



ARKANSAS TEACHER RETIREMENT SYSTEM
Annual Actuarial Valuation of
Active and Inactive Members

June 30, 2006

GRS

Gabriel Roeder Smith & Company



REPORT OF THE JUNE 30, 2006 ACTUARIAL VALUATION OUTLINE OF CONTENTS

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November 21, 2006

Board of Trustees
Arkansas Teacher Retirement System
Little Rock, Arkansas

The results of the annual actuarial valuation of non-retired members as of June 30, 2006 are presented in this report. This valuation is based upon the Arkansas Teacher Retirement System laws, as described in Section C of this report.

The census and financial operations data necessary for the actuarial valuation were furnished by the Retirement System. Preparation of this data requires considerable staff time. The helpful cooperation of the Executive Director and his staff in furnishing the data is acknowledged with appreciation.

Liabilities Covering Retirees and Beneficiaries. The June 30th annual valuation of retired lives receiving monthly benefits indicates the liabilities for future benefit payments to existing retirees. These liabilities are covered in a separate report.

The actuarial assumptions used in the actuarial valuation are summarized in the Appendix of this report. These assumptions reflect experience during the period July 1, 1997 to June 30, 2002.

The annual required contribution for GASB purposes, which will also appear in the System's CAFR, was determined to be 14.54% of payroll. Please note this rate differs from the rate shown on page B-2 of this report.

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

Respectfully submitted,

Brian B. Murphy, FSA, MAAA

Judith A. Kermans, EA, MAAA

BBM/hgb

COMMENTS

General Financial Objective. Section 24-3-103 of the Arkansas Code provides as follows (emphasis added):

“6.01. (1) The general financial objective of each Arkansas public employee retirement plan shall be to *establish and receive contributions which, expressed as percents 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 to (i) fully cover the costs of benefit commitments being made to members for their service being rendered in such year and (ii) make a level payment which if paid annually over a reasonable period of future years will fully cover the unfunded costs of benefit commitments for service previously rendered.....”

Arkansas Teacher Retirement System Status: Based upon the results of June 30, 2006 actuarial valuations, *ATRS is satisfying the financial objective of level-contribution-percent financing.*

Market investment experience for the year ending June 30, 2006 was favorable. The amortization period this year is 36 years, a decrease from last year’s 38-year period. The market value of assets exceeded the actuarial value of assets by \$536 million at the valuation. If experience in Fiscal year 2008 is reasonably in line with expectations, the funding period is likely to decrease next year.

There were no changes to benefit provisions since the previous actuarial valuation.

The Arkansas Teacher Retirement System is 80.3% funded as of June 30, 2006, indicating a solid financial position and significant progress in recovering from one of the worst investment markets since the Great Depression. Unfortunately, ATRS still does not have the assets it would have had if the investment markets had performed better in the 2000 to 2003 period. An increase in the employer contribution rate to the 14.5% of payroll area would be needed to provide an amortization period of 30 years.

**BENEFIT CHANGES DURING RECENT YEARS OF RETIREMENT
& RELATED CHANGES IN PURCHASING POWER (1970 \$)**

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				1970 \$	% of 1970
1970	----	\$ 5,000	----	\$5,000	100%
1971	\$ 75	5,075	(4.5)%	4,850	97%
1972	75	5,150	(2.9)%	4,792	96%
1973	75	5,225	(5.9)%	4,587	92%
1974	1,015	6,240	(11.0)%	4,941	99%
1975	474	6,714	(9.3)%	4,860	97%
1976	886	7,600	(5.9)%	5,192	104%
1977	114	7,714	(6.9)%	4,931	99%
1978	114	7,828	(7.4)%	4,658	93%
1979	114	7,942	(10.9)%	4,262	85%
1980	417	8,359	(14.3)%	3,922	79%
1981	118	8,477	(9.6)%	3,630	73%
1982	323	8,800	(7.1)%	3,520	70%
1983	253	9,053	(2.6)%	3,530	71%
1984	725	9,778	(4.2)%	3,658	73%
1985	738	10,516	(3.7)%	3,792	76%
1986	857	11,373	(1.7)%	4,030	81%
1987	331	11,704	(3.7)%	4,001	80%
1988	673+	12,377	(3.9)%	4,070	81%
1989	847	13,224	(5.1)%	4,134	83%
1990	837	14,061	(4.7)%	4,200	84%
1991	388	14,449	(4.7)%	4,122	82%
1992	1,282	15,731	(3.1)%	4,354	87%
1993	1,333	17,064	(3.0)%	4,585	92%
1994	1,380	18,444	(2.5)%	4,835	97%
1995	510	18,954	(3.0)%	4,822	96%
1996	510	19,464	(2.8)%	4,819	96%
1997	3,591	23,055	(2.3)%	5,580	112%
1998	857	23,912	(1.7)%	5,692	114%
1999	2,002	25,914	(2.0)%	6,050	121%
2000	1,358	27,272	(3.7)%	6,141	123%
2001	1,881	29,153	(3.2)%	6,355	127%
2002	1,151	30,304	(1.1)%	6,536	131%
2003	801	31,105	(2.1)%	6,570	131%
2004	801	31,906	(3.3)%	6,526	131%
2005	801	32,707	(2.5)%	6,525	130%
2006	801	33,508	(4.3)%	6,408	128%
2007	801	34,309			

* The \$5,000 benefit used to begin this schedule is an arbitrary amount. A smaller beginning amount (the 1970 average was less) would show a smaller purchasing power loss in percent loss.

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

+ For members retired in 1972 & later (members retired in 1970 received a larger percentage increase).

**BENEFIT CHANGES DURING RECENT YEARS OF RETIREMENT
& RELATED CHANGES IN PURCHASING POWER (1980 \$)**

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				1980 \$	% of 1980
1980	----	\$ 5,000	----	\$ 5,000	100%
1981	\$ 75	5,075	(9.6)%	4,632	93%
1982	152	5,227	(7.1)%	4,456	89%
1983	152	5,379	(2.6)%	4,471	89%
1984	431	5,810	(4.2)%	4,633	93%
1985	438	6,248	(3.7)%	4,802	96%
1986	509	6,757	(1.7)%	5,103	102%
1987	197	6,954	(3.7)%	5,067	101%
1988	400	7,354	(3.9)%	5,154	103%
1989	503	7,857	(5.1)%	5,236	105%
1990	497	8,354	(4.7)%	5,319	106%
1991	230	8,584	(4.7)%	5,220	104%
1992	762	9,346	(3.1)%	5,513	110%
1993	792	10,138	(3.0)%	5,806	116%
1994	820	10,958	(2.5)%	6,123	122%
1995	303	11,261	(3.0)%	6,107	122%
1996	303	11,564	(2.8)%	6,103	122%
1997	1,657	13,221	(2.3)%	6,821	136%
1998	1,214	14,435	(1.7)%	7,324	146%
1999	323	14,758	(2.0)%	7,344	147%
2000	1,039	15,797	(3.7)%	7,583	152%
2001	1,220	17,017	(3.2)%	7,907	158%
2002	672	17,689	(1.1)%	8,132	163%
2003	468	18,157	(2.1)%	8,174	163%
2004	468	18,625	(3.3)%	8,120	162%
2005	468	19,093	(2.5)%	8,118	162%
2006	468	19,561	(4.3)%	7,973	159%
2007	468	20,029			

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

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

**BENEFIT CHANGES DURING RECENT YEARS OF RETIREMENT
& RELATED CHANGES IN PURCHASING POWER (1990 \$)**

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power At Year End	
				1990 \$	% of 1990
1990	-----	\$ 5,000	-----	\$ 5,000	100%
1991	\$ 150	5,150	(4.7)%	4,919	98%
1992	457	5,607	(3.1)%	5,195	104%
1993	475	6,082	(3.0)%	5,471	109%
1994	492	6,574	(2.5)%	5,770	115%
1995	182	6,756	(3.0)%	5,755	115%
1996	182	6,938	(2.8)%	5,751	115%
1997	330	7,268	(2.3)%	5,889	118%
1998	667	7,935	(1.7)%	6,324	126%
1999	177	8,112	(2.0)%	6,340	127%
2000	849	8,961	(3.7)%	6,756	135%
2001	826	9,787	(3.2)%	7,143	143%
2002	387	10,174	(1.1)%	7,346	147%
2003	270	10,444	(2.1)%	7,385	148%
2004	270	10,714	(3.3)%	7,337	147%
2005	270	10,984	(2.5)%	7,336	147%
2006	270	11,254	(4.3)%	7,205	144%
2007	270	11,524			

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

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

SECTION A



Financial Principles

FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES

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

The related *key financial questions* are:

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

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

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

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

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

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

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

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

... plus ...

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

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

An actuarial valuation has a number of ingredients such as: the rate of investment income which plan assets will earn; the rates of withdrawal of active members who leave covered employment before qualifying for any monthly benefit; the rates of mortality; the rates of disability; the rates of pay increases; and the assumed age or ages at actual retirement.

In an actuarial valuation, assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the System can indicate the degree of accuracy of the assumptions.

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

THE ACTUARIAL VALUATION PROCESS

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

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

- A. **Census Data**, furnished by plan administrator
 - Retired lives now receiving benefits
 - Former employees with vested benefits not yet payable
 - Active employees

