPORTED ACCRUED ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2007**

Retirement System Account	Reported Assets June 30, 2007
Employer Accumulation Account	\$ 3,279,635,992 *
Members Deposit Account	29,720,597
Members Deposit Interest Reserve	1,448,358
Retirement Reserve Account	2,268,524,880 *
Deferred Annuity Reserve Account	290,921,065 *
DROP Reserve	96,677,028
Miscellaneous Reserves	179,655
Total Market Value	<u>5,967,107,575</u>
Funding Value of Assets	5,489,340,379
Valuation Asset Adjustment	(477,767,196)
Adjusted Employer Accum. Account	\$ 2,801,868,796

* After recommended reserve transfers (see page A-6).

The Employers Accumulation Account represents employer contributions accumulated for benefits on behalf of present members.

The Members Deposit Account represents member contributions accumulated for (1) monthly benefits at retirement, and (2) refunds upon termination if monthly benefits are not payable.

The Members Deposit Interest Reserve represents interest credited on member contributions.

The Retirement Reserve Account represents reserves, from employer and member contributions, held for the monthly benefits being paid to present retired lives.

The Deferred Annuity Account represents employer reserves held for future monthly benefits to present inactive members.

**GENERAL ASSEMBLY SUB-DIVISION
 REPORTED ASSETS APPLICABLE TO ACTIVE MEMBER LIABILITIES
 MEMBERS DEPOSIT ACCOUNT & EMPLOYERS
 ACCUMULATION ACCOUNT**

The balances at June 30, 2007 were reported to be as follows:

Retirement System Account	Reported Assets June 30, 2007
Employer Accumulation Account	\$ (3,387,693) *
Members Deposit Account	23,312
Members Deposit Interest Reserve	(4,858)
Retirement Reserve Account	16,887,313 *
Deferred Annuity Reserve Account	988,800 *
DROP Reserve	0
Total Market Value	<u>14,506,874</u>
Funding Value of Assets	8,185,641
Valuation Asset Adjustment	<u>(6,321,233)</u>
Adjusted Employer Accum. Account	\$ (9,708,926)

* After recommended reserve transfers (see page A-6).

In financing the liabilities, the above Fund balances were applied to the actuarial accrued liabilities.

DEVELOPMENT OF FUNDING VALUE OF ASSETS

Valuation Date June 30:	2005	2006	2007	2008	2009	2010
A. Funding Value Beginning of Year	\$ 4,437,986,672	\$ 4,583,932,326	\$ 4,949,014,050			
B. Market Value End of Year	4,640,777,983	5,135,503,145	5,981,614,449			
C. Market Value Beginning of Year	4,306,846,042	4,640,777,983	5,135,503,145			
D. Non-Investment Net Cash Flow	(63,185,663)	(46,328,850)	(60,565,732)			
E. Investment Income						
E1. Market Total: B - C - D	397,117,604	541,054,012	906,677,036			
E2. Assumed Rate	8.00%	8.00%	8.00%			
E3. Amount for Immediate Recognition	352,543,923	364,885,200	393,529,566			
E4. Amount for Phased-In Recognition	44,573,681	176,168,812	513,147,470			
F. Phased-In Recognition of Investment Income						
F1. Current Year: 0.25 x E4	11,143,420	44,042,203	128,286,868			
F2. First Prior Year	32,075,647	11,143,420	44,042,203	\$ 128,286,868		
F3. Second Prior Year	(40,735,898)	32,075,647	11,143,420	44,042,203	\$ 128,286,868	
F4. Third Prior Year	(145,895,775)	(40,735,896)	32,075,645	11,143,421	44,042,203	\$ 128,286,866
F5. Total Recognized Investment Gain	(143,412,606)	46,525,374	215,548,136	183,472,492	172,329,071	128,286,866
G. Funding Value End of Year:						
A + D + E3 + F5	\$ 4,583,932,326	\$ 4,949,014,050	\$ 5,497,526,020			
H. Difference Between Market & Funding Value	56,845,657	186,489,095	484,088,429			
I. Recognized Rate of Return	4.7%	9.0%	12.4%			
J. Market Rate of Return	9.3%	11.7%	17.8%			
K. Ratio of Funding Value to Market Value	99%	96%	92%			

The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment return (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. If assumed rates are exactly realized for 3 consecutive years, funding value will become equal to market value.

SUMMARY OF ANNUITANTS ON ROLLS

Retirees and beneficiaries (including DROP participants) on rolls included in the valuation totaled 22,409, involving monthly annuities of \$274,846,872, distributed as follows:

Division	Number	Annuities Being Paid July 1, 2007	
		Monthly	Annualized
State & Local	20,511	\$ 18,555,922	\$ 222,671,064
General Assembly	121	145,407	1,744,884
Governor	4	7,850	94,200
Wildlife	72	192,696	2,312,352
State Constitutional Officers	1	3,286	39,432
Penitentiary	0	0	0
Sub-total	20,709	18,905,161	226,861,932
DROP	1,700	3,998,745	47,984,940
Totals	22,409	\$ 22,903,906	\$ 274,846,872

Inactive members, entitled to deferred annuities, included in the valuation totaled 11,674, involving estimated deferred monthly annuities of \$4,193,655, distributed as follows:

Division	Number of Inactive Members	Estimated Deferred Annuities	
		Monthly	Annualized
State and Local	11,581	\$ 4,171,299	\$ 50,055,584
General Assembly	74	11,465	137,581
Wildlife	15	8,444	101,328
State Constitutional Officers	4	2,447	29,365
Totals	11,674	\$ 4,193,655	\$ 50,323,858

**RETIREMENT SYSTEM TOTALS
ANNUITIES BEING PAID RETIREES AND BENEFICIARIES
AND DROP PARTICIPANTS
JUNE 30, 2007
BY ATTAINED AGE AND TYPE OF RETIREMENT**

Attained Ages	DROP		Age & Service*		Disability		Death-in-Service		Totals	
	No.	Annual Amount	No.	Annual Annuities	No.	Annual Annuities	No.	Annual Annuities	No.	Annual Annuities
Under 40			9	\$ 60,432	142	\$ 508,572	8	\$ 38,184	159	\$ 607,188
40-44			3	80,640	80	422,724			83	503,364
45-49	56	\$ 1,422,756	100	1,826,844	178	1,125,444	3	14,544	337	4,389,588
50-54	431	11,952,792	441	10,911,612	339	2,450,412	4	29,640	1,215	25,344,456
55-59	688	21,017,520	1,491	27,878,172	527	3,899,940	3	15,996	2,709	52,811,628
60-64	437	11,719,968	2,898	37,788,720	566	3,802,368	3	17,760	3,904	53,328,816
65-69	75	1,543,800	3,928	39,186,576	343	2,336,244	5	31,524	4,351	43,098,144
70-74	10	265,560	3,451	33,802,344	163	1,215,372	10	88,884	3,634	35,372,160
75-79	3	62,544	2,564	25,318,548	76	618,684	14	76,260	2,657	26,076,036
80-84			1,765	18,086,712	31	240,192	15	85,500	1,811	18,412,404
85-89			1,012	10,121,832	9	85,680	15	93,300	1,036	10,300,812
90-94			398	3,634,860	1	4,848	10	73,620	409	3,713,328
95-99			85	754,980			3	9,048	88	764,028
Over 100			15	121,956			1	2,964	16	124,920
Totals	1,700	\$47,984,940	18,160	\$209,574,228	2,455	\$16,710,480	94	\$577,224	22,409	\$274,846,872

* Including survivor beneficiaries of deceased retirees.