- B. + **Asset data** (cash & investments), furnished by plan administrator

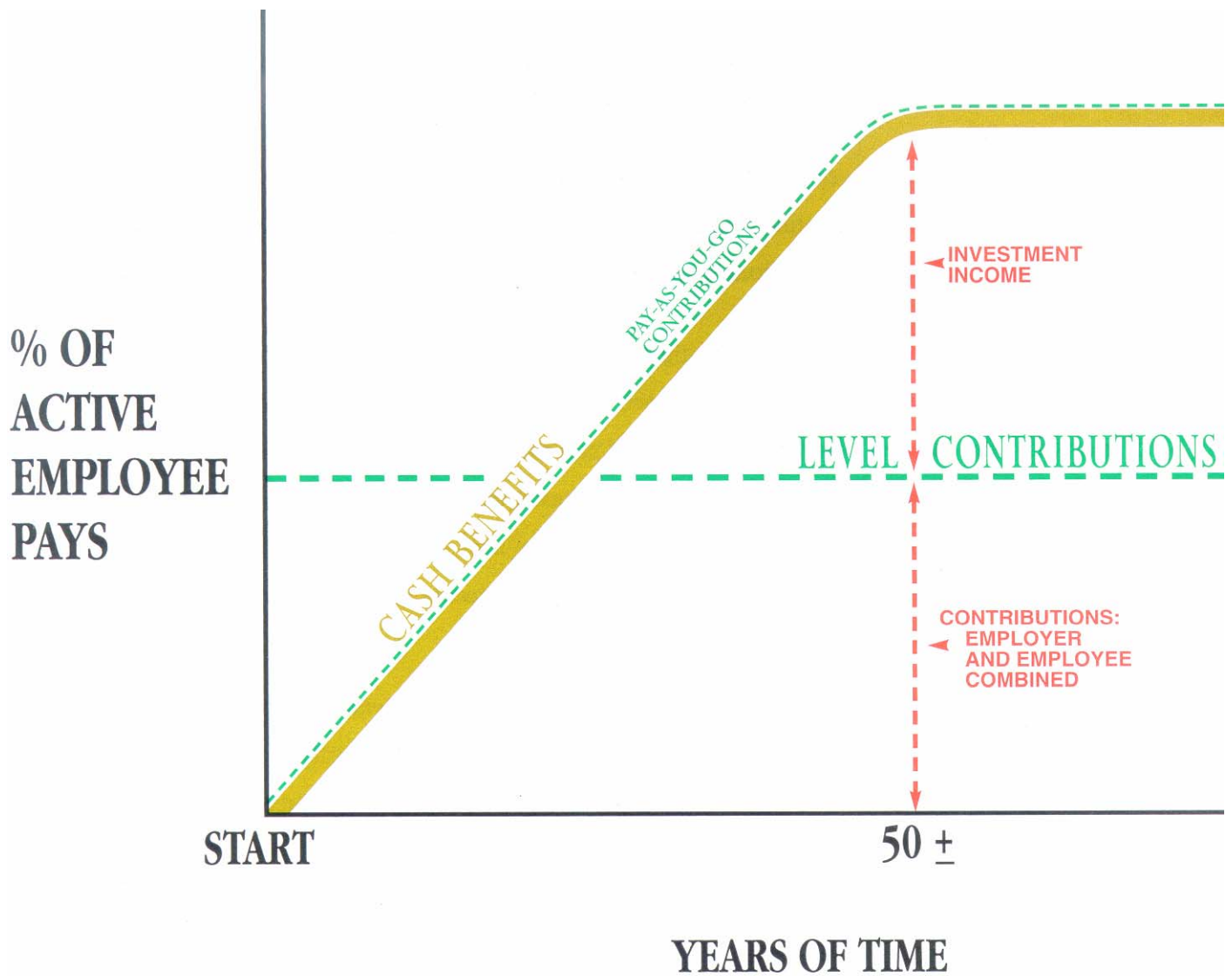
- C. + **Benefit provisions** that establish eligibility and amounts of payments to members

- D. + **Assumptions concerning future financial experiences in various risk areas**, which assumptions are established by the Board of Trustees after consulting with the actuary.

- E. + **The funding method** for employer contributions (the long-term planned pattern for employer contributions)

- F. + **Mathematically combining the assumptions, the funding method, and the data**

- G. = Determination of:
 - Plan financial position**, and/or
 - New Employer Contribution Rate**



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

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

Economic Risk Areas

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

Non-Economic Risk Areas

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

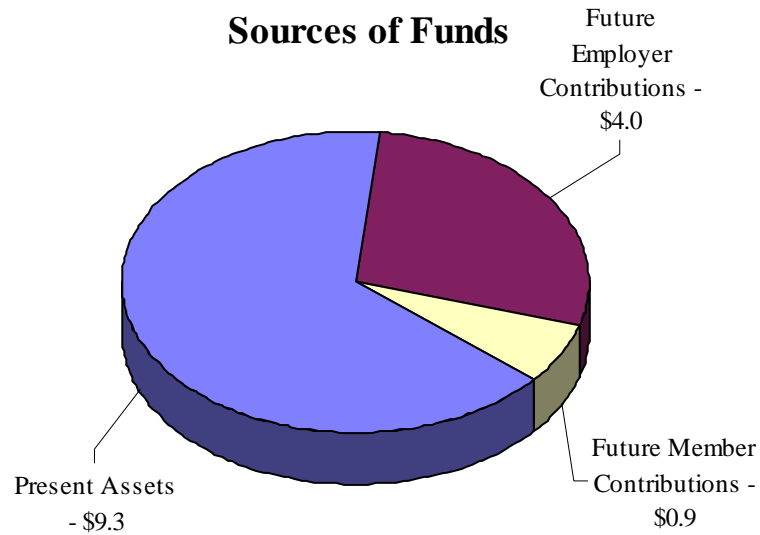
SECTION B



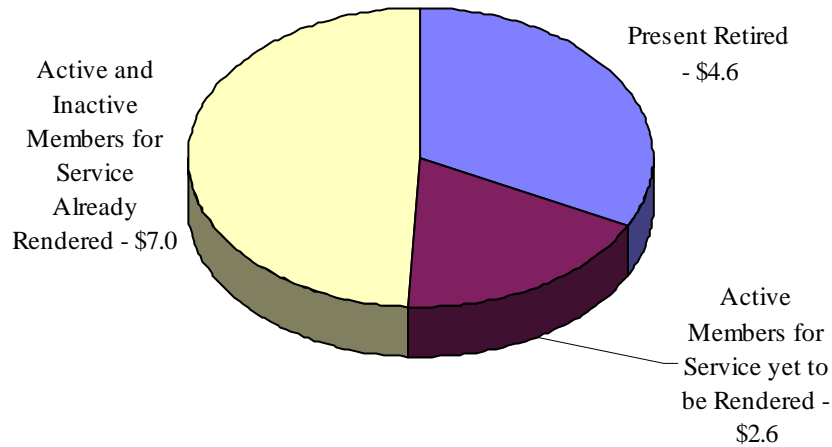
Results of Valuation

**FINANCING \$14.2 BILLION* OF BENEFIT PROMISES
FOR PRESENT ACTIVE AND RETIRED MEMBERS
JUNE 30, 2006**

Sources of Funds



Uses of Funds



* Present value of future benefits. All amounts are in billions.

**EMPLOYER CONTRIBUTION RATE COMPUTED AS OF JUNE 30, 2006
FOR THE FISCAL YEAR BEGINNING JULY 1, 2007**

Computed Contributions for	Percents of Active Member Full Payroll			
	Teachers	Support	Combined	Prior Year
Normal Cost				
Age & Service Annuities	10.67%	8.74%	10.12%	10.02%
Deferred Annuities	1.32%	1.75%	1.44%	1.44%
Survivor Benefits	0.30%	0.27%	0.29%	0.29%
Disability Benefits	0.63%	0.56%	0.61%	0.61%
Refunds of Member Contributions	0.34%	0.61%	0.42%	0.39%
Total	13.26%	11.93%	12.88%	12.75%
Average Member Contributions	4.54%	3.18%	4.16%	3.99%
Net Employer Normal Cost	8.72%	8.75%	8.72%	8.76%
Unfunded Actuarial Accrued Liabilities			5.28%	5.24%
Employer Contribution Rate			14.00%	14.00%
Amortization Years			36.0	38.0

The length of an amortization period is a matter of judgment, not a matter of solving an algebraic equation. No one amortization period is “correct” --- there is a range of reasonable judgment. In its pursuit of level-percent contributions, the Teacher Retirement System has used a variety of amortization periods from time to time, extending to 40 years on occasions. Market investment experience was favorable this year for ATRS. As additional unrealized investment gains flow into the valuation over the next year, the amortization period could decrease if investment return continues to be positive. An increase in the employer contribution rate to the 14.5% of payroll area would be needed to provide an amortization period of 30 years.

**COMPUTED EMPLOYER CONTRIBUTION RATES
10 -YEAR COMPARATIVE STATEMENT**

Valuation Date June 30	Active Members in Valuation		Average Annual Pay		Consumer Price (Inflation) Index		Employer Contributions	
	Number	Annual Payroll			Value	% Change	Computed Financing Period	Total Employer Rate
			Amount	% Change				
1997#	56,997	\$1,302	\$22,847	1.7 %	160.3	2.3 %	13	12.0 %
1998#*&	58,528	1,368	23,380	2.3 %	163.0	1.7 %	12	12.0 %
1999#	59,499	1,429	24,019	2.7 %	166.2	2.0 %	4	12.0 %
2000#!	60,147	1,485	24,696	2.8 %	172.4	3.7 %	30	12.0 %
2001	61,389	1,557	25,365	2.7 %	178.0	3.2 %	125	12.0 %
2002&	62,011	1,628	26,254	3.5 %	179.9	1.1 %	38	12.0 %
2003#	62,432	1,683	26,963	2.7 %	183.7	2.1 %	36	13.0 %
2004#	63,185	1,748	27,660	2.6 %	189.7	3.3 %	31	14.0 %
2005	65,793	1,962	29,826	7.8 %	194.5	2.5 %	38	14.0 %
2006	67,710	2,080	30,714	3.0 %	202.9	4.3 %	36	14.0 %

* Revised financial assumptions.

Legislated benefit or contribution rate changes.

& Revised decrement assumptions.

! Benefit increases proposed for 2001 and assuming 8% investment return for Fiscal Year Ended 6/30/2001.

LIABILITIES FOR ANNUITIES BEING PAID JULY 1, 2006
TABULATED BY TYPE OF ANNUITY BEING PAID

Type of Annuity	Liabilities July 1, 2006*		
	Men	Women	Totals
RETIREMENT RESERVE ACCOUNT			
Age & Service Annuities			
Option 1 (Straight Life)	\$ 665,749,378	\$ 2,412,483,580	\$ 3,078,232,958
Option A (100% Joint & Survivor)	304,532,214	191,178,600	495,710,814
Option B (50% Joint & Survivor)	203,557,817	184,872,299	388,430,116
Option C (10 Years Certain & Life)	37,505,499	85,856,676	123,362,175
Beneficiaries	13,590,413	56,000,565	69,590,978
Total Age & Service	1,224,935,321	2,930,391,720	4,155,327,041
Disability Annuities			
Option 1	32,696,656	164,581,781	197,278,437
Option A	15,064,212	18,155,450	33,219,662
Option B	3,883,968	6,999,819	10,883,787
Option C	1,337,657	4,990,269	6,327,926
Beneficiaries	12,592,757	18,421,239	31,013,996
Total Disability	65,575,250	213,148,558	278,723,808
Act 793			18,173,951
Total Retirement Reserve Account			4,452,224,800
SURVIVORS' BENEFIT ACCOUNT			
Beneficiaries of Deceased Members	\$ 21,095,881	\$ 36,510,058	\$ 57,605,939
OTHER LIABILITIES			
Act 808			31,217,712
RETIREMENT SYSTEM TOTALS			
Total Annuity Liabilities			\$ 4,541,048,451

* Does not include liabilities associated with lump sum death benefit.

**COMPUTED ACTUARIAL LIABILITIES
AS OF JUNE 30, 2006**

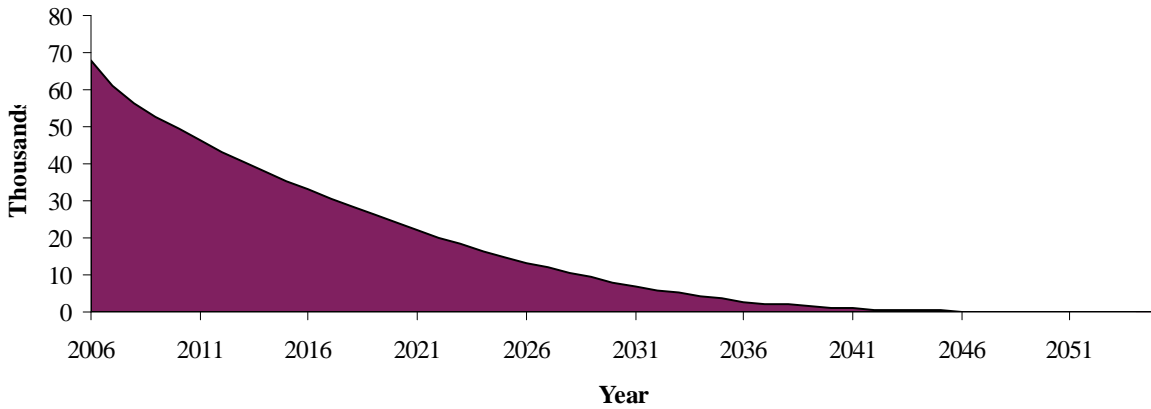
Actuarial Present Value of	(1) Total Present Value	Entry Age Actuarial Cost Method	
		(2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Age and service retirement allowances based on total service likely to be rendered by present active members.	\$ 6,493,153,050	\$2,012,690,405	\$ 4,480,462,645
Age and service retirement allowances based on total service likely to be rendered by present T-DROP members.	2,028,313,373	26,851,383	2,001,461,990
Vested Deferred Benefits likely to be paid present active and inactive members.	720,496,033	297,407,133	423,088,900
Survivor benefits expected to be paid on behalf of present active members.	135,001,796	58,078,874	76,922,922
Disability Benefits expected to be paid on behalf of present active members.	210,374,860	121,168,803	89,206,057
Refunds of Member contributions expected to be paid on behalf of Present active members.	15,192,403	79,952,584	(64,760,181)
Benefits payable to present retirees and beneficiaries.	4,541,048,451	0	4,541,048,451
Lump Sum Death benefits payable to present retirees and beneficiaries.	75,499,953	0	75,499,953
Total	\$14,219,079,919	\$2,596,149,182	\$11,622,930,737
Applicable Assets	9,331,667,789	0	9,331,667,789
Liabilities to be Covered by Future Contributions	\$ 4,887,412,130	\$2,596,149,182	\$ 2,291,262,948

T-DROP liabilities account for 17.2% of the System's total actuarial accrued liabilities.

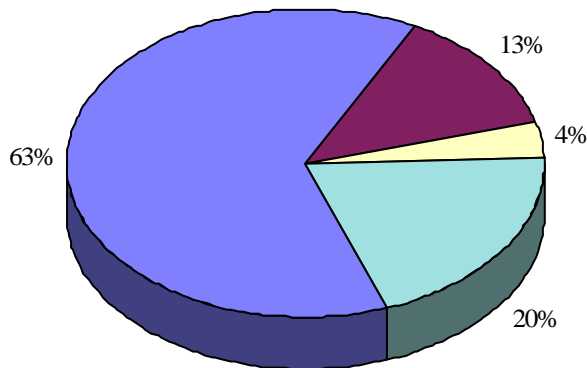
EXPECTED DEVELOPMENT OF PRESENT POPULATION

JUNE 30, 2006

Closed Group Population Projection



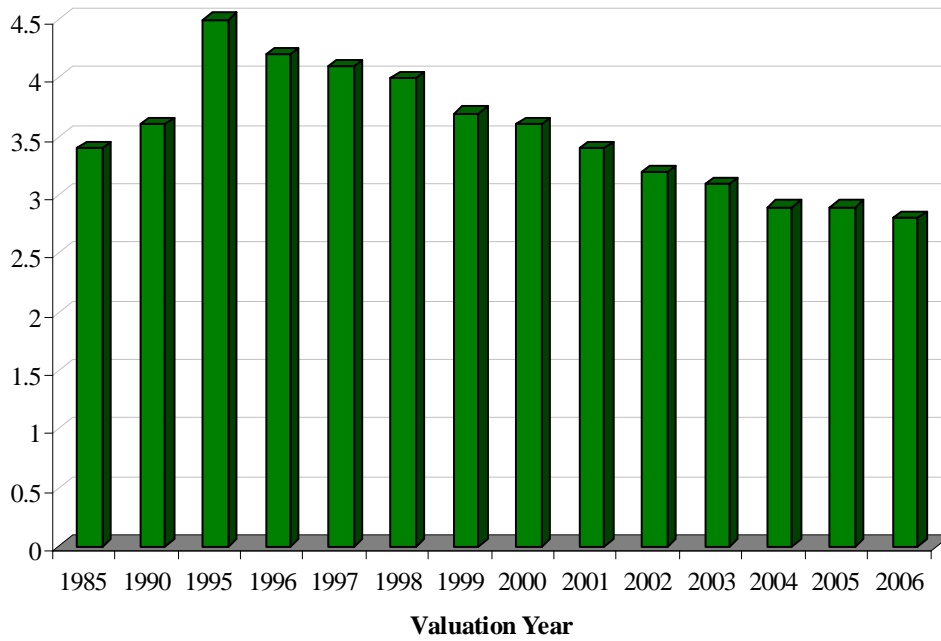
Closed Group Population Projection



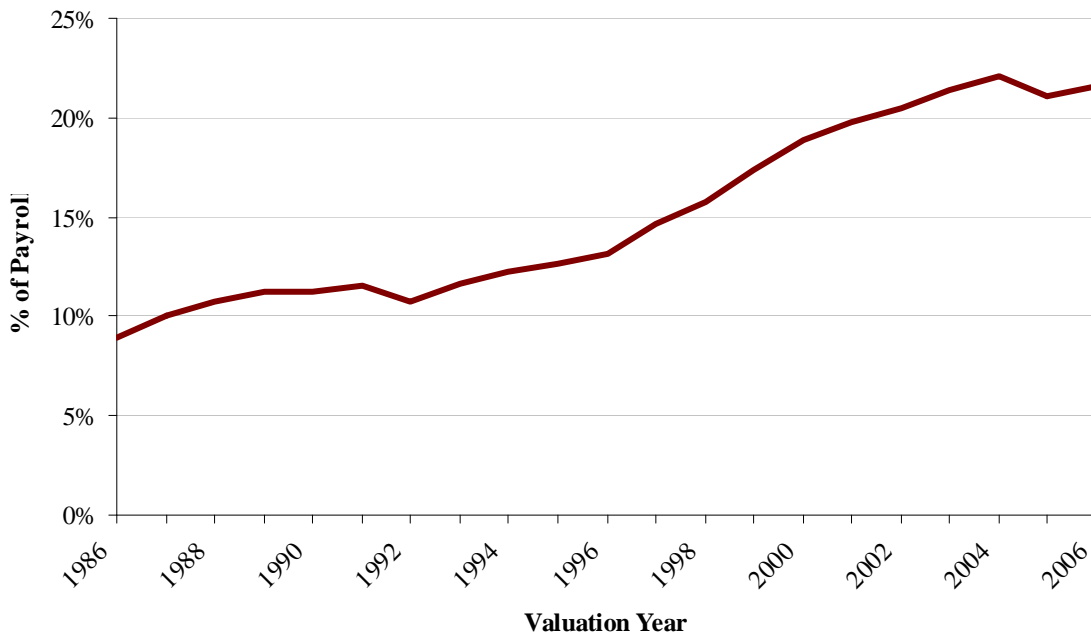
■ Retirements
 ■ Non-Vested Separations
 ■ Deaths and disabilities
 ■ Vested Separations

The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 67,710 active members. Eventually, 13% of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for an employer provided benefit. Approximately 83% of the present population is expected to receive monthly retirement benefits either by retiring directly from active service, retiring from T-DROP, or retiring from vested deferred status. Approximately 4% of the present population is expected to become eligible for death-in-service or disability benefits. Within 10 years, over half of the covered membership is expected to consist of new hires.

Active Members Per Retired Life



Retirement Benefits Being Paid as a Percent of Member Payroll



SHORT CONDITION TEST

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

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

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

Val. Date June 30	(1) Member Contrib.	(2) Retirees and Benef.	(3) Active and Inactive Members (Employer Financed Portion)	Present Valuation Assets	Portion of Present Values Covered by Present Assets			
					(1)	(2)	(3)	Total
-----\$ Millions-----								
1991#*	\$ 344	\$ 985	\$1,433	\$ 2,434	100%	100%	77%	88%
1992#	367	1,077	1,885	2,729	100%	100%	68%	82%
1993#	388	1,207	2,117	3,051	100%	100%	69%	82%
1994	403	1,334	2,223	3,307	100%	100%	71%	84%
1995*	415	1,488	2,354	3,626	100%	100%	73%	85%
1996	424	1,634	2,577	4,186	100%	100%	83%	90%
1997#	426	1,918	3,059	4,956	100%	100%	85%	92%
1998#	435	2,173	3,553	5,815	100%	100%	90%	94%
1999#	447	2,566	3,821	6,740	100%	100%	98%	99%
2000#	454	2,888	4,537	7,620	100%	100%	94%	97%
2001#	470	3,200	4,891	8,166	100%	100%	92%	95%
2002*	490	3,441	5,131	8,328	100%	100%	86%	92%
2003#	521	3,706	5,218	8,113	100%	100%	74%	86%
2004	547	3,985	5,518	8,424	100%	100%	71%	84%
2005	586	4,276	6,111	8,817	100%	100%	65%	80%
2006	630	4,617	6,376	9,332	100%	100%	64%	80%

* Revised actuarial assumptions or methods.

Legislated benefit and contribution rate change.

SECTION C



Summary of Benefits

SUMMARY OF PROVISIONS

JUNE 30, 2006

1. **Voluntary Retirement.** A member may retire at age 60 with 5 or more years of credited service, or after 28 years of credited service regardless of age.
2. **Early Retirement.** A member who has more than 25 but less than 28 years of credited service and has not attained age 60 years may retire and receive an immediate early retirement annuity. The early annuity is an age & service annuity reduced by the lesser of (i) and (ii) below:
 - (i) 5/12 of 1% multiplied by the number of months by which early retirement precedes completion of 28 years of service or
 - (ii) 5/12 of 1% multiplied by the number of months by which early retirement precedes the attainment of age 60 years.
3. **Deferred Retirement.** An inactive member who has 5 or more years of credited service will be entitled to an age & service annuity beginning at age 60, provided accumulated contributions are left on deposit with the retirement system.
4. **Disability Retirement.** An active member, with 5 or more years of credited service, who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age & service annuity.
5. **Final Average Salary (FAS).** A member's final average salary is the average of the annual salaries paid during the period of 3 years of credited service producing the highest annual average. Beginning 7/1/05, no salary paid in any year which is utilized in the computation of the members' final average salary, shall exceed 110% of the salary earned in the preceding year.
6. **Age & Service Annuity and Disability Annuity.** The annuity payable will not be less than the total of: years of contributory service times 2.15% of FAS; plus years of non-contributory service times 1.39% of FAS; plus \$900 for all members with 5 or more years of ATRS credited service. For a member who elected to contribute on only the first \$7,800 of each annual salary after June 30, 1969, each annual salary used in computing FAS is limited to a maximum of \$7,800.