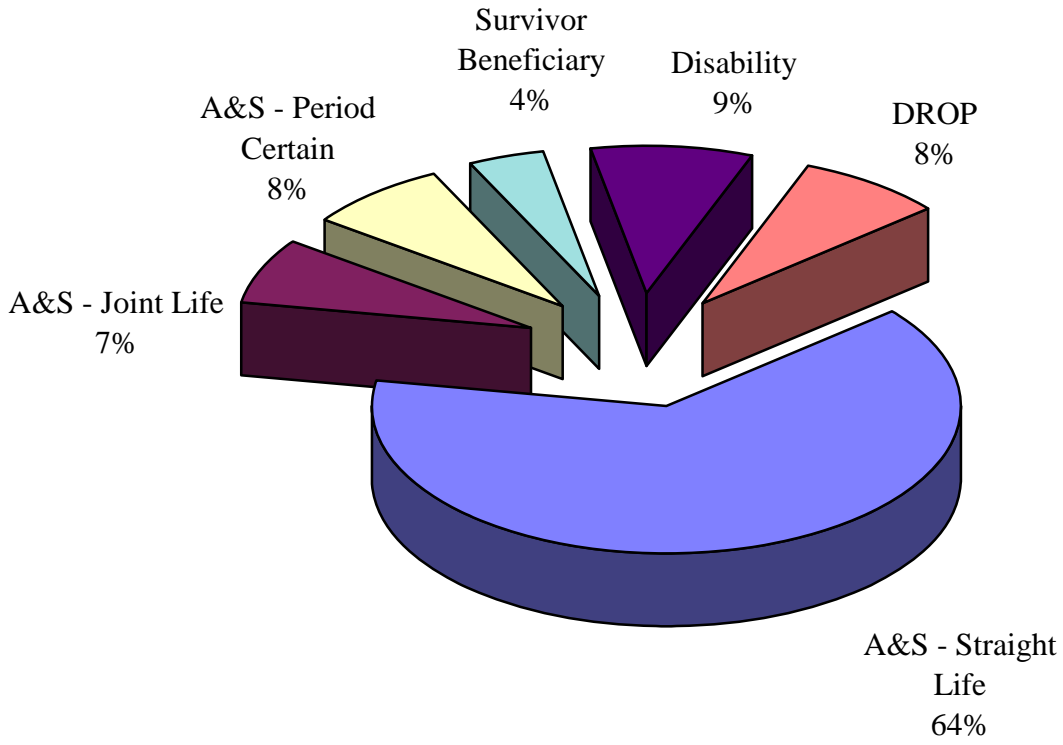
**ANNUITIES BEING PAID JUNE 30, 2007
BY TYPE OF ANNUITY**

Type of Annuity	Number	Annual Annuities
Age & Service Retirees		
Life	14,401	\$ 164,406,996
Option A- 60 (5 years certain)	611	6,603,672
Option A-120 (10 years certain)	1,188	12,155,484
Option B- 50 (joint and 50% survivor)	662	10,556,172
Option B- 75 (joint and 75% survivor)	919	11,874,900
Option B-100 (joint and 100% survivor)	80	1,378,560
Totals	17,861	206,975,784
Beneficiaries of Age & Service Retirees		
Life	100	729,528
Option A- 60	1	38,832
Option A-120	8	48,360
Option B- 50	105	768,144
Option B- 75	67	700,728
Option B-100	18	312,852
Totals	299	2,598,444
Total Age & Service Retirees & Beneficiaries	18,160	209,574,228
Disability Retirees		
Life	1,484	10,680,168
Option A- 60	87	565,596
Option A-120	193	1,337,376
Option B- 50	98	714,300
Option B- 75	132	917,700
Option B-100	0	0
Totals	1,994	14,215,140
Beneficiaries of Disability Retirees		
Life	70	354,432
Option A- 60	0	0
Option A-120	3	34,248
Option B- 50	8	36,204
Option B- 75	380	2,070,456
Option B-100	0	0
Totals	461	2,495,340
Total Disability Retirees & Beneficiaries	2,455	16,710,480
Death-in-Service Beneficiaries	94	577,224
Total Retirees & Beneficiaries	20,709	226,861,932
DROP Participants	1,700	47,984,940
Total Including DROP Participants	22,409	\$ 274,846,872

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS
(VOLUNTARY RETIREMENTS STILL RECEIVING
BENEFITS AS OF JUNE 30, 2007)**

	Years Credited Service				
	10-14	15-19	20-24	25-29	30+
Retirement Effective Dates July 1, 2006 to June 30, 2007					
Average Monthly Benefit	\$ 441.11	\$ 673.46	\$ 986.49	\$1,693.97	\$2,545.23
Average Monthly FAS	2,114.94	2,451.45	2,664.20	3,053.62	3,720.32
Number of Active Retirees	227	192	162	220	117
Retirement Effective Dates July 1, 2005 to June 30, 2006					
Average Monthly Benefit	429.94	626.96	851.46	1,608.73	2,032.10
Average Monthly FAS	2,077.05	2,151.28	2,264.52	2,975.45	3,423.51
Number of Active Retirees	218	206	162	297	77
Retirement Effective Dates July 1, 2004 to June 30, 2005					
Average Monthly Benefit	397.23	591.28	831.36	1,619.66	2,056.63
Average Monthly FAS	1,967.82	2,070.83	2,281.03	2,922.83	3,258.99
Number of Active Retirees	186	181	155	286	134
Retirement Effective Dates July 1, 2003 to June 30, 2004					
Average Monthly Benefit	410.91	615.92	875.05	1,737.15	1,929.11
Average Monthly FAS	1,921.45	2,141.94	2,334.81	2,869.20	3,032.98
Number of Active Retirees	213	181	164	241	84
Retirement Effective Dates July 1, 2002 to June 30, 2003					
Average Monthly Benefit	376.77	590.45	922.99	1,794.16	2,461.62
Average Monthly FAS	1,735.65	1,908.45	2,341.66	2,875.68	3,249.57
Number of Active Retirees	201	177	166	258	114
Retirement Effective Dates July 1, 2002 to June 30, 2007					
Average Monthly Benefit	412.44	620.57	894.11	1,686.05	2,229.13
Average Monthly FAS	1,968.46	2,149.57	2,377.80	2,937.66	3,347.55
Number of Active Retirees	1,045	937	809	1,302	526

ANNUITIES BEING PAID BY TYPE
JUNE 30, 2007



**RETIREMENT SYSTEM TOTALS
 ANNUITIES LIKELY TO BE PAID PRESENT INACTIVE MEMBERS
 JUNE 30, 2007
 BY ATTAINED AGE**

Attained Ages	No.	Estimated Annual Annuities
Under 40	2,587	\$ 8,159,000
40-44	1,876	7,769,403
45-49	2,196	10,214,723
50-54	2,289	11,467,523
55-59	1,644	7,998,204
60-64	808	3,680,027
65-69	274	1,034,978
Totals	11,674	\$ 50,323,858

LIABILITIES FOR DEFERRED ANNUITIES JUNE 30, 2007

Number of Inactive Members	Estimated Annual Annuities	Annuity Liabilities
11,674	\$ 50,323,858	\$ 291,909,865

**STATE AND LOCAL DIVISION
(EXCLUDING GENERAL ASSEMBLY)
ACTIVE MEMBERS IN VALUATION JUNE 30, 2007
BY ATTAINED AGE AND YEARS OF SERVICE**

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	308							308	\$ 4,109,358
20-24	2,204	33						2,237	46,811,357
25-29	3,181	690	10					3,881	97,523,148
30-34	2,269	1,401	308	12	1			3,991	111,153,636
35-39	2,080	1,402	884	343	36	3		4,748	139,502,368
40-44	1,826	1,293	896	852	385	44	8	5,304	161,090,374
45-49	1,871	1,325	881	850	822	498	55	6,302	200,580,003
50-54	1,539	1,346	918	906	845	790	186	6,530	217,078,260
55-59	1,250	1,042	889	832	702	543	208	5,466	177,978,364
60	224	190	141	147	134	89	37	962	29,961,175
61	178	169	130	124	115	81	33	830	26,215,964
62	118	129	94	100	68	66	20	595	18,610,241
63	81	104	72	81	62	38	12	450	13,781,956
64	94	88	60	73	58	38	14	425	12,428,217
65	77	81	53	64	45	46	16	382	11,745,280
66	58	50	35	36	40	28	10	257	7,535,893
67	43	43	33	22	21	15	9	186	5,536,702
68	37	44	27	23	16	11	2	160	4,631,973
69	32	31	26	21	6	10	5	131	3,676,852
70 & over	126	115	60	53	52	42	20	468	12,351,669
Totals	17,596	9,576	5,517	4,539	3,408	2,342	635	43,613	\$1,302,302,790

Group Averages

Age:	44.6 years
Service:	9.4 years
Annual Pay:	\$29,860

Of the 43,613 active members included in the above schedule, 28 were hired prior to July 1, 1978 and are not covered by the Non-Contributory Plan or the New-Contributory Plan.

**GENERAL ASSEMBLY SUB-DIVISION
MEMBERS AS OF JUNE 30, 2007
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							No.	Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-27	28 Plus		
25-29									
30-34									\$ -
35-39		1						1	14,764
40-44									
45-49			1	1	1			3	69,839
50-54		1						1	14,764
55-59		2	1	2				5	74,705
60			1					1	14,764
61			1					1	14,764
62									
63									
64									
65			1					1	14,764
66									
67									
68			1					1	14,764
69			2					2	29,528
70									
71			1					1	14,764
72									
73									
Totals		4	9	3	1			17	\$ 277,420

While not used in the computations, the following *group averages* are computed and shown for their general interest.

Group Averages

Age:	57.6 years
Service:	12.8 years
Annual Pay:	\$16,319

SECTION C

GAIN/(LOSS) ANALYSIS

GAIN/(LOSS) ANALYSIS COMMENTS

Purpose of Gain/(Loss) Analysis. Regular actuarial valuations give valuable information about the composite change in unfunded actuarial accrued liabilities – whether or not the liabilities are increasing or decreasing and by how much.

But valuations do not show the portion of the change attributable to each risk area within the Retirement System: the rate of investment return which plan assets earn; the rates of withdrawal of active members who leave covered employment; the rates of mortality; the rates of disability; the rates of pay increases; and the ages at actual retirement. In an actuarial valuation, assumptions must be made as to what these rates will be, for the next year and for decades in the future.

The objective of a gain and loss analysis is to determine the portion of the change in actuarial condition (unfunded actuarial accrued liabilities) attributable to each risk area.

The fact that actual experience differs from assumed experience is to be expected – *the future cannot be predicted with precision*. The economic risk areas (particularly investment return and pay increases) are volatile. Inflation directly affects economic risk areas, and inflation seems to defy reliable prediction.

Changes in the valuation assumed experience for a risk area should be made when the differences between assumed and actual experience have been observed to be sizable and persistent. A gain and loss analysis covering a relatively short period may or may not be indicative of *long-term trends, which are the basis of actuarial assumptions*.

**CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007**

	\$ in Millions		
	State and Local Division	General Assembly	Total
(1) UAAL* at beginning of year	\$972.3	\$15.0	\$ 987.3
(2) Normal cost from last valuation	89.3	0.1	89.4
(3) Actual employer contributions	161.8	1.4	163.2
(4) Interest accrual: $[(1) + \frac{1}{2}[(2) - (3)]] \times .080$	74.9	1.1	76.0
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	974.7	14.8	989.5
(6) Increase from benefit changes	31.0	0.0	31.0
(7) Changes from revised actuarial assumptions and methods	0.0	0.0	0.0
(8) New entrant liabilities	37.7	0.0	37.7
(9) Expected UAAL after changes: (5) + (6) + (7) + (8)	1,043.4	14.8	1,058.2
(10) Actual UAAL at end of year	665.6	10.7	676.3
(11) Gain/(Loss): (9) - (10)	\$ 377.8	\$ 4.1	\$ 381.9

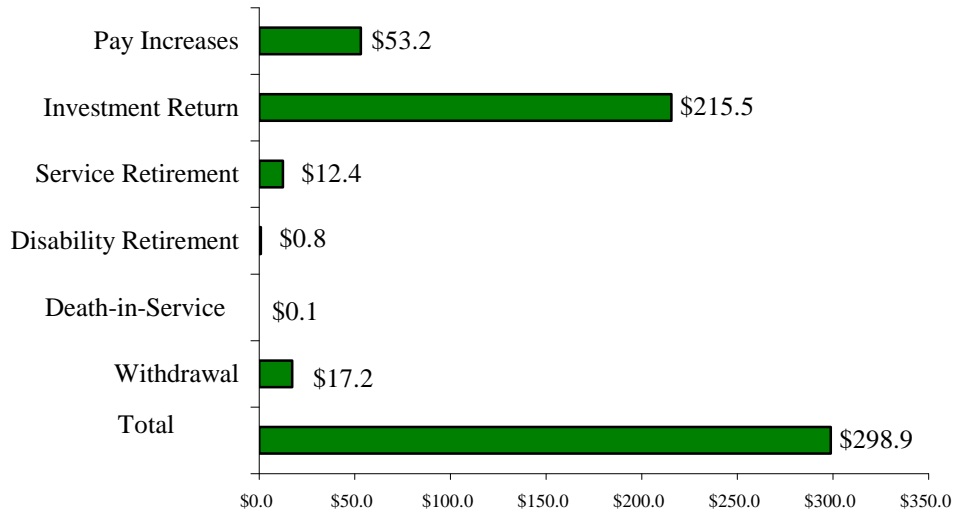
* *Unfunded actuarial accrued liability.*

**GAINS/(LOSSES) BY RISK AREA AND BY DIVISION
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007**

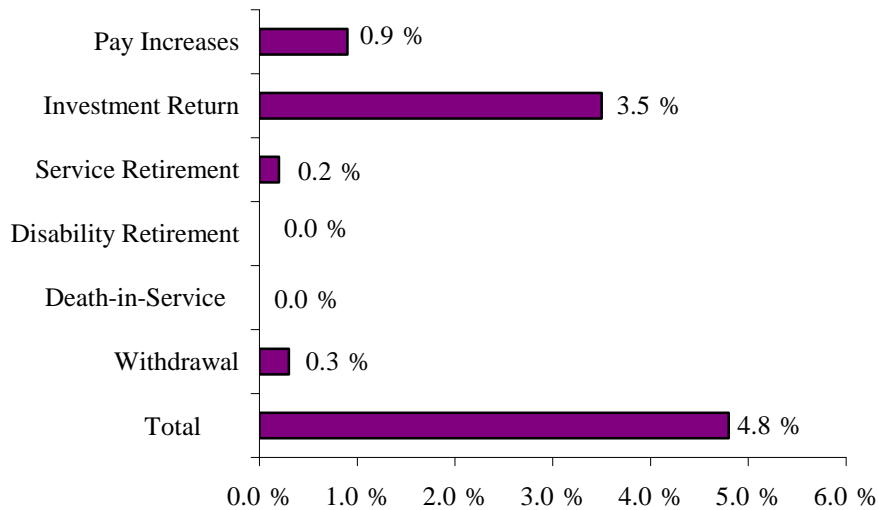
<u>Type of Risk Area</u>	<u>Gain/(Loss) in Period - (\$ in Millions)</u>			<u>% of Accrued Liabilities</u>
	<u>State and Local Divisions</u>	<u>General Assembly</u>	<u>Total</u>	
ECONOMIC RISK AREAS				
<i>Pay Increases.</i> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 53.2	\$ 0.0	\$ 53.2	0.9 %
<i>Investment Return.</i> If there is greater investment return than assumed, there is a gain. If less return, a loss.	215.2	0.3	215.5	3.5 %
NON-ECONOMIC RISK AREAS				
<i>Non-Casualty Retirements.</i> If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	12.4	0.0	12.4	0.2 %
<i>Disability Retirements.</i> If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.8	0.0	0.8	0.0 %
<i>Death-in-Service Benefits.</i> If there are fewer claims than assumed, there is a gain. If more, a loss.	0.1	0.0	0.1	0.0 %
<i>Withdrawal.</i> If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	17.2	0.0	17.2	0.3 %
Total Active Member Actuarial Gains/(Losses)	\$ 298.9	\$ 0.3	\$ 299.2	4.8 %
<i>Retired Life Mortality.</i>	16.0	0.0	16.0	0.3 %
<i>Other.</i> Includes data adjustments at retirement, timing of financial transactions, and miscellaneous unidentified sources.	\$ 62.9	\$ 3.8	\$ 66.7	1.1 %
Total Actuarial Gains/(Losses)	\$ 377.8	\$ 4.1	\$ 381.9	6.2 %

**ACTUARIAL GAINS/(LOSSES)
ACTIVE MEMBERS
2006-2007 PLAN YEAR**

Amount in \$ Millions



% of Accrued Liabilities



**ACTUARIAL GAINS/(LOSSES) BY RISK AREA
ACTIVE MEMBERS
COMPARATIVE STATEMENT
(\$ IN MILLIONS)**

Year Ending June 30	Gain/(Loss) By Risk Area						Total Experience Gain/(Loss)		Accrued Liability End of Year
	Pay Increases	Invest- ments	Age & Service		Death In Service	Withdrawal	Dollars	% of AAL	
			Retirement	Disability					
1991	\$ (3.7)	\$ (8.2)	\$ 0.2	\$ 0.8	\$ 2.3	\$(13.3)	\$ (21.9)	(4.0)%	\$ 955.2 *
1992	2.7	27.9	2.7	1.2	2.1	(6.1)	30.5	3.2 %	1,607.6
1993	(2.6)	36.3	1.6	1.3	3.1	4.2	43.9	2.7 %	1,711.3
1994	26.0	21.5	3.8	1.4	2.4	(2.2)	52.9	3.1 %	1,853.8
1995	32.0	68.1	(2.1)	(1.5)	(3.0)	(1.7)	91.8	4.5 %	2,057.4
1996	(0.7)	103.5	5.7	2.9	1.4	5.3	118.1	5.8 %	2,290.6
1997	(2.2)	155.3	7.7	3.6	1.9	4.9	171.2	7.5 %	2,605.6
1998	18.2	197.4	(4.4)	4.2	2.1	20.6	238.1	9.1 %	2,882.5
1999	(0.6)	153.1	(0.3)	3.2	(0.1)	25.8	181.1	5.5 %	3,478.7
2000	(13.1)	134.1	2.2	2.8	(0.1)	20.7	146.6	4.2 %	3,803.4
2001	31.3	(37.0)	3.3	3.0	0.1	18.9	19.6	0.5 %	4,111.0
2002	5.4	(247.1)	3.7	(2.5)	0.5	(4.2)	(244.2)	(5.6)%	4,398.0
2003	36.0	(292.6)	11.2	3.3	(0.1)	15.2	(227.0)	(4.9)%	4,398.0
2004	16.2	(274.0)	18.4	0.5	0.2	8.6	(230.0)	(4.6)%	5,004.5
2005	46.7	(143.4)	20.1	0.5	0.5	28.5	(47.1)	(0.8)%	5,619.4
2006	(15.4)	46.5	17.0	0.8	0.0	11.4	60.3	1.0 %	5,936.3
2007	53.2	215.5	12.4	0.8	0.1	17.2	299.2	4.8 %	6,173.8

* Excludes liability for retired lives.