SUMMARY OF PROVISIONS
JUNE 30, 2006 (CONTINUED)

7. **Minimum Straight Life Annuity.** If a contributory member has 5 or more years of credited service, the straight life annuity will not be less than \$100 per month. The minimum benefit for a non-contributory member is \$64 per month. If a contributory member has 10 or more years of credited service, the straight life annuity will not be less than \$150 per month. The minimum benefit for a non-contributory member is \$94 per month.
8. **T-DROP.** A member with 28 or more years of service may participate in the Teacher Deferred Retirement Option Plan (T-DROP, Act 1096 of 1995). An amount equal to the amount that would have been paid had the member retired, reduced by 1% for each year of contributory and 6/10% for each year of non-contributory service, is deposited into a T-DROP account. Members who enter T-DROP with less than 30 years of service are subject to an additional 6% reduction for each year less than 30 years. The annual addition to the T-DROP account is increased each year by 3% of the member's annuity at the initial participation date and the account is credited with 2% less than the system's rate of return (but not less than 2%, nor greater than 6% interest on the mean balance) each year. Deposits and interest to T-DROP cease at the earlier of 10 years of T-DROP participation or separation from service. T-DROP participants may continue in covered employment after 10 years of participation, but do not accumulate additional service credit or make member contributions. Upon actual retirement the member may receive the T-DROP account balance in the form of a lump sum or as an additional annuity.
9. **Post-Retirement Increases.** Each July 1, annuities are adjusted to be equal to the base annuity times 100% plus 3% for each full year in the period from the effective date of the base annuity to the current July 1. The base annuity is the amount of the member's annuity on the later of July 1, 2001 or the effective date of retirement, as redetermined by Acts 396 of 1999 and 992 of 1997.
10. **Survivor Benefits.** Upon the death of an active member, who has 5 or more years of credited service (which includes the year immediately preceding his death), the following annuities are payable:
- (a) The surviving spouse receives an annuity computed in the same manner as if the member had (i) retired the date of his death with entitlement to an annuity, (ii) elected Option A - 100% Survivor Annuity, and (iii) nominated the spouse as joint

SUMMARY OF PROVISIONS
JUNE 30, 2006 (CONTINUED)

beneficiary. If the member has attained age 60 and has acquired 5 years of credited service or has acquired 20 years of credited service regardless of age, the annuity begins immediately; or, if the member has acquired 15 years of credited service but has not attained age 60, the annuity begins when the spouse is 50; otherwise the annuity begins at age 62. The spouse's annuity cannot be less than the greater of (i) 10% of the deceased member's covered salary at time of death or (ii) \$50 monthly. Under certain circumstances, a lump sum distribution may be made to the beneficiary(ies) of the deceased member.

- (b) Each dependent child receives an annuity of the greater of (i) 10% of covered salary at the time of death or (ii) \$50 monthly; provided, that if there are 3 or more dependent children, each receives an annuity of an equal share of the greater of (i) 25% of covered salary at time of death or (ii) \$125 monthly. A child is dependent until the child's death, marriage, or attainment of age 18 (age 23 if the child is a full-time student).
- (c) If there is neither a spouse nor a dependent child at the time of the member's death, each dependent parent receives an allowance of the greater of (i) 10% of covered salary or (ii) \$50 monthly.
- (d) Survivor benefits based on both contributory and non-contributory service will be prorated between contributory benefits and non-contributory benefits.

11. Lump Sum Death Benefit. Beneficiaries of deceased active members or retirees with 5 or more years of ATRS credited service are eligible to receive a lump sum death benefit of up to \$10,000 (\$6,667 for non-contributory service-benefit is prorated). In addition, each dependent child of a deceased member with 5 or more years of ATRS credited service is eligible to receive a lump sum death benefit of \$10,000.

12. Members' Contributions. Members contribute 6% of their salaries (by individual election, members who became members before July 1, 1971 could contribute on only the first \$7,800 of their annual salaries). If a member leaves service prior to becoming eligible to retire, the accumulated contributions are returned upon request. No interest is credited to a member's contributions for the first year of membership; after 1 year, interest credits are 6% annually. Effective July 1, 1986, a non-contributory plan was created. Effective July 1, 1993, all new members including any former active members were automatically non-contributory members. By individual election, members could choose to contribute. The benefit accrual rate for

SUMMARY OF PROVISIONS
JUNE 30, 2006 (CONTINUED)

non-contributory members is reduced. Effective July 1, 1999 the default choice for new members is contributory. All current members had until July 1, 2000 to make a final election. Effective July 1, 1997, all future member contributions are tax-deferred in accordance with §414(h) of the Internal Revenue Code of the United States. Effective July 1, 2005, all non-contributory members whose status changes from support to teacher (contracted for more than 181 days), will become contributory. Effective July 1, 2006 and each July 1 thereafter, members who previously elected to be non-contributory may elect to change to contributory status under Act 385 of 2005.

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

14. **Act 793 Retirement.** Any employee who was a member of the rehabilitation services in 1977 was permitted to become a member of the Arkansas Public Employees Retirement System. Liabilities associated with prior service earned through 6/30/1978 remain in the Arkansas Teacher Retirement System. Future service is allocated to the Arkansas Public Employees Retirement System. Each July 1, annuities are adjusted by 3% (compound escalator).

15. **Retiree Health Stipend.** Each retired member with 5 or more years of ATRS credited service receives \$75 per month toward retiree health care premiums. Members in T-DROP do not receive the \$75 per month until actual retirement.

16. **Optional Forms of Benefits:**

Option 1 (*Straight Life Annuity*)

A member will receive the maximum monthly benefit for which he/she qualifies, throughout his/her lifetime. No monthly benefits will be paid to his/her beneficiary after the member's death. Should a member die before he/she has drawn in benefits an amount equal to his/her contributions

SUMMARY OF PROVISIONS
JUNE 30, 2006 (CONCLUDED)

plus earned interest, the balance will be paid to a designated beneficiary. The designated beneficiary may be anyone chosen by the member.

Option A (100% Survivor Annuity)

Under this option a member will receive a reduced annuity throughout his/her lifetime. Upon the member's death, the designated beneficiary will receive the same annuity for the balance of his/her lifetime.

Option B (50% Survivor Annuity)

Under this option a member will receive a reduced annuity throughout his/her lifetime. Upon the member's death, the designated beneficiary will receive one-half (1/2) of this annuity for the balance of his/her lifetime.

Option C (Annuity for Ten Years Certain and Life Thereafter)

A reduced monthly benefit payable for 120 months. After that time, a member's monthly allowance will revert to the amount he/she would have received under the regular plan and continue for life. If the member dies before receiving 120 payments, the designated beneficiary will receive a monthly benefit in the same amount until monthly benefits to both the member and the beneficiary equal 120 monthly payments. No further benefits are then payable to the beneficiary.

Option Factors are based upon an 8.0% interest rate and the 1971 Group Annuity Mortality Table projected to 1984, with a 75% unisex mix.

SAMPLE BENEFIT COMPUTATIONS FOR A MEMBER RETIRING JUNE 30, 2006

The data for the Example member is shown below.

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

The computations that would be made for this case are:

	<u>Annual Amount</u>
G. Non-Contributory Base: $0.0139 \times A \times B$	\$15,568
H. Extra for Contributory: $0.00760 \times A \times C$	<u>7,182</u>
I. Total Benefit: G + H	22,750
J. Adjustment for Line F election: ($1 - 0.83037$) x I	<u>3,859</u>
K. Annual Amount Payable	\$18,891

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

<u>Year Ended June 30</u>	<u>Annual Amount</u>
2007	\$18,891
2008	19,458
2009	20,025
2010	20,592
2011	21,159

Thereafter, the amount would increase by \$567 annually for life.

SAMPLE T-DROP BENEFIT COMPUTATIONS FOR A MEMBER ENTERING T-DROP JUNE 30, 2006

The data for the Example member is shown below.

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

The computations that would be made for this case are:

	Annual Amount
E. Non-Contributory Base: $0.0139 \times A \times B$	\$13,622
F. Extra for Contributory: $0.00760 \times A \times C$	7,448
G. Reduction for T-DROP Plan: (1% for each year of contributory service) $0.28 \times (E+F)$	5,900
H. Reduction for Entering T-DROP with less than 30 years of service (6% for each year less than 30): $0.12 \times (E + F)$	<u>2,528</u>
I. Annual Amount Payable $E + F - G - H$	\$12,642

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

Year Ended June 30	Amount Deposited
2007	\$12,642
2008	13,021
2009	13,400
2010	13,779
2011	<u>14,158</u>
Total	67,000

The total amount deposited, together with credited interest can be paid as a lump sum or as an annuity.

SECTION D



Financial Information and **GASB** Reporting

ASSET VALUATION METHOD

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

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

Under the ATRS asset valuation method (see page D-2), assumed investment return is recognized fully each year. Differences between actual and assumed investment return are phased in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, the funding value will tend to be less than the market value. Conversely, during periods when investment performance is less than the assumed rate, funding value will tend to be greater than market value. If assumed rates are exactly realized for 3 consecutive years, funding value will become equal to market value.

A multi-year comparison of market value to funding (actuarial) value is shown below:

Valuation Date June 30	Market Value of Assets (1)	Actuarial Value of Assets (2)	Ratio of AV to MV (2) / (1)
1996	\$4,750	\$4,186	88%
1997	5,747	4,956	86%
1998	6,656	5,815	87%
1999	7,403	6,740	91%
2000	7,978	7,620	96%
2001	7,643	8,166	107%
2002	7,084	8,328	118%
2003	7,050	8,113	115%
2004	8,122	8,424	104%
2005	8,811	8,817	100%
2006	9,868	9,332	95%

This year, the market value of assets exceeds the actuarial value by approximately 5%. To prevent unreasonably large differences between market value and funding value, there is a requirement that the recognized assets must always be between 80% and 120% of the market value (See page D-2).