**DEVELOPMENT OF GAIN/(LOSS)
FROM INVESTMENT RETURN*
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007**

	\$ Millions
1. Total Assets Beginning of Year	\$4,949.0
2. Total Assets End of Year (Funding Value)	
a. Actual	5,497.5
b. If net investment return had been 8.00%	5,282.0
3. Gain/(Loss): 2a. minus 2b.	\$ 215.5

* *“Investment return” as used in this Gain/(Loss) Analysis means essentially: assumed investment income; plus/minus a four year phase-in of differences between actual and assumed investment return (see page B-10).*

**ACTIVE MEMBERS WHO BECAME AGE & SERVICE RETIREES
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(RETIREMENT WITH UNREDUCED BENEFIT
BEGINNING IMMEDIATELY)
ATTAINED AGE OF 65 OR OLDER WITH LESS
THAN 28 YEARS OF SERVICE**

Ages	State & Local Retirements	
	Actual	Expected
65	42	104
66	73	60
67	32	32
68	27	19
69	20	15
70	18	12
71	13	8
72	8	8
73	9	10
74	8	9
75 & Up	26	34
	276	311

Averages, in Years:

Age at retirement	68.9
Service at retirement	14.5

**ACTIVE MEMBERS WHO BECAME REDUCED EARLY RETIREES
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(EARLY RETIREMENTS WITH REDUCED BENEFITS
BEGINNING IMMEDIATELY)**

Ages	State & Local Early Retirement	
	Actual	Expected
55	16	13
56	14	12
57	13	17
58	13	17
59	24	21
60	34	28
61	25	26
62	66	79
63	61	57
64	54	47
Totals	320	316

Averages, in Years:

Age at retirement	60.4
Service at retirement	16.5

**ACTIVE MEMBERS WHO RETIRED OR ENTERED THE DROP
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(28 OR MORE YEARS OF SERVICE)**

Service	State & Local			
	Retirement		DROP	
	Actual	Expected	Actual	Expected
28	128	89	221	284
29	15	33	38	31
30	12	21	26	20
31	16	17	13	15
32	8	12	10	11
33	8	9	8	8
34	2	7	5	6
35	3	4	9	
36	3	6		
37	1	4		
38 & Up	25	100		
Totals	221	303	330	375

Averages, in Years:

Age at retirement	61.2	56.6
Service at retirement	33.1	28.7

**ACTIVE MEMBERS WHO BECAME DISABILITY RETIREES
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(AND WHO WERE ACTIVE MEMBERS AS OF JUNE 30, 2006)**

Ages	State & Local Disabilities	
	Actual	Expected
20- 24		0
25- 29	1	1
30- 34	3	1
35- 39	3	4
40- 44	11	7
45- 49	14	13
50- 54	22	26
55- 59	31	38
60 & Up	30	31
	115	120

Averages, in Years:

Age at retirement	55.6
Service at retirement	16.3

**ACTIVE MEMBERS WHO LEFT ACTIVE STATUS WITH A
DEFERRED BENEFIT PAYABLE
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(VESTED SEPARATIONS)**

Ages	State & Local Vested Separations	
	Actual	Expected
Below 30	135	79
30- 34	238	127
35- 39	277	125
40- 44	235	146
45- 49	238	143
50- 54	253	63
55- 59	177	46
60 & Up	163	30
	1,716	758

Averages, in Years:

Age at retirement	44.4
Service at retirement	9.3

**ACTIVE MEMBERS WHO LEFT ACTIVE STATUS WITH
NO BENEFIT PAYABLE
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007
(NON-VESTED SEPARATIONS)**

Service at Termination	State & Local Non-Vested Separations	
	Actual	Expected
0	1,909	2,039
1	927	1,021
2	536	619
3	404	393
4	2	109
Totals	3,778	4,181

Averages, in Years:

Age at retirement	34.7
Service at retirement	0.9

**MEMBERS ACTIVE BOTH BEGINNING AND END OF YEAR
SALARY INCREASES BY AGE GROUP
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007**

Age Groups	Number	Beginning Pay	Ending Pay		Percentage Increase	
			Expected	Actual	Expected	Actual
Below 25	1,349	\$ 27,660,224	\$ 30,284,162	\$ 30,776,797	9.5%	11.3%
25- 29	2,752	67,927,191	73,282,925	73,546,972	7.9%	8.3%
30- 34	3,201	88,080,415	94,110,054	94,100,989	6.8%	6.8%
35- 39	4,054	117,114,511	124,559,867	124,273,672	6.4%	6.1%
40- 44	4,662	140,386,960	148,859,618	147,790,584	6.0%	5.3%
45- 49	5,761	180,365,632	190,457,397	189,658,041	5.6%	5.2%
50- 54	5,903	192,774,239	202,759,269	201,215,174	5.2%	4.4%
55- 59	4,892	155,101,538	162,741,334	161,723,662	4.9%	4.3%
60-64	2,813	84,638,789	88,502,286	87,904,766	4.6%	3.9%
65 & Over	1,264	35,257,754	36,668,064	36,481,081	4.0%	3.5%
Totals	36,651				5.8%	5.3%

SECTION D

**ACTUARIAL METHODS AND ASSUMPTIONS AND
OTHER TECHNICAL ASSUMPTIONS**

**SUMMARY OF ASSUMPTIONS USED FOR APERS ACTUARIAL
VALUATIONS
ASSUMPTIONS ADOPTED BY BOARD OF TRUSTEES
AFTER CONSULTING WITH ACTUARY**

ECONOMIC ASSUMPTIONS

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the wage inflation rate. Considering the assumed wage inflation rate of 4.0%, the 8.00% investment return rate translates to an assumed net real rate of return of 4.0%. This assumption was first used for the June 30, 2002 valuation.

Pay increase assumptions for individual active members are shown on page D-7. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation. This assumption was first used for the June 30, 2002 valuation.

Total active member payroll is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to inflation. This assumption was first used for the June 30, 2002 valuation.

The number of active members is assumed to continue at the present number.

NON-ECONOMIC ASSUMPTIONS

The mortality table used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on page D-3. This assumption was first used for the June 30, 1998 valuation.

The probabilities of retirement for members eligible to retire are shown on pages D-4, D-5, and D-6.

The probabilities of withdrawal from service, *death-in-service* and *disability* are shown for sample ages on pages D-7 and D-8.

The ultimate entry-age normal actuarial cost method of the valuation was used in determining liabilities and normal cost. The normal cost is based on the benefits and contribution rate applicable to new hires. While 5.0% of member contributions are assumed in developing the employer normal cost, until such time as all members become contributory, the System will not receive 5.0% of payroll for member contributions. To account for this difference, 5.0% of the present value of future salary for all non-contributory members has been added to the actuarial accrued liability.

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 (principal and interest) which are level percent of payroll contributions.

Recognizing the special circumstances of the General Assembly Sub-Division, modifications of the above assumptions were made where appropriate.

Present assets (cash & investments) were valued on a market related basis in which differences between actual and assumed returns are phased-in over a four year period.

The data about persons now covered and about present assets were furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

**SINGLE LIFE RETIREMENT VALUES
 BASED ON 1983 GROUP ANNUITY MORTALITY
 8.00% INTEREST
 JUNE 30, 2007**

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1.00 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$ 142.98	\$ 147.82	\$ 201.77	\$ 213.96	38.46	44.52
45	138.18	144.67	190.68	205.34	33.74	39.69
50	132.10	140.42	177.82	194.90	29.18	34.92
55	124.57	134.74	163.18	182.35	24.82	30.24
60	115.04	127.24	146.32	167.43	20.64	25.67
65	103.26	117.61	127.37	150.12	16.69	21.29
70	90.18	105.53	107.87	130.45	13.18	17.13
75	76.40	91.57	88.67	109.59	10.15	13.37
80	62.65	77.16	70.71	89.47	7.64	10.20
85	50.59	62.99	55.72	70.85	5.73	7.58

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100	100 %	100 %
65	116	94	97
70	134	84	92
75	155	69	84
80	180	51	70

The mortality table was set forward 10 years for disabilities.

STATE AND LOCAL GOVERNMENT DIVISION
AGE-BASED RETIREMENT
JUNE 30, 2007

Retirement Ages (with less than 28 years of service)	Percent of Eligible Active Retiring Within Next Year	
	Unreduced	Reduced
55		2 %
56		2
57		3
58		3
59		4
60		5
61		7
62		23
63		19
64		16
65	35 %	
66	25	
67	20	
68	15	
69	15	
70	15	
71	15	
72	15	
73	20	
74-77	25	
78	30	
79	40	
80-82	50	
83	60	
84	90	
85	100	

A member was assumed eligible for unreduced retirement after attaining age 65 with 5 years of service or 28 years regardless of age (both unreduced retirement and DROP). A member was assumed eligible for reduced retirement after attaining age 55 with 10 or more years of service. These rates were first used in the June 30, 2003 valuation.

STATE AND LOCAL GOVERNMENT DIVISION
SERVICE BASED RETIREMENT
JUNE 30, 2007

Service	Percent of Eligible Active Retiring Within Next Year	
	Retirement	DROP
28	20 %	35 %
29	15	20
30	15	15
31	15	15
32	15	15
33	15	15
34	15	15
35	15	15
36	20	
37	30	
38	100	

These rates were first used in the June 30, 2003 valuation.

**GENERAL ASSEMBLY SUB-DIVISION
 PROBABILITIES OF RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE
 JUNE 30, 2007**

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	30 %
51	30
52	30
53	30
54	30
55	30
56	30
57	30
58	30
59	30
60	30
61	30
62	50
63	30
64	30
65	50
66	30
67-79	20
80	100

Member may retire with 28 or more years of service or at age 55 with 10 or more years of General Assembly service.