DEVELOPMENT OF FUNDING VALUE OF ASSETS

Year Ended June 30:	2004	2005	2006	2007	2008	2009
A. Funding Value Beginning of Year	\$ 8,113,258,915	\$ 8,423,579,265	\$ 8,817,254,313			
B. Market Value End of Year	8,122,004,035	8,811,146,753	9,868,311,510			
C. Market Value Beginning of Year	7,050,355,544	8,122,004,035	8,811,146,753			
D. Non-Investment Net Cash Flow	(115,495,107)	(83,846,072)	(110,130,248)			
E. Investment Return						
E1. Market Total: B - C - D	1,187,143,598	772,988,790	1,167,295,005			
E2. Amount for Immediate Recognition (8%)	644,440,909	670,532,498	700,975,135			
E3. Amount for Phased-In Recognition: E1-E2	542,702,689	102,456,292	466,319,870			
F. Phased-In Recognition of Investment Return						
F1. Current Year: 0.25 x E3	135,675,672	25,614,073	116,579,968	Unknown	Unknown	Unknown
F2. First Prior Year	(354,301,124)	135,675,672	25,614,073	\$ 116,579,968	Unknown	Unknown
F3. Second Prior Year		(354,301,124)	135,675,672	25,614,073	\$ 116,579,968	Unknown
F4. Third Prior Year			(354,301,124)	135,675,673	25,614,073	\$ 116,579,966
F5. Accelerated Market Value Recognition						
F6. Total Recognized Investment Gain	(218,625,452)	(193,011,379)	(76,431,411)	277,869,714	142,194,041	116,579,966
G. Funding Value End of Year:						
G1. Preliminary Funding Value End of Year: A+D+E2+F6	8,423,579,265	8,817,254,313	9,331,667,789			
G2. Upper Corridor Limit: 120% x B	9,746,404,842	10,573,376,104	11,841,973,812			
G3. Lower Corridor Limit: 80% x B	6,497,603,228	7,048,917,402	7,894,649,208			
G4. Funding Value End of Year	8,423,579,265	8,817,254,313	9,331,667,789			
H. Actual/Projected Difference between Market and Funding Value	(301,575,230)	(6,107,560)	536,643,721	258,774,007	116,579,966	-
I. Market Rate of Return	16.98 %	9.57 %	13.33 %			
J. Funding Rate of Return	5.29 %	5.70 %	7.13 %			
K. Ratio of Funding Value to Market Value	103.71 %	100.07 %	94.56 %			

The Funding Value of Assets recognizes assumed investment return (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than Market Value. ***The Funding Value of Assets is unbiased with respect to Market Value.*** At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for 3 consecutive years, it will become equal to Market Value.

The assets of the Retirement System, as of June 30, 2006, were reported to your actuary to be \$9,868,311,510. This amount, together with a market value adjustment of \$(536,643,721), is used to finance the Retirement System liability.

Accounts	Assets at June 30	
	2006	2005
Regular Accounts		
Members' Deposit Accounts		
Contributions	\$ 606,191,379	\$ 564,492,136
Interest	5,451,947,369	4,662,808,951
Total	6,058,138,748	5,227,301,087
T-Drop Member Deposit Accounts		
Contributions	23,389,140	21,760,569
Interest	63,178,939	63,486,652
Total	86,568,079	85,247,221
Employer's Accumulation Account	(1,209,546,673)	(1,072,792,625)
Retirement Reserve Account	4,431,278,061	4,089,548,017
Act 808 Retirement Reserve Account	30,910,014	32,031,255
T-Lump Payable	396,066,329	373,080,530
Survivors Benefit Account	56,490,859	57,540,639
Total Regular Accounts	9,849,905,417	8,791,956,124
Other Accounts		
Income Expense Account	18,406,093	19,190,629
Other Special Reserves	-	-
Miscellaneous	-	-
Total Other Accounts	18,406,093	19,190,629
Total Accounting Value of Assets	9,868,311,510	8,811,146,753
Market Value Adjustment	(536,643,721)	6,107,560
Funding Value of Assets	\$ 9,331,667,789	\$ 8,817,254,313

In financing the Retirement System Accrued Liabilities, the applicable assets have been applied as follows.

	Assets Applied to Accrued Liabilities for		
	Retirees and Beneficiaries	All Other Members	Totals
Reserve Assets			
Member's Deposit Account	\$ -	\$ 6,144,706,827	\$ 6,144,706,827
Employer's Accumulation Account	97,869,470	(1,307,416,143)	(1,209,546,673)
Retirement Reserve Account	4,431,278,061	-	4,431,278,061
Act 808 Reserve Account	30,910,014	-	30,910,014
T-Lump Payable	-	396,066,329	396,066,329
Survivor's Benefit Account	56,490,859	-	56,490,859
Other Accounts	-	18,406,093	18,406,093
Total Reserve Assets	4,616,548,404	5,251,763,106	9,868,311,510
Market Value Adjustment	-	(536,643,721)	(536,643,721)
Funding Value of Assets	\$ 4,616,548,404	\$ 4,715,119,385	\$ 9,331,667,789

The net market value of assets at year end was \$9,868,311,510 and was invested as shown below.

	Market Value at June 30	
	2006	2005
Cash	\$ 25,823,790	\$ 29,752,425
Receivables		
Unsettled Trades and Accrued Return	81,747,545	369,120,442
Member Contributions	11,003,937	10,697,678
Employer Contributions	38,956,955	40,139,459
Other	55,631	639
Total Receivables	131,764,068	419,958,218
Investments		
Short Term	204,958,737	164,582,936
Common and Preferred	2,507,594,446	1,791,893,411
International	1,531,511,882	1,419,376,522
Corporate Bonds	518,610,391	466,688,606
Alternative Investments	839,665,692	878,375,030
Market Valuation	1,293,710,180	900,862,709
Real Estate	94,152,743	106,308,462
Mortgage Loans	57,545,473	66,423,910
Revenue Bonds	-	365,000
Government Securities	296,308,861	249,486,589
Other Investments	2,610,076,052	2,747,497,397
Repurchase Agreements	-	-
Total Investments	9,954,134,457	8,791,860,572
Invested Securities Lending	1,157,070,059	796,917,310
Net Equipment	253,294	385,709
Total Assets	11,269,045,668	10,038,874,234
Liabilities		
Escrow Payables	-	-
Other Payables	1,298,941	2,027,323
Securities Related Payables	242,365,158	428,782,848
Securities Lending Collateral	1,157,070,059	796,917,310
Total Liabilities	1,400,734,158	1,227,727,481
Net Market Value	\$9,868,311,510	\$8,811,146,753
Change from Prior Year	1,057,164,757	689,142,718

MARKET VALUE RECONCILIATION OF ASSETS

Assets during the year developed as follows:

	Year Ended June 30	
	2006	2005
Net Market Value July 1	\$ 8,811,146,753	\$ 8,122,004,035
Additions		
Employer Contributions	311,713,735	286,442,709
Employee Contributions	92,005,600	86,102,842
Appreciation	388,546,113	211,407,190
Interest	340,323,248	279,629,202
Dividends	463,542,471	316,978,174
Real Estate	6,564,957	7,727,203
Other	270,690	246,929
Securities Lending Activity	45,220,869	19,068,203
Total Additions	1,648,187,683	1,207,602,452
Deductions		
Age & Service Benefits	395,519,711	363,872,024
Disability Benefits	23,489,045	22,637,834
Option Benefits	11,081,484	10,188,011
Survivor Benefits	5,925,462	5,677,528
Reciprocal Service	14,726,557	13,027,579
Act 808	4,278,616	4,286,580
Refunds	6,207,622	4,413,077
Active Member Death	658,633	831,792
T-DROP Benefits	51,962,453	31,457,198
Investment Expense	71,206,675	55,623,879
Administrative Expense	5,966,668	6,444,232
Total Deductions	591,022,926	518,459,734
Miscellaneous	-	-
Net Market Value June 30	\$ 9,868,311,510	\$ 8,811,146,753

Basic Series

Year-by-Year Total Returns (1926-2005)

For a type of investment,
Red means a REAL Return less than 3%
[(Total - Inflation) < 3%]

For Inflation,
RED means a purchasing power loss

Year	Large Company Stocks	Small Company Stocks	Long-Term Corporate Bonds	Long-Term Government Bonds	Intermediate Term Government Bonds	U.S. Treasury Bills	Inflation
1926	11.62	0.28	7.37	7.77	5.38	3.27	-1.49
1927	37.49	22.10	7.44	8.93	4.52	3.12	-2.08
1928	43.61	39.69	2.84	0.10	0.92	3.56	-0.97
1929	-8.42	-51.36	3.27	1.17	6.01	4.75	0.20
1930	-24.90	-38.15	7.98	4.66	6.72	2.41	-6.03
1931	-43.34	-49.75	-1.85	-5.31	-2.32	1.07	-9.52
1932	-8.19	-5.39	10.32	16.84	8.81	0.96	-10.30
1933	53.99	142.87	10.38	-0.07	1.83	0.30	0.51
1934	-1.44	24.22	13.84	10.03	9.00	0.16	2.03
1935	47.67	40.19	9.61	4.98	7.01	0.17	2.99
1936	33.92	64.80	6.74	7.52	3.06	0.18	1.21
1937	-35.03	-58.01	2.75	0.23	1.56	0.31	3.10
1938	31.12	32.80	6.13	5.53	6.23	-0.02	-2.78
1939	-0.41	0.35	3.97	5.94	4.52	0.02	-0.48
1940	-9.78	-5.16	3.39	6.09	2.96	0.00	0.96
1941	-11.59	-9.00	2.73	0.93	0.50	0.06	9.72
1942	20.34	44.51	2.60	3.22	1.94	0.27	9.29
1943	25.90	88.37	2.83	2.08	2.81	0.35	3.16
1944	19.75	53.72	4.73	2.81	1.80	0.33	2.11
1945	36.44	73.61	4.08	10.73	2.22	0.33	2.25
1946	-8.07	-11.63	1.72	-0.10	1.00	0.35	18.16
1947	5.71	0.92	-2.34	-2.62	0.91	0.50	9.01
1948	5.50	-2.11	4.14	3.40	1.85	0.81	2.71
1949	18.79	19.75	3.31	6.45	2.32	1.10	-1.80
1950	31.71	38.75	2.12	0.06	0.70	1.20	5.79
1951	24.02	7.80	-2.69	-3.93	0.36	1.49	5.87
1952	18.37	3.03	3.52	1.16	1.63	1.66	0.88
1953	-0.99	-6.49	3.41	3.64	3.23	1.82	0.62
1954	52.62	60.58	5.39	7.19	2.68	0.86	-0.50
1955	31.56	20.44	0.48	-1.29	-0.65	1.57	0.37
1956	6.56	4.28	-6.81	-5.59	-0.42	2.46	2.86
1957	-10.78	-14.57	8.71	7.46	7.84	3.14	3.02
1958	43.36	64.89	-2.22	-6.09	-1.29	1.54	1.76
1959	11.96	16.40	-0.97	-2.26	-0.39	2.95	1.50
1960	0.47	-3.29	9.07	13.76	11.76	2.66	1.48
1961	26.89	32.09	4.82	0.97	1.85	2.13	0.67
1962	-8.73	-11.90	7.95	6.89	5.56	2.73	1.22
1963	22.80	23.57	2.19	1.21	1.64	3.12	1.65
1964	16.48	23.52	4.77	3.51	4.04	3.54	1.19
1965	12.45	41.75	-0.46	0.71	1.02	3.93	1.92
1966	-10.06	-7.01	0.20	3.65	4.69	4.76	3.35
1967	23.98	83.57	-4.95	-9.18	1.01	4.21	3.04
1968	11.06	35.97	2.57	-0.26	4.54	5.21	4.72
1969	-8.50	-25.05	-8.09	-5.07	-0.74	6.58	6.11
1970	4.01	-17.43	18.37	12.11	16.86	6.52	5.49
1971	14.31	16.50	11.01	13.23	8.72	4.39	3.36
1972	18.98	4.43	7.26	5.69	5.16	3.84	3.41
1973	-14.66	-30.90	1.14	-1.11	4.61	6.93	8.80
1974	-26.47	-19.95	-3.06	4.35	5.69	8.00	12.20
1975	37.20	52.82	14.64	9.20	7.83	5.80	7.01
1976	23.84	57.38	18.65	16.75	12.87	5.08	4.81
1977	-7.18	25.38	1.71	-0.69	1.41	5.12	6.77
1978	6.56	23.46	-0.07	-1.18	3.49	7.18	9.03
1979	18.44	43.46	-4.18	-1.23	4.09	10.38	13.31
1980	32.42	39.88	-2.62	-3.95	3.91	11.24	12.40
1981	-4.91	13.88	-0.96	1.86	9.45	14.71	8.94
1982	21.41	28.01	43.79	40.36	29.10	10.54	3.87
1983	22.51	39.67	4.70	0.65	7.41	8.80	3.80
1984	6.27	-6.67	16.39	15.48	14.02	9.85	3.95
1985	32.16	24.66	30.09	30.97	20.33	7.72	3.77
1986	18.47	6.85	19.85	24.53	15.14	6.16	1.13
1987	5.23	-9.30	-0.27	-2.71	2.90	5.47	4.41
1988	16.81	22.87	10.70	9.67	6.10	6.35	4.42
1989	31.49	10.18	16.23	18.11	13.29	8.37	4.65
1990	-3.17	-21.56	6.78	6.18	9.73	7.81	6.11
1991	30.55	44.63	19.89	19.30	15.46	5.60	3.06
1992	7.67	23.35	9.39	8.05	7.19	3.51	2.90
1993	9.99	20.98	13.19	18.24	11.24	2.90	2.75
1994	1.31	3.11	-5.76	-7.77	-5.14	3.90	2.67
1995	37.43	34.46	27.20	31.67	16.80	5.60	2.54
1996	23.07	17.62	1.40	-0.93	2.10	5.21	3.32
1997	33.36	22.78	12.95	15.85	8.38	5.26	1.70
1998	28.58	-7.31	10.76	13.06	10.21	4.86	1.61
1999	21.04	29.79	-7.45	-8.96	-1.77	4.68	2.68
2000	-9.11	-3.59	12.87	21.48	12.59	5.89	3.39
2001	-11.88	22.77	10.65	3.70	7.62	3.83	1.55
2002	-22.10	-13.28	16.33	17.84	12.93	1.65	2.38
2003	28.70	60.70	5.27	1.45	2.40	1.02	1.88
2004	10.87	18.39	8.72	8.51	2.25	1.20	3.26
2005	4.91	5.69	5.87	7.81	1.36	2.98	3.42