STATE AND LOCAL GOVERNMENT DIVISION
SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE SERVICE RETIREMENT
JUNE 30, 2007

Sample Ages	Years of Service	Percent of Active Members Separating within the Next Year						Pay Increase Assumptions For An Individual Employee		
		Withdrawal		Death		Disability		Merit & Seniority	Base (Economy)	Increase Next Year
		Men	Women	Men	Women	Men	Women			
	0	40.0 %	40.0 %							
	1	25.0	25.0							
	2	20.0	20.0							
	3	15.0	15.0							
	4	12.0	12.0							
20	5+	13.8	13.8	0.03 %	0.02 %	0.07 %	0.07 %	5.80 %	4.00 %	9.80 %
25		12.7	12.7	0.04	0.02	0.07	0.07	4.60	4.00	8.60
30		8.1	8.1	0.05	0.02	0.07	0.07	3.20	4.00	7.20
35		4.6	4.6	0.07	0.04	0.07	0.07	2.50	4.00	6.50
40		4.0	4.0	0.10	0.06	0.18	0.18	2.10	4.00	6.10
45		3.7	3.7	0.18	0.08	0.23	0.23	1.80	4.00	5.80
50		1.7	1.7	0.31	0.13	0.44	0.44	1.30	4.00	5.30
55		1.2	1.2	0.49	0.20	0.80	0.80	1.00	4.00	5.00
60		1.2	1.2	0.74	0.34	1.27	1.27	0.70	4.00	4.70

These rates were first used in the June 30, 2003 valuation. Pay increase rates are age based only, and not service based.

**GENERAL ASSEMBLY SUB-DIVISION
SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE
SERVICE RETIREMENT
JUNE 30, 2007**

		Percent of Active Members Separating within the Next Year					
Sample Ages	Years of Service	Withdrawal		Death		Disability	
		Men	Women	Men	Women	Men	Women
	0	30.0 %	30.0 %				
	1	25.0	25.0				
	2	20.0	20.0				
	3	15.0	15.0				
	4	12.0	12.0				
20	5+	9.0	9.0	0.03 %	0.02 %	0.06 %	0.06 %
25		8.3	8.3	0.04	0.02	0.06	0.06
30		5.3	5.3	0.05	0.02	0.06	0.06
35		3.0	3.0	0.07	0.04	0.06	0.06
40		2.6	2.6	0.10	0.06	0.16	0.16
45		2.4	2.4	0.18	0.08	0.21	0.21
50		1.1	1.1	0.31	0.13	0.39	0.39
55		0.8	0.8	0.49	0.20	0.71	0.71
60		0.8	0.8	0.74	0.34	1.13	1.13

SUMMARY OF ASSUMPTIONS USED
JUNE 30, 2007
MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption. 80% of males and 80% of females are assumed to be married for purposes of death-in-service benefits.

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 of all types are assumed to occur mid-year.

Eligibility Testing. Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Benefit Service. Exact fractional service is used to determine the amount of benefit payable.

Decrement Relativity. Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

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. New entrant normal cost contributions are applied to the funding of new entrant benefits.

SECTION E

**DISTRICT JUDGES - VALUATION RESULTS,
VALUATION DATA, AND FINANCIAL PRINCIPLES**

DISTRICT JUDGES
EMPLOYER CONTRIBUTION RATES COMPUTED JUNE 30, 2007

Contribution for	Contributions Expressed as %'s of Active Payroll and Old Plan Annual \$	
	New Plan and Paid-Off Old Plan	Still Paying Old Plan
Normal Cost:		
Age and service annuities (including reduced retirement)	16.26%	
Separation benefits	1.47%	
Disability benefits	1.61%	
Death-in-service annuities	0.00%	
Total	19.34%	
Member contributions (ultimate)	5.00%	
Employer Normal Cost	14.34%	
Unfunded Actuarial Accrued Liabilities	1.14% *	983,290 **
Total Employer Contribution	15.48%	\$983,290

* *Unfunded actuarial accrued liabilities were amortized over an 18 year period.*

** *Unfunded actuarial accrued liabilities were amortized over a 28 year period.*

DISTRICT JUDGES
SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS
YEAR ENDED JUNE 30, 2007

Present Resources and Expected Future Resources

A.	Present Valuation Assets:	
	1. Net assets from system financial statements	\$12,582,548
	2. Market value adjustment	0
	3. Valuation assets	<u>12,582,548</u>
B.	Actuarial present value of expected future employer contributions:	
	1. For normal costs	3,242,077
	2. For unfunded actuarial accrued liability	11,804,885
	3. Total	<u>15,046,962</u>
C.	Actuarial present value of expected future member contributions	<u>1,129,096</u>
D.	Total Present and Expected Future Resources	<u><u>\$28,758,606</u></u>
A.	To retirees and beneficiaries	\$ 9,404,251
B.	To vested terminated members	11,991,319
C.	To present active members:	
	1. Allocated to service rendered prior to valuation date - actuarial accrued liability	2,227,730
	2. Allocated to service likely to be rendered after valuation date	4,371,173
	3. Total	<u>6,598,903</u>
D.	Reserve for Paid-Off Old Plan	764,133
E.	Total Actuarial Present Value of Expected Future Benefit Payments	<u><u>\$28,758,606</u></u>

DISTRICT JUDGES
COMPUTED ACTUARIAL LIABILITIES AND
ALLOCATION USING ENTRY AGE ACTUARIAL COST METHOD
AS OF JUNE 30, 2007

Actuarial Present Value of	Total Present Value	Portion Covered By Future Normal Cost Contributions	Actuarial Accrued Liabilities (1) - (2)
Benefits to be paid to current retirees, beneficiaries, and future beneficiaries of current retirees and reserve for Paid-Off Old Plan	\$10,168,384	\$ 0	\$10,168,384
Age and service allowances based on total service likely to be rendered by present active members	5,934,423	3,654,704	2,279,719
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	12,314,336	348,733	11,965,603
Disability benefits likely to be paid to present active members	341,463	367,736	(26,273)
Death in service benefits likely to be paid on behalf of present active members	0	0	0
Total	\$28,758,606	\$4,371,173	\$24,387,433
Applicable Assets (Funding Value)	12,582,548	0	12,582,548
Liabilities to be covered by future Contributions	\$16,176,058	\$4,371,173	\$ 11,804,885

DISTRICT JUDGES
SUMMARY OF PROVISIONS EVALUATED

VOLUNTARY RETIREMENT	<i>With a full benefit</i> , after either (a) age 50 with 20 years of eligibility service, (b) age 60 with 16 years of eligibility service, or (c) age 65 with 8 years of eligibility service.
FINAL AVERAGE COMPENSATION (FAC)	Average of the final three calendar years of employment.
BENEFIT SERVICE	Service performed on or after January 1, 2005.
ELIGIBILITY SERVICE	Benefit service plus service in Old Local District Judges Plan.
FULL AGE & SERVICE RETIREMENT BENEFIT	2.50% of FAC times actual service.
BENEFIT INCREASES AFTER RETIREMENT	Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.
MEMBER CONTRIBUTION RATES	Active members contribute 5% of their salaries. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.
VESTED RETIREMENT BENEFITS	8 years of eligibility service. Deferred full retirement benefit, based on benefit service and pay at termination, begins when member would have been eligible for voluntary retirement.
TOTAL AND PERMANENT DISABILITY	An active member with 3 or more consecutive years of eligibility service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity.
DEATH AFTER RETIREMENT	If the member was eligible for normal retirement at the time of death, an eligible beneficiary will begin receiving a 50% joint and survivor pension computed in the same manner as a service retirement pension as if the member had retired the last day of his life.

**DISTRICT JUDGES
REVENUES AND EXPENDITURES
JULY 1, 2006 THROUGH JUNE 30, 2007
MARKET VALUE**

	Plan			Totals
	New Plan	Paid-Off Old Plan	Still Paying Old Plan	
Balance 7/1/2006	\$790,319	\$4,086,719	\$5,264,002	\$10,141,040
Revenues				
Member contr.	171,439	0	0	171,439
Employer contr.	617,356	0	1,224,278	1,841,634
Other	0	0	0	0
Investment ret.	152,808	605,728	820,547	1,579,083
Total	\$941,603	\$605,728	\$2,044,825	\$3,592,156
Expenditures				
Benefits paid	0	140,200	870,092	1,010,292
Refunds	0	0	0	0
Expenses	13,582	53,840	72,934	140,356
Total	\$13,582	\$194,040	\$943,026	\$1,150,648
Preliminary Balance	\$1,718,340	\$4,498,407	\$6,365,801	\$12,582,548
Employer Paid Off Old Liability	0	1,402,850	(1,402,850)	0
Balance 6/30/2007	\$1,718,340	\$5,901,257	\$4,962,951	\$12,582,548

Note: Results may not total due to rounding.

DISTRICT JUDGES
SUMMARY OF ANNUITANTS ON ROLLS

Retirees and beneficiaries on rolls included in the valuation totaled 117, involving monthly annuities of \$85,541, distributed as follows:

Plan	Number of Retired Members	Annuities Being Paid July 1, 2007	
		Monthly	Annualized
New Plan	0	\$ 0	\$ 0
Old Plan Paid Off	20	18,448	221,379
Still Paying Old Plan	97	67,093	805,114
Totals	117	\$85,541	\$1,026,493

Inactive members, entitled to deferred annuities, included in the valuation totaled 161, involving estimated deferred monthly annuities of \$119,389 distributed as follows:

Division	Number of Inactive Members	Estimated Deferred Annuities	
		Monthly	Annualized
New Plan	0	\$ 0	\$ 0
Old Plan Paid Off	40	32,439	389,273
Still Paying Old Plan	121	86,950	1,043,400
Totals	161	\$119,389	\$1,432,672

DISTRICT JUDGES
SCHEDULE OF AVERAGE BENEFIT PAYMENTS
(VOLUNTARY RETIREMENTS STILL RECEIVING
BENEFITS AS OF JUNE 30, 2007)

	Years Credited Service					
	0-10	10-14	15-19	20-24	25-29	30+
Retirement Effective Dates July 1, 2006 to June 30, 2007						
Average Monthly Benefit	\$ 9,532.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$0.00
Number of Active Retirees	7	0	0	0	0	0
Retirement Effective Dates July 1, 2005 to June 30, 2006						
Average Monthly Benefit	2,195.15	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$0.00
Number of Active Retirees	6	0	0	0	0	0

DISTRICT JUDGES DETAIL BY EMPLOYER

Employer	ER ID	Participants Covered		Retiree	Deferred	Retiree	Deferred	Total	Assets	Unfunded Liability	28-year Payoff of Unfunded Liability
		Vested	Retired	Mon. Ben. 7/1/2007	Mon. Ben. 7/1/2007	Liability 6/30/2007	Liability 6/30/2007	Liability 6/30/2007	Allocated 6/30/2007		
Ashdown	90141	2	2	466.28	550.08	46,712	70,806	117,518	19,758	97,760	8,510
Ashdown (County)	90941	2	2	771.63	910.30	78,605	117,173	195,778	32,695	163,083	14,197
Batesville	90132	2	1	859.69	514.54	111,513	39,010	150,523	30,943	119,580	10,410
Batesville (Independence Co.)	90932	2	1	859.69	514.54	111,513	39,010	150,523	30,943	119,580	10,410
Beebe	90511	0	1	1,016.67	0.00	120,118	0	120,118	9,990	110,128	9,587
Benton	90962	1	2	2,398.38	666.67	281,243	73,447	354,690	207,986	146,704	12,771
Benton County - West	90204	3	0	0.00	1,892.53	0	193,401	193,401	113,085	80,316	6,992
Berryville	90108	1	2	275.05	475.94	28,621	66,896	95,517	12,474	83,043	7,229
Berryville (County)	90908	1	2	275.05	475.94	28,621	66,896	95,517	12,474	83,043	7,229
Biscoe	90159	0	1	150.00	0.00	20,075	0	20,075	546	19,529	1,700
Booneville	90142	2	1	216.09	189.65	29,419	12,708	42,127	10,473	31,654	2,755
Booneville (County)	90942	2	1	216.09	189.65	29,419	12,708	42,127	10,473	31,654	2,755
Bryant	90133	0	1	1,035.00	0.00	116,258	0	116,258	-6,439	122,697	10,681
Cabot	90143	3	0	0.00	1,651.12	0	140,334	140,334	106,655	33,679	2,932
Clarendon	90148	1	0	0.00	444.72	0	35,643	35,643	21,445	14,198	1,236
Conway	90123	2	1	1,600.55	4,591.66	183,705	482,195	665,900	200,817	465,083	40,486
Dequeen	90166	1	2	1,797.45	2,608.67	176,285	321,554	497,839	67,345	430,494	37,475
Dermott	90109	2	2	455.00	205.08	56,454	10,839	67,293	109	67,184	5,848
Dermott (County)	90909	2	2	455.00	205.08	56,454	10,839	67,293	109	67,184	5,848
Devalls Bluff	90359	0	1	225.00	0.00	30,335	0	30,335	819	29,516	2,569
Dewitt	90101	2	0	0.00	1,252.92	0	124,694	124,694	44,236	80,458	7,004
Dumas	90121	2	2	1,208.92	1,564.42	155,396	155,869	311,265	18,231	293,034	25,509
East Camden	90252	3	0	0.00	667.60	0	76,386	76,386	32,094	44,292	3,856
Elkins	90172	2	0	0.00	1,074.68	0	119,999	119,999	23,621	96,378	8,390
Eureka Springs	90208	1	1	1,099.20	225.00	154,349	12,197	166,546	93,668	72,878	6,344
Greenwood	90265	0	1	771.00	0.00	101,659	0	101,659	-5,918	107,577	9,365
Hamburg	90202	2	1	450.00	1,205.63	43,500	127,789	171,289	37,995	133,294	11,603
Hampton	90107	1	1	696.00	850.46	77,077	106,467	183,544	106,310	77,234	6,723
Hazen	90459	0	1	683.33	0.00	96,285	0	96,285	2,488	93,797	8,165
Helena	90154	2	2	523.51	27.72	41,317	679	41,996	-9,190	51,186	4,456
Helena (County)	90954	2	2	523.51	27.72	41,317	679	41,996	-9,190	51,186	4,456
Hope	90110	0	3	1,031.05	0.00	110,679	0	110,679	-12,823	123,502	10,751
Hope (County)	90929	0	3	1,031.05	0.00	110,679	0	110,679	-12,823	123,502	10,751
Hot Springs	90126	4	3	5,501.75	3,585.85	629,742	179,758	809,500	197,477	612,023	53,278
Hoxie	90138	2	0	0.00	664.66	0	82,854	82,854	14,680	68,174	5,935
Jacksonville	90160	1	2	1,610.27	2,824.71	97,161	343,189	440,350	424,525	15,825	1,378

**DISTRICT JUDGES
DETAIL BY EMPLOYER**

Employer	ER ID	Participants Covered		Retiree	Deferred	Retiree	Deferred	Total	Assets	Unfunded Liability	28-year
		Vested	Retired	Mon. Ben. 7/1/2007	Mon. Ben. 7/1/2007	Liability 6/30/2007	Liability 6/30/2007	Liability 6/30/2007	Allocated 6/30/2007		Unfunded Liability
Lawrence County	90938	2	0	0.00	1,016.99	0	126,645	126,645	25,014	101,631	8,847
Little Rock	90260	19	9	9,457.38	21,912.67	1,169,489	2,151,422	3,320,911	965,557	2,355,354	205,037
Magnolia	90114	0	1	641.98	0.00	69,656	0	69,656	8,023	61,633	5,365
Magnolia (Columbia County)	90914	0	1	641.98	0.00	69,656	0	69,656	8,023	61,633	5,365
Malvern	90130	0	2	1,426.79	0.00	177,805	0	177,805	173,247	4,558	397
Marked Tree	90256	0	1	948.14	0.00	99,575	0	99,575	(7,373)	106,948	9,310
Marshall	90964	1	0	0.00	701.31	0	81,729	81,729	63,419	18,310	1,594
McCrary	90274	0	1	90.00	0.00	10,539	0	10,539	8,678	1,861	162
Mt. Home	90103	2	3	1,448.91	2,080.86	136,530	227,738	364,268	19,108	345,160	30,047
Newport	90134	1	3	1,555.70	234.22	174,255	13,485	187,740	103,830	83,910	7,304
North Little Rock	90460	13	8	8,413.05	11,835.50	824,771	1,276,299	2,101,070	173,965	1,927,105	167,757
Osceola	90247	1	2	781.25	648.60	58,677	59,887	118,564	40,033	78,531	6,836
Ozark	90124	1	1	531.72	593.47	69,741	75,312	145,053	30,787	114,266	9,947
Ozark (County)	90924	1	1	531.72	593.47	69,741	75,312	145,053	30,787	114,266	9,947
Pocahontas	90161	2	1	113.58	530.57	9,813	41,267	51,080	6,814	44,266	3,853
Pocahontas (County)	90961	2	1	113.58	530.57	9,813	41,267	51,080	6,814	44,266	3,853
Prairie Grove	90372	1	2	1,861.93	233.23	225,425	14,351	239,776	33,508	206,268	17,956
Rison	90113	1	0	0.00	780.00	0	97,646	97,646	30,491	67,155	5,846
Russellville	90158	1	1	597.51	1,218.49	78,348	45,000	123,348	65,115	58,233	5,069
Searcy	90273	2	1	1,833.34	1,646.02	180,583	172,031	352,614	68,267	284,347	24,753
Stuttgart	90201	2	1	283.90	951.56	27,926	110,908	138,834	36,643	102,191	8,896
Stuttgart	90901	2	1	346.98	1,163.02	34,131	135,555	169,686	45,024	124,662	10,852
Texarkana	90146	1	2	2,393.77	2,937.49	300,453	308,841	609,294	599,742	9,552	832
Trumann	90356	1	2	1,758.59	224.77	167,971	12,919	180,890	(22,224)	203,114	17,681
Tyronza	90456	2	0	0.00	890.76	0	86,462	86,462	29,864	56,598	4,927
Walnut Ridge	90238	2	1	500.00	941.73	38,302	117,232	155,534	35,502	120,032	10,449
Ward	90443	1	0	0.00	173.01	0	7,969	7,969	1,535	6,434	560
West Helena	90254	2	0	0.00	1,048.27	0	124,550	124,550	35,990	88,560	7,709
West Memphis	90218	2	3	2,468.84	2,500.99	196,924	286,243	483,167	478,230	4,937	430
Wrightsville	90760	2	0	0.00	739.80	0	79,138	79,138	12,685	66,453	5,785
Wynne	90519	1	1	150.00	765.05	8,205	92,379	100,584	27,765	72,819	6,339
UAL>0 as of 6/30/2007		121	97	67,092.85	86,949.96	7,372,840	8,885,606	16,258,446	4,962,951	11,295,495	983,289