HISTORICAL PATTERNS OF INVESTMENT RETURN, PAY INCREASES & INFLATION

Calendar Year Period	Gross Market Returns			Stocks (S&P 500)	Price Inflation (CPI)	National Average Earnings	Sample Balanced Fund*	
	Bonds (Long)		Cash Equiv. (T Bills)				Total Return (I)	Spread: I - NAE - e
	U.S. Treasury	Corp. (S&P AA)						
1950-59	(0.1)%	1.0 %	1.9 %	19.4 %	2.2 %	4.5 %	10.5 %	5.5 %
1960-69	1.4 %	1.7 %	3.9 %	7.8 %	2.5 %	4.3 %	5.2 %	0.4 %
1970-79	5.5 %	6.2 %	6.3 %	5.9 %	7.4 %	6.9 %	6.3 %	(1.1)%
1980-89	12.6 %	13.0 %	8.9 %	17.5 %	5.1 %	5.8 %	15.1 %	8.8 %
1990-99	8.8 %	8.4 %	4.9 %	18.2 %	2.9 %	4.2 %	13.2 %	8.5 %
2000-2005	9.9 %	9.9 %	2.7 %	(1.1)%	2.6 %	3.1 %	4.2 %	0.6 %
Last 56 Years	6.0 %	6.4 %	4.9 %	11.9 %	3.9 %	4.9 %	9.3 %	3.9 % #

* Sample Balanced Fund	
Equities	50%
Bonds - Government	20%
- Corporate	20%
Cash Equivalents	10%
	100%
Fund expenses(e)	0.50% @

# Historical Spread	
# Observed spread is very sensitive to the observation period, even over long periods, as illustrated below:	
Observation Period	Spread
56 years	3.9%
46 years	3.6%
36 years	4.5%
26 years	6.7%

@ Generally includes administration manager fees and transaction costs.
 May vary anywhere from less than 0.3% to over 1.0% from system to system.

SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN MILLIONS)

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Entry Age AAL	(3) UAAL (2)-(1)	(4) Funding Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as % of Covered Payroll (3)/(5)
1991+*	\$2,434	\$ 2,762	\$ 328	88.1%	\$ 909	36.1%
1992+	2,729	3,329	600	82.0%	1,077	55.7%
1993+	3,051	3,712	661	82.2%	1,120	59.0%
1994	3,307	3,960	653	83.5%	1,167	56.0%
1995*	3,626	4,257	631	85.2%	1,234	51.1%
1996	4,186	4,635	449	90.3%	1,260	35.6%
1997+	4,956	5,403	447	91.7%	1,302	34.3%
1998+*	5,815	6,188	373	94.0%	1,368	27.3%
1999+	6,740	6,834	94	98.6%	1,429	6.6%
2000+	7,620	7,879	259	96.7%	1,485	17.4%
2001+	8,166	8,561	395	95.4%	1,557	25.4%
2002*	8,328	9,062	734	91.9%	1,628	45.1%
2003+	8,113	9,445	1,332	85.9%	1,683	79.1%
2004	8,424	10,050	1,626	83.8%	1,748	93.0%
2005	8,817	10,973	2,156	80.4%	1,962	109.9%
2006	9,332	11,623	2,291	80.3%	2,080	110.1%

+ Legislated benefit or contribution rate change.

* Revised actuarial assumptions.

SECTION E



Covered Member Data

Active members included in the valuation totaled 67,710 with annual payroll totaling \$2,079,642,601.

**TOTAL ACTIVE MEMBERS IN VALUATION JUNE 30, 2006
BY MEMBER'S CHOICE OF CONTRIBUTION RATE**

Attained Age	Members Contributing Now			Members Not Contributing			Total Members
	Men	Women	Total	Men	Women	Total	
Under 20	1	6	7	23	45	68	75
20-24	193	783	976	254	587	841	1,817
25-29	867	3,407	4,274	288	1,057	1,345	5,619
30-34	1,054	3,722	4,776	388	1,915	2,303	7,079
35-39	963	4,093	5,056	573	3,066	3,639	8,695
40-44	983	4,292	5,275	847	4,030	4,877	10,152
45-49	1,186	4,904	6,090	854	3,955	4,809	10,899
50-54	1,188	4,576	5,764	810	3,410	4,220	9,984
55-59	969	3,543	4,512	698	2,618	3,316	7,828
60-64	496	1,548	2,044	458	1,341	1,799	3,843
65-69	171	251	422	251	471	722	1,144
70 & Up	63	63	126	195	254	449	575
Totals	8,134	31,188	39,322	5,639	22,749	28,388	67,710

This schedule does not include T-DROP members.

WOMEN ACTIVE MEMBERS IN VALUATION JUNE 30, 2006
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	51							51	\$ 280,617
20-24	1,363	7						1,370	24,735,206
25-29	3,715	746	3					4,464	121,134,210
30-34	2,763	2,381	493					5,637	158,537,885
35-39	2,910	2,012	1,790	444	3			7,159	200,338,327
40-44	2,857	2,135	1,383	1,477	469	1		8,322	231,076,470
45-49	1,958	1,884	1,651	1,375	1,353	637	1	8,859	283,887,495
50-54	1,480	1,404	1,497	1,504	884	1,143	74	7,986	271,739,881
55-59	1,163	1,012	967	1,389	902	678	50	6,161	203,413,422
60	183	140	129	227	142	100	8	929	28,536,568
61	145	112	91	127	77	84	6	642	19,493,335
62	125	113	84	81	79	52	6	540	15,769,144
63	120	88	56	71	49	41	4	429	11,397,774
64	98	61	53	55	42	33	7	349	9,201,674
65	90	53	41	48	32	31	5	300	7,368,665
66	78	26	12	11	7	3	2	139	2,328,293
67	68	23	7	4	6	3	1	112	1,693,809
68	58	26	8	2	2	3		99	1,305,076
69	51	17	1	2	1			72	874,150
70 & Up	192	97	18	6	2	1	1	317	3,404,499
Totals	19,468	12,337	8,284	6,823	4,050	2,810	165	53,937	\$1,596,516,500

This schedule does not include T-DROP members.

**MEN ACTIVE MEMBERS IN VALUATION JUNE 30, 2006
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	24							24	\$ 138,603
20-24	441	6						447	6,851,641
25-29	965	184	6					1,155	34,296,435
30-34	629	686	123	4				1,442	51,757,099
35-39	531	436	474	94	1			1,536	56,825,382
40-44	595	378	315	436	106			1,830	67,086,803
45-49	554	393	300	309	343	141		2,040	82,229,787
50-54	509	386	304	258	196	326	19	1,998	80,722,423
55-59	544	346	250	207	143	155	22	1,667	61,677,346
60	95	64	41	42	27	8	4	281	9,273,813
61	70	58	35	32	11	8	1	215	7,036,128
62	76	53	32	20	10	9		200	6,190,584
63	54	34	16	22	11	5	3	145	4,617,360
64	52	25	17	9	5	5		113	3,192,185
65	68	40	5	10	3		1	127	3,258,091
66	59	17	6	1		4		87	1,683,570
67	58	18	3	1				80	1,156,528
68	48	15	6					69	1,013,790
69	42	12	1	2	2			59	920,997
70 & Up	138	99	15	4	2			258	3,197,536
Totals	5,552	3,250	1,949	1,451	860	661	50	13,773	\$483,126,101

This schedule does not include T-DROP members.

**TOTAL ACTIVE MEMBERS IN VALUATION JUNE 30, 2006
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	75							75	\$ 419,220
20-24	1,804	13						1,817	31,586,847
25-29	4,680	930	9					5,619	155,430,645
30-34	3,392	3,067	616	4				7,079	210,294,984
35-39	3,441	2,448	2,264	538	4			8,695	257,163,709
40-44	3,452	2,513	1,698	1,913	575	1		10,152	298,163,273
45-49	2,512	2,277	1,951	1,684	1,696	778	1	10,899	366,117,282
50-54	1,989	1,790	1,801	1,762	1,080	1,469	93	9,984	352,462,304
55-59	1,707	1,358	1,217	1,596	1,045	833	72	7,828	265,090,768
60	278	204	170	269	169	108	12	1,210	37,810,381
61	215	170	126	159	88	92	7	857	26,529,463
62	201	166	116	101	89	61	6	740	21,959,728
63	174	122	72	93	60	46	7	574	16,015,134
64	150	86	70	64	47	38	7	462	12,393,859
65	158	93	46	58	35	31	6	427	10,626,756
66	137	43	18	12	7	7	2	226	4,011,863
67	126	41	10	5	6	3	1	192	2,850,337
68	106	41	14	2	2	3		168	2,318,866
69	93	29	2	4	3			131	1,795,147
70 & Up	330	196	33	10	4	1	1	575	6,602,035
Totals	25,020	15,587	10,233	8,274	4,910	3,471	215	67,710	\$2,079,642,601

This schedule does not include T-DROP members.