DISTRICT JUDGES
ACTIVE MEMBER IN VALUATION JUNE 30, 2007
BY ATTAINED AGE AND YEARS OF ELIGIBILITY SERVICE

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									\$ -
20-24									
25-29									
30-34									
35-39	3	1						4	167,226
40-44	2	2						4	208,521
45-49	7	1	1					9	315,914
50-54	9	2	1	1	1			14	563,132
55-59	6	2	3	3	3			17	745,459
60	1			1	2			4	244,041
61							1	1	25,754
62					1	1		2	121,250
63	1							1	16,456
64		1		1	1		2	5	321,801
65				1	1	1		3	137,368
66			2					2	210,560
67	2				1			3	81,275
68							1	1	20,000
69									
70 & over		1	2					3	188,104
Totals	31	10	9	7	10	2	4	73	\$3,366,861

Group Averages

Age:	55.6 years
Benefit Service:	2.2 years
Eligibility Service:	10.2 years
Annual Pay:	\$46,121

DISTRICT JUDGES
CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES
DURING THE PERIOD JULY 1, 2006 TO JUNE 30, 2007

	New Plan	Paid Off Old Plan	Still Paying Old Plan	Total
(1) UAAL* at beginning of year	\$532,498	\$47,671	\$14,222,172	\$14,802,341
(2) Normal cost from last valuation	567,750	-	-	567,750
(3) Actual employer contributions	617,356	-	1,224,278	1,841,634
(4) Interest accrual: [(1) + ½[(2) - (3)]]x .070	35,539	3,337	952,702	991,578
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	518,431	51,008	13,950,596	14,520,035
(6) Increase from benefit changes	-	-	-	-
(7) Changes from revised actuarial assumptions and methods	195,617	247,129	(1,548,694)	(1,105,948)
(8) Transfer of Still Paying Old Plan to Paid Off Old Plan	-	(93,317)	93,317	-
(9) Expected UAAL after changes: (5) + (6) + (7) + (8)	714,048	204,820	12,495,219	13,414,087
(10) Actual UAAL at end of year	509,390	-	11,295,495	11,804,885
(11) Gain/(Loss): (9) - (10)	\$204,658	\$204,820	\$1,199,724	\$1,609,202

* *Unfunded actuarial accrued liability.*

DISTRICT JUDGES
GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age AAL (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/(c)]
12/31/04	\$ 0	\$ 0	\$ 0	100.0 %	\$1,841,022	0.0%
6/30/05	7,569,919	24,134,114	16,564,195	31.4 %	3,222,495	514.0%
6/30/06	10,141,040	24,943,381	14,802,341	40.7 %	3,313,454	446.7%
6/30/07	12,582,548	24,387,433	11,804,885	51.6 %	3,366,861	350.6%

DISTRICT JUDGES
GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation date follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent-of-Payroll (New Plan and Paid Off Old Plan) Level Dollar (Still Paying Old Plan)
Remaining Amortization Period	18 years (New Plan and Paid Off Old Plan) 28 years (Still Paying Old Plan)
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases Including inflation at	4.7% - 9.8%
Cost-of-living adjustments	4.0%
	3.0% Annual Compounded Increase

	<u>Number</u>
Retirees and beneficiaries receiving benefits	117
Terminated plan members entitled to but not yet receiving benefits	161
Current active plan members	<u>73</u>
Total	351

SECTION F

**DISTRICT JUDGES - ACTUARIAL METHODS AND
ASSUMPTIONS AND OTHER TECHNICAL
ASSUMPTIONS**

DISTRICT JUDGES

SUMMARY OF ASSUMPTIONS USED FOR ACTUARIAL VALUATIONS

ECONOMIC ASSUMPTIONS

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the wage inflation rate. Considering the assumed wage inflation rate of 4.0%, the 8.00% investment return rate translates to an assumed net real rate of return of 4.0%. This assumption was first used for the June 30, 2007 valuation.

Pay increase assumptions for individual active members are shown on page F-5. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation.

Total active member payroll is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to inflation.

The number of active members is assumed to continue at the present number.

NON-ECONOMIC ASSUMPTIONS

The mortality table used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on page F-3.

The probabilities of retirement for members eligible to retire are shown on pages F-4.

The probabilities of withdrawal from service, *disability*, and *salary increases* are shown for sample ages on pages F-5.

The individual entry-age actuarial cost method was used in determining liabilities and normal cost. This cost method has the following characteristics:

- (i) the annual normal costs for each individual active member, payable from the member's actual date of employment to the projected date of retirement, are sufficient to accumulate the actuarial present value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Amortization of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities associated with accumulated actuarial gains and losses, were amortized by level percent-of-payroll contributions (principal and interest combined) over an 18-year period.

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

Present assets (cash & investments) were valued on a market related basis.

The data about persons now covered and about present assets were furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

**SINGLE LIFE RETIREMENT VALUES
 BASED ON 1983 GROUP ANNUITY MORTALITY
 8.00% INTEREST
 JUNE 30, 2007**

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1.00 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women	Men	Women
40	\$ 142.98	\$ 147.82	\$ 230.76	\$ 247.72	38.46	44.52
45	138.18	144.67	215.78	235.41	33.74	39.69
50	132.10	140.42	198.99	221.05	29.18	34.92
55	124.57	134.74	180.46	204.45	24.82	30.24
60	115.04	127.24	159.86	185.46	20.64	25.67
65	103.26	117.61	137.46	164.20	16.69	21.29
70	90.18	105.53	115.02	140.86	13.18	17.13
75	76.40	91.57	93.48	116.86	10.15	13.37
80	62.65	77.16	73.79	94.27	7.64	10.20
85	50.59	62.99	57.63	73.81	5.73	7.58

The mortality table was set forward 10 years for disabilities.

DISTRICT JUDGES

PROBABILITIES OF RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE

JUNE 30, 2007

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year
50	10 %
51	10
52	10
53	10
54	10
55	12
56	12
57	14
58	14
59	14
60	18
61	18
62-73	30
74	100

Member may retire age 50 with 20 or more years of service, age 60 with 16 or more years of service, or age 65 with 8 or more years of service.

**DISTRICT JUDGES
SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE
SERVICE RETIREMENT
JUNE 30, 2007**

Sample Ages	Percent of Active Members Separating within the Next Year				Pay Increase Assumptions For An Individual Employee		
	Withdrawal		Disability		Merit & Seniority	Base (Economy)	Increase Next
	Men	Women	Men	Women			
20	2.0 %	2.0 %	0.08 %	0.08 %	2.70 %	4.00 %	6.70 %
25	2.0	2.0	0.08	0.08	2.60	4.00	6.60
30	2.0	2.0	0.08	0.08	2.20	4.00	6.20
35	2.0	2.0	0.08	0.08	1.90	4.00	5.90
40	2.0	2.0	0.20	0.20	1.40	4.00	5.40
45	2.0	2.0	0.26	0.26	1.20	4.00	5.20
50	2.0	2.0	0.49	0.49	0.70	4.00	4.70
55	2.0	2.0	0.89	0.89	0.70	4.00	4.70
60	2.0	2.0	1.41	1.41	0.00	4.00	4.00

DISTRICT JUDGES
SUMMARY OF ASSUMPTIONS USED
JUNE 30, 2007
MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption. 100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. 80% of males and 80% of females are assumed to be married for purposes of death-after-retirement benefits for active member valuation purposes.

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 of all types are assumed to occur mid-year.

Eligibility Testing. Eligibility for benefits is determined based upon the age and service on the valuation date.

Benefit Service. Exact fractional service is used to determine the amount of benefit payable.

Decrement Relativity. Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

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. New entrant normal cost contributions are applied to the funding of new entrant benefits.

SECTION G

FINANCIAL PRINCIPLES

FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES OF APERS

Promises Made, and To Be Paid For. As each year is completed, APERS in effect hands an “IOU” to each member then acquiring a year of service credit --- the “IOU” says: “The Arkansas Public Employees 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, years and often decades later?

The law governing APERS financing intends that this year’s taxpayers contribute the money to cover the IOUs being handed out this year. With this financial objective, ***the employer contribution rate is expected to remain approximately level from generation to generation of taxpayers.***

There are systems which have a design for deferring contributions to future taxpayers. Lured by a lower contribution rate now, they put aside the consequence that the contribution rate must then relentlessly grow to a level much higher than would be required if a level contribution pattern were followed.

An inevitable by-product 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 actuarial accrued liabilities are the difference between: liabilities for service already rendered the accrued assets).