SUMMARY OF ACTIVE MEMBERS

	Teachers		Non-Teachers		Total Active Members	
	No.	Payroll	No.	Payroll	No.	Payroll
Women	26,714	\$ 1,140,011,965	27,223	\$ 456,504,535	53,937	\$ 1,596,516,500
Men	6,996	342,505,581	6,777	140,620,520	13,773	483,126,101
All	33,710	\$ 1,482,517,546	34,000	\$ 597,125,055	67,710	\$ 2,079,642,601

	Teachers	Non-Teachers	Total
Members Contributing Now	25,862	13,460	39,322
Members Not Contributing	7,848	20,540	28,388
All	33,710	34,000	67,710

	Group Averages		
	Women	Men	Total
Age:	44.1 years	45.2 years	44.3 years
Service:	9.5 years	8.7 years	9.3 years

ACTIVE MEMBERS IN VALUATION

June 30	Number	Group Averages			Active Member Payroll (\$ Millions)
		Age	Service	Annual Earnings	
1986	34,274	40.5	10.6	\$19,180	\$ 657
1987	34,210	40.9	10.5	19,392	663
1988	38,024	40.8	10.0	19,274	733
1989	38,978	41.1	10.2	19,879	775
1990	41,800	41.3	9.9	19,776	827
1991	45,902	41.5	9.6	19,796	909
1992	55,688	41.3	8.5	19,338	1,077
1993	58,519	41.4	8.6	19,145	1,120
1994	57,402	42.1	9.1	20,337	1,167
1995	58,876	42.4	9.2	20,952	1,234
1996	56,100	43.0	9.8	22,463	1,260
1997	56,997	43.2	9.8	22,847	1,302
1998	58,528	43.4	9.7	23,380	1,368
1999	59,499	43.5	9.8	24,019	1,429
2000	60,147	43.6	9.6	24,696	1,485
2001	61,389	43.7	9.5	25,365	1,557
2002	62,011	43.8	9.4	26,254	1,628
2003	62,432	44.0	9.5	26,963	1,683
2004	63,185	44.2	9.5	27,660	1,748
2005	65,793	44.2	9.4	29,826	1,962
2006	67,710	44.3	9.3	30,714	2,080

The figures on this historical schedule are affected by the inclusion of new non-teaching employees beginning July 1, 1989.

**DEFERRED VESTED MEMBERS AT JUNE 30, 2006
BY ATTAINED AGE**

Age	Number	Estimated Annual Benefits	Contribution Balance
Below 40	1,812	\$ 6,679,693	\$ 6,660,793
40	288	1,093,604	862,182
41	355	1,309,623	952,474
42	392	1,417,125	1,181,542
43	385	1,366,105	1,149,858
44	407	1,558,406	1,579,074
45	425	1,646,496	1,680,027
46	362	1,324,980	1,597,903
47	407	1,655,191	1,841,655
48	393	1,611,046	2,012,795
49	426	1,803,204	2,570,875
50	407	1,657,721	2,013,122
51	391	1,760,328	2,771,492
52	384	1,717,491	2,552,728
53	380	1,693,668	2,661,101
54	375	1,731,148	2,855,310
55	341	1,652,111	2,939,791
56	388	1,912,006	3,879,316
57	346	1,656,494	3,397,823
58	347	2,038,157	4,582,756
59	360	1,907,214	4,408,547
60 & Up	602	1,962,714	3,464,848
Totals	9,973	\$41,154,525	\$57,616,012

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

This valuation also includes 66 beneficiaries of deceased retirees who are eligible for a pension at age 62.

**ALL MEMBERS PARTICIPATING IN T-DROP AT JUNE 30, 2006
BY ATTAINED AGE**

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
46	1	\$ 18,333	\$ 17,295	\$ 36,399	\$ 51,078
47	1	20,248	19,659	20,033	58,709
48	2	49,345	47,113	77,618	138,627
49	15	243,090	294,068	324,059	725,581
50	84	1,501,572	1,459,906	1,713,122	4,246,189
51	159	2,819,637	2,711,838	4,241,470	8,274,098
52	299	5,438,768	5,157,250	11,060,643	16,242,704
53	369	6,648,422	6,279,021	16,354,458	19,871,321
54	402	7,460,539	6,970,841	23,713,132	22,148,494
55	417	7,869,395	7,266,324	30,108,580	23,252,550
56	435	8,191,971	7,435,978	35,800,084	24,127,120
57	451	8,748,057	7,810,811	42,560,002	25,972,701
58	441	8,547,718	7,538,228	45,376,357	24,675,445
59	419	8,284,015	7,169,773	47,001,668	23,939,724
60	252	4,982,094	4,287,362	29,304,175	14,240,105
61	210	4,220,455	3,615,843	25,567,909	11,818,365
62	191	4,080,352	3,453,951	26,410,129	11,596,350
63	152	3,014,095	2,527,728	19,256,911	8,405,098
64	98	2,015,230	1,586,658	12,780,253	5,602,859
65	79	2,123,721	1,272,277	10,749,226	4,337,061
66	37	1,072,354	611,090	5,671,180	2,025,799
67	15	457,794	247,058	3,025,427	830,320
68	14	425,884	249,926	2,924,594	846,922
69	10	395,283	231,760	2,707,365	590,790
70	6	216,338	105,172	1,764,557	317,369
71	5	162,812	97,854	1,028,397	298,640
72	2	87,201	45,726	630,118	128,814
74	2	79,480	35,209	704,309	94,875
75	1	34,497	15,818	307,992	51,321
77	1	41,893	19,346	368,740	57,454
Totals	4,570	\$89,250,593	\$78,580,883	\$401,588,907	\$ 254,966,483

A T-DROP member continues to work, but does not accrue retirement benefits. A reduced benefit is paid into the T-DROP account (see page C-2) during T-DROP participation.

**MEMBERS PARTICIPATING IN T-DROP AT JUNE 30, 2006
BY ATTAINED AGE
ENTERING T-DROP BEFORE SEPTEMBER 2003**

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
49	2	\$ 26,685	\$ 24,771	\$ 95,084	\$ 107,307
50	2	30,656	29,766	98,193	112,343
51	19	311,403	288,758	1,008,829	1,074,061
52	96	1,704,315	1,568,833	5,602,199	5,299,026
53	183	3,217,228	2,974,960	11,226,667	9,818,890
54	267	4,942,349	4,548,279	19,909,760	15,058,795
55	312	5,932,236	5,397,011	27,383,656	17,796,185
56	340	6,490,609	5,814,624	33,305,029	19,190,209
57	366	7,220,271	6,339,465	40,273,569	21,577,062
58	370	7,364,952	6,403,862	43,663,365	21,123,981
59	352	7,168,701	6,132,552	45,438,104	20,458,680
60	213	4,284,891	3,611,440	28,258,802	12,214,579
61	166	3,502,500	2,917,934	24,633,879	9,670,125
62	165	3,630,434	3,010,867	25,743,657	10,299,173
63	121	2,484,672	2,017,461	18,467,092	6,808,371
64	79	1,700,887	1,280,015	12,295,055	4,558,157
65	67	1,926,327	1,083,229	10,485,680	3,797,664
66	33	1,017,235	558,653	5,567,910	1,869,890
67	14	454,107	243,580	3,018,108	805,534
68	13	403,440	228,753	2,880,033	785,060
69	10	395,283	231,760	2,707,365	590,790
70	6	216,338	105,172	1,764,557	317,369
71	5	162,812	97,854	1,028,397	298,640
72	2	87,201	45,726	630,118	128,814
74	2	79,480	35,209	704,309	94,875
75	1	34,497	15,818	307,992	51,321
77	1	41,893	19,346	368,740	57,454
Totals	3,207	\$ 64,831,402	\$ 55,025,698	\$ 366,866,149	\$ 183,964,355

A partial employer contribution is made to ATRS on behalf of these individuals in accordance with Act 992 of 2003.

**MEMBERS PARTICIPATING IN T-DROP AT JUNE 30, 2006
BY ATTAINED AGE
ENTERING T-DROP AFTER AUGUST 2003**

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
46	1	\$ 18,333	\$ 17,295	\$ 36,399	\$ 51,078
47	1	20,248	19,659	20,033	58,709
48	2	49,345	47,113	77,618	138,627
49	13	216,405	269,297	228,975	618,274
50	82	1,470,916	1,430,140	1,614,929	4,133,846
51	140	2,508,234	2,423,080	3,232,641	7,200,037
52	203	3,734,453	3,588,417	5,458,444	10,943,678
53	186	3,431,194	3,304,061	5,127,791	10,052,431
54	135	2,518,190	2,422,562	3,803,372	7,089,699
55	105	1,937,159	1,869,313	2,724,924	5,456,365
56	95	1,701,362	1,621,354	2,495,055	4,936,911
57	85	1,527,786	1,471,346	2,286,433	4,395,639
58	71	1,182,766	1,134,366	1,712,992	3,551,464
59	67	1,115,314	1,037,221	1,563,564	3,481,044
60	39	697,203	675,922	1,045,373	2,025,526
61	44	717,955	697,909	934,030	2,148,240
62	26	449,918	443,084	666,472	1,297,177
63	31	529,423	510,267	789,819	1,596,727
64	19	314,343	306,643	485,198	1,044,702
65	12	197,394	189,048	263,546	539,397
66	4	55,119	52,437	103,270	155,909
67	1	3,687	3,478	7,319	24,786
68	1	22,444	21,173	44,561	61,862
Totals	1,363	\$ 24,419,191	\$ 23,555,185	\$ 34,722,758	\$ 71,002,128

A full employer contribution is made to ATRS on behalf of these individuals in accordance with Act 992 of 2003.

**ANNUITIES BEING PAID RETIREES AND BENEFICIARIES JULY 1, 2006
BY TYPE OF ANNUITY BEING PAID**

Type of Annuity	No.	Annual Amounts		
		Original Annuities	Base Annuities	Current Annuities
RETIREMENT RESERVE ACCOUNT				
Age & Service				
Option 1 (Basic single life)	16,827	\$ 203,294,836	\$ 259,567,252	\$ 317,774,470
Option A (Joint & 100% S.)	1,986	28,928,439	32,752,009	39,191,513
Option B (Joint & 50% S.)	1,268	24,419,373	28,739,023	35,052,530
Option C (10 year certain)	512	8,329,491	8,774,521	10,279,301
Beneficiaries	514	6,339,218	6,946,350	8,416,859
Totals	21,107	271,311,357	336,779,155	410,714,673
Disability				
Option 1	1,572	12,633,106	16,439,752	19,695,222
Option A	210	1,868,905	2,212,229	2,579,075
Option B	56	695,609	799,725	934,293
Option C	54	451,599	470,666	520,152
Beneficiaries	273	2,143,701	2,752,879	3,322,546
Totals	2,165	17,792,920	22,675,251	27,051,288
Act 793	209	1,251,741	1,953,019	1,953,019
Totals	23,481	290,356,018	361,407,425	439,718,980
SURVIVOR'S BENEFIT ACCOUNT				
Beneficiaries of Deceased Members	547	3,560,111	4,818,120	5,791,974
ACT 808				
Act 808	125	2,062,772	4,263,030	4,263,030
RETIREMENT SYSTEM TOTALS				
Total Annuities Being Paid	24,153	\$ 295,978,901	\$ 370,488,575	\$ 449,773,984

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

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

The Current Annuity is the annuity payable at July 1, 2006.