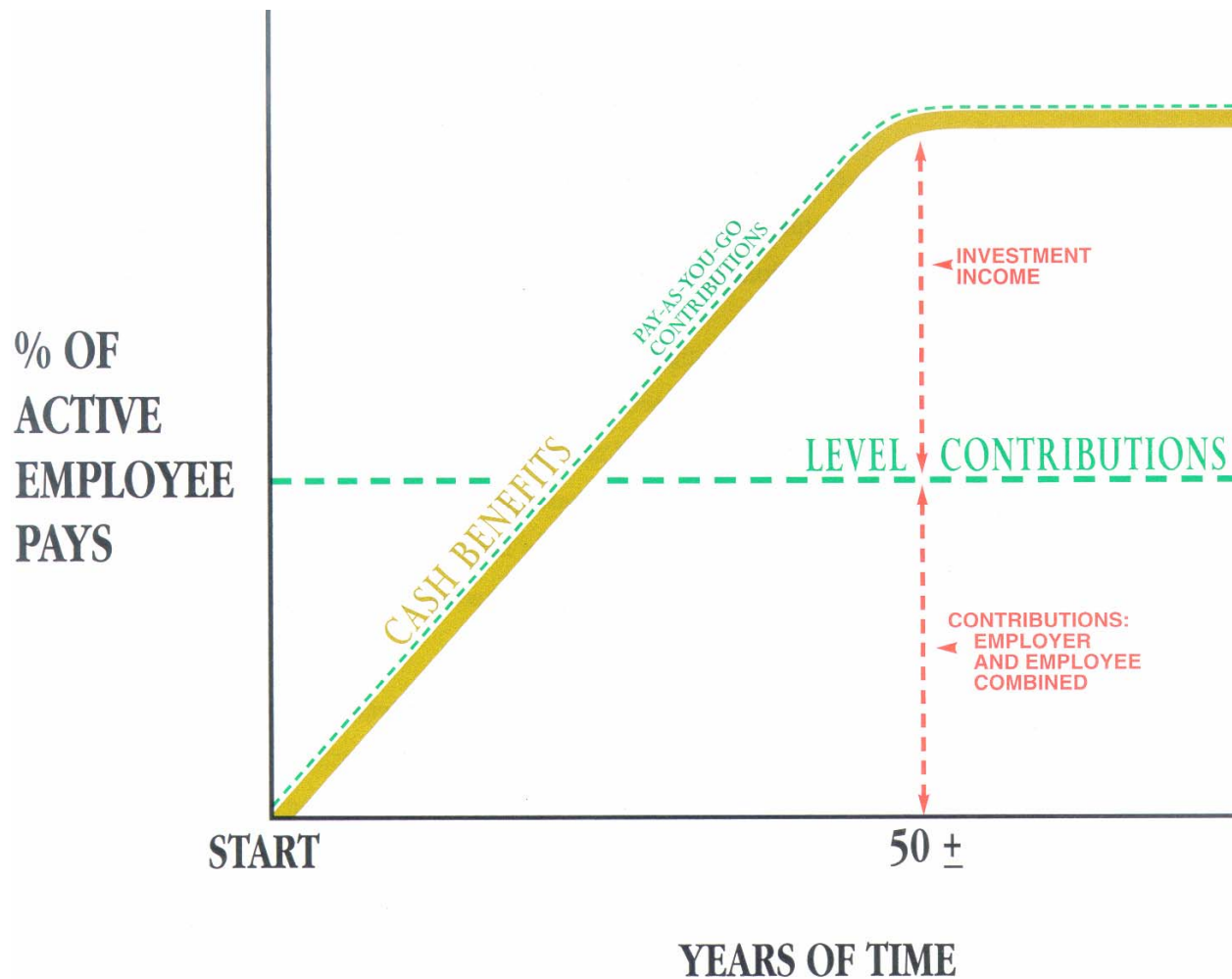
Computing Contributions to Support Fund Benefits. From a given schedule of benefits and from employee and asset data, the actuary calculates the contribution rates to support the benefits by means of ***an actuarial valuation and a funding method.***

An actuarial valuation has a number of ingredients such as: the rate of investment return which plan assets will earn; the rates of withdrawal of active members who leave covered employment; 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. The assumptions are established by the Retirement Board after receiving the advice of the actuary.

Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and has been observed, it will not coincide exactly with assumed experience, regardless of the skill of the actuary and the many calculations made. The future can not be predicted with 100% precision.

APERS 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 ***continuing adjustments in financial position.***



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

THE ACTUARIAL VALUATION PROCESS

The financing diagram on the preceding 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) which is thus an *increasing contribution method*; and, the *level contribution method* which attempts to equalize contributions between the generations.

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

- A. **Census Data**, including:
 - Retired lives now receiving benefits
 - Former employees with vested benefits not yet payable
 - Active employees
- B. + **Asset data** (cash & investments)
- C. + **Benefit provisions** that establish eligibility and amounts of payments to members
- D. + **Assumptions concerning future experience** in various risk areas
- 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

GLOSSARY

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.”

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 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.

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 a phase-in of differences between actual and assumed market rates of return.

MEANING OF “UNFUNDED ACTUARIAL ACCRUED LIABILITIES”

“Actuarial accrued liabilities” are the present value of the portions of promised benefits that are not covered by future normal cost contributions --- a liability has been established (“accrued”) because the service has been rendered but the resulting monthly cash benefit may not be payable until years in the future.

If “actuarial accrued liabilities” at any time exceed the plan’s accrued assets (cash & investments), the difference is *“unfunded actuarial accrued liabilities.”* This is the common condition. When a plan’s assets equal or exceed the plan’s “actuarial accrued liabilities,” the plan is said to be “fully funded.” This is an unusual condition.

Each time a plan adds a new benefit which applies to service already rendered, an “actuarial accrued liability” is created, which is also an “unfunded actuarial accrued liability” because the plan can’t print instant cash to cover the value of the new benefit promises. Payment for such unfunded actuarial accrued liabilities is spread over a period of years, commonly in the 20-30 year range.

Unfunded actuarial accrued liabilities can occur in another way: if actual plan experience is less favorable than assumed, the difference is added to unfunded actuarial accrued liabilities. For example, in plans where benefits are directly related to an employee’s pay near time of retirement, unfunded actuarial accrued liabilities increased rapidly during the 1970’s because unexpected rates of pay increase created additional actuarial accrued liabilities which could not be matched by reasonable investment results. Most of the unexpected pay increases were the direct result of inflation, which is a very destructive force on financial stability.

The existence of unfunded actuarial accrued liabilities is not bad but the changes from year to year in amount of unfunded actuarial accrued liabilities are important --- “bad” or “good” or somewhere in between.

Nor are unfunded actuarial accrued liabilities a bill payable immediately, but it is important that policy-makers prevent the amount from becoming unreasonably high and *it is vital for plans to have a sound method for making payments toward them* so that they are controlled.

SECTION H

**ACTUARIAL SUPPLEMENTAL INFORMATION
REQUIRED BY STATEMENTS NO. 25 AND NO. 27
OF THE GOVERNMENTAL ACCOUNTING
STANDARDS BOARD**

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF FUNDING PROGRESS
(\$ MILLIONS)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age AAL (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/(c)]
6/30/95	\$2,248	\$2,060	\$ (188)	109.1 %	\$ 835	(22.5)%
6/30/96	2,522	2,291	(231)	110.1 %	889	(26.0)%
6/30/97	2,876	2,607	(269)	110.3 %	939	(28.6)%
6/30/98 @ #	3,297	2,921	(376)	112.9 %	975	(38.6)%
6/30/99 @	3,712	3,479	(233)	106.7 %	1,009	(23.1)%
6/30/00	4,121	3,803	(318)	108.4 %	1,050	(30.3)%
6/30/01 @	4,342	4,111	(231)	105.6 %	1,070	(21.6)%
6/30/02 #	4,404	4,398	(6)	100.1 %	1,112	(0.5)%
6/30/03 #	4,416	4,674	258	94.5 %	1,148	22.5%
6/30/04	4,438	5,005	567	88.7 %	1,176	48.2%
6/30/05	4,584	5,323	739	86.1 %	1,215	60.8%
6/30/05 @ #	4,584	5,619	1,035	81.6 %	1,215	85.2%
6/30/06	4,949	5,936	987	83.4 %	1,267	77.9%
6/30/07	5,498	6,173	675	89.1 %	1,303	51.8%
6/30/07 @	5,498	6,174	676	89.1 %	1,303	51.9%

@ After legislated changes in benefit provisions.

After changes in actuarial assumptions.

Please note that columns (a) and (b) may not add to UAAL due to rounding.

**GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30	Annual Required Contribution	Percent Contributed
1994	\$ 75,710,660	100%
1995	75,028,320	100%
1996	76,772,911	100%
1997	82,050,663	100%
1998	87,528,945	100%
1999	93,322,444	100%
2000	96,348,947	100%
2001	100,925,338	100%
2002	109,037,491	100%
2003	115,690,798	100%
2004	118,419,346	100%
2005	135,027,447	100%
2006	158,152,183	100%
2007	163,223,695	100%

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation date follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent-of-Payroll (State and Local) Level Dollar (General Assembly)
Remaining Amortization Period	18 years
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases Including inflation at	4.7% - 9.8%
Cost-of-living adjustments	4.0%
	3.0% Annual Compounded Increase

	<u>Number</u>
Retirees and beneficiaries receiving benefits #	22,409
Terminated plan members entitled to but not yet receiving benefits	11,674
Active plan members	<u>43,630</u>
Total	77,713

Includes DROP participants.

November 19, 2007

Ms. Gail H. Stone, Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, 4th Floor
Little Rock, Arkansas 72201

**Re: Report of the June 30, 2007 Actuarial Valuation and Gain/Loss Analysis of
Financial Experience**

Dear Gail:

Enclosed are 40 copies of this report.

Sincerely,

Norman L. Jones

NLJ:sew
Enclosures

cc: David Hoffman