SECTION F



Actuarial Assumptions and Miscellaneous

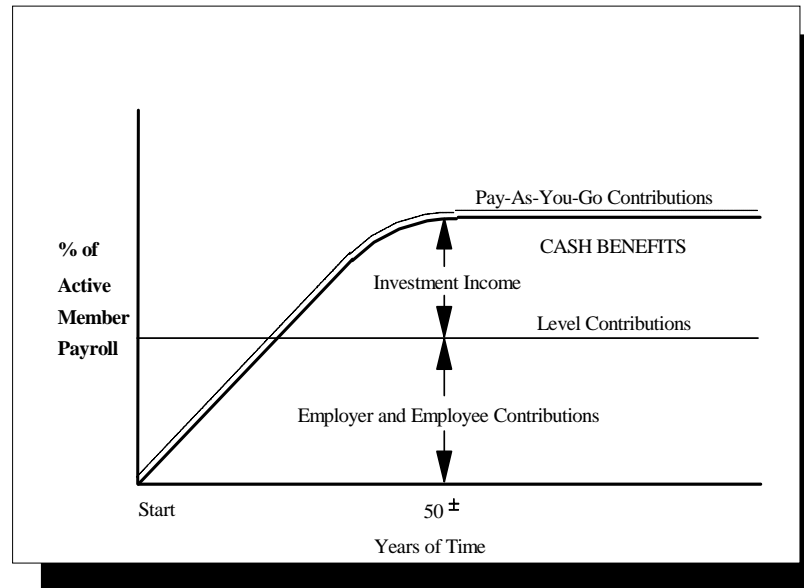
SELECTION OF ASSUMPTIONS USED IN ACTUARIAL VALUATIONS

Economic Assumptions

Investment return
Pay increases to individual employees:
the portion for economic changes
Active member group size and
total payroll growth

Demographic Assumptions

Actual ages at service retirement
Pay increases to individual members:
the portion for merit & seniority
Disability while actively employed
Separations before retirement
Mortality after retirement
Mortality before retirement



RELATIONSHIP BETWEEN PLAN GOVERNING BODY AND THE ACTUARY

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

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

A sound procedure is that the actuary suggests reasonable alternatives for economic assumptions, followed by discussion involving the actuary, the Plan Governing Body, and other professionals, and the Plan Governing Body then makes a final choice from the various alternatives.

SUMMARY OF ASSUMPTIONS USED IN ACTUARIAL VALUATIONS FOR THE ARKANSAS TEACHER RETIREMENT SYSTEM ASSUMPTIONS ADOPTED BY BOARD OF TRUSTEES AFTER CONSULTING WITH ACTUARY

Economic Assumptions

The investment return rate used in making the valuation was 8.0% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return over wage inflation in this valuation is defined to be the portion of investment return which is more than the wage inflation rate. Considering wage inflation recognition of 4.0%, the 8.0% rate translates to an assumed real rate of return over wage inflation of 4.0%. This rate was first used for the ***June 30, 2002*** valuation. The assumed real rate of return over price inflation would be higher – on the order of 4.5% to 5%.

Pay increase assumptions for individual active members are shown on pages F-8 and F-9. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. These rates were first used for the ***June 30, 2002*** valuation.

No specific ***Price Inflation*** is needed for this valuation. However, the wage inflation and interest rate assumptions would be compatible with a price inflation assumption of 3.0% or 3.5%. It is assumed that the 3% COLA will always be paid.

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

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

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-4. This table was first used for the ***June 30, 1998*** valuation. For disabled lives, the mortality table is set forward 5 years. The set forward of 5 years was first used for the ***June 30, 2002*** valuation.

The probabilities of retirement for members eligible to retire are shown on page F-5 and F-6. The rates for full retirement were first used in the ***June 30, 2005*** valuation. The rates for reduced retirement were first used in the ***June 30, 2002*** valuation.

The probabilities of withdrawal from service, ***death-in-service*** and ***disability*** are shown for sample ages on pages F-8 and F-9. The withdrawal and disability rates were first used in the ***June 30, 2002*** valuation. The death-in-service rates were first used in the ***June 30, 2002*** valuation.

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

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

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

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

Asset Valuation Method. A market value related asset method is used as described on page D-4. This method was first used in the June 30, 1995 valuation. It was modified following the 1997-2002 Experience Study to include an 80% - 120% market value corridor.

The data about persons now covered and about present assets was furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date. Members whose salaries were not supplied and that entered T-DROP before September 2003 were assumed to have the group average pay of \$57,363. Those that entered after were assumed to have the group average pay of \$52,093.

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

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1 Monthly for Life Increasing 3.0% Annually		Future Life Expectancy (years)		Percent Dying within Next Year	
	Men	Women	Men	Women	Men	Women	Men	Women
40	\$142.98	\$147.82	\$184.74	\$193.70	38.46	44.52	0.12 %	0.07 %
45	138.18	144.67	176.24	187.61	33.74	39.69	0.22 %	0.10 %
50	132.10	140.42	165.94	179.79	29.18	34.92	0.39 %	0.16 %
55	124.57	134.74	153.75	169.90	24.82	30.24	0.61 %	0.25 %
60	115.04	127.24	139.16	157.58	20.64	25.67	0.92 %	0.42 %
65	103.26	117.61	122.19	142.67	16.69	21.29	1.56 %	0.71 %
70	90.18	105.53	104.27	125.11	13.18	17.13	2.75 %	1.24 %
75	76.40	91.57	86.27	105.96	10.15	13.37	4.46 %	2.40 %
80	62.65	77.16	69.17	87.10	7.64	10.20	7.41 %	4.29 %
85	50.59	62.99	54.72	69.36	5.73	7.58	11.48 %	6.99 %
Ref:	30 x 1.00	31 x 1.00	30 x 1.00	31 x 1.00				

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive	
		Men	Women
60	\$100.00	100%	100%
65	115.00	94%	97%
70	130.00	85%	93%
75	145.00	72%	86%
80	160.00	54%	73%
Ref		30	31

PROBABILITIES OF RETIREMENT FOR MEMBERS

Retirement Ages	% of Active Participants Retiring with Unreduced Benefits			
	Education		Support	
	Male	Female	Male	Female
48	50%	40%	50%	30%
49	50%	40%	50%	30%
50	13%	8%	5%	9%
51	10%	8%	5%	9%
52	9%	8%	12%	8%
53	9%	9%	13%	12%
54	9%	9%	8%	10%
55	9%	11%	8%	12%
56	12%	11%	9%	11%
57	10%	13%	14%	9%
58	11%	13%	15%	16%
59	14%	18%	11%	28%
60	14%	17%	9%	14%
61	14%	15%	10%	14%
62	28%	25%	28%	21%
63	17%	18%	20%	17%
64	17%	17%	20%	16%
65	27%	38%	30%	30%
66	30%	30%	30%	30%
67	30%	30%	30%	30%
68	30%	30%	30%	30%
69	30%	30%	30%	30%
70	30%	30%	30%	30%
71	30%	30%	30%	30%
72	30%	30%	30%	30%
73	30%	30%	30%	30%
74	30%	30%	30%	30%
75	100%	100%	100%	100%
Ref	1016	1017	1018	1019

These rates are based upon data presented in the 1997-2002 experience study and were first used in the 2005 valuation.

PROBABILITIES OF REDUCED RETIREMENT FOR MEMBERS

Retirement Ages	% of Active Participants Retiring with Reduced Benefits			
	Education		Support	
	Male	Female	Male	Female
50	2%	2%	2%	2%
51	2%	2%	2%	2%
52	3%	3%	3%	3%
53	4%	4%	4%	4%
54	4%	4%	4%	4%
55	6%	6%	6%	6%
56	9%	5%	9%	5%
57	9%	5%	9%	5%
58	9%	5%	9%	5%
59	9%	5%	9%	5%
60	100%	100%	100%	100%
Ref	826	825	826	825

DURATION OF T-DROP FOR MEMBERS

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

Entry Age	Assumed Duration Years
50-56	6
57	5
58	4
59+	3

Future retirees are assumed to have entered T-DROP at the time that is to their greatest financial advantage.

TEACHERS
SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE AGE AND SERVICE
RETIREMENT & INDIVIDUAL PAY INCREASES

Sample Ages	Percent of Active Members Separating Within the Next Year						
	Service	Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					32.00%	25.00%
	1					15.00%	12.00%
	2					11.00%	9.00%
	3					7.50%	9.00%
	4					5.00%	7.00%
20	5 & Up	0.02%	0.01%	0.10%	0.09%	4.60%	4.60%
25		0.02%	0.01%	0.10%	0.09%	4.60%	4.84%
30		0.03%	0.02%	0.08%	0.07%	3.94%	4.40%
35		0.04%	0.02%	0.08%	0.07%	3.20%	3.10%
40		0.06%	0.03%	0.14%	0.13%	2.70%	2.20%
45		0.11%	0.05%	0.24%	0.22%	2.08%	2.00%
50		0.20%	0.08%	0.53%	0.47%	1.62%	1.70%
55	0.31%	0.13%	0.88%	0.79%	1.50%	1.50%	
60	0.46%	0.21%	1.00%	0.90%	1.50%	1.50%	
65	0.78%	0.35%	1.00%	0.90%	1.50%	1.50%	
Ref:						136	272
		30 x 0.5	31 x 0.5	135 x 1	135 x 0.9	556	558

Age	Pay Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	5.4%	4.0%	9.4%
25	4.4%	4.0%	8.4%
30	3.4%	4.0%	7.4%
35	2.4%	4.0%	6.4%
40	1.7%	4.0%	5.7%
45	1.2%	4.0%	5.2%
50	0.8%	4.0%	4.8%
55	0.4%	4.0%	4.4%
60	0.3%	4.0%	4.3%
65	0.3%	4.0%	4.3%
Ref:	197		

SUPPORT EMPLOYEES
SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE AGE AND SERVICE
RETIREMENT & INDIVIDUAL PAY INCREASES

Sample Ages	Percent of Active Members Separating Within the Next Year						
	Service	Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					40.00%	40.00%
	1					30.00%	25.00%
	2					22.00%	18.00%
	3					18.00%	14.00%
	4					13.00%	11.00%
20	5 & Up	0.02%	0.01%	0.10%	0.08%	13.00%	11.00%
25		0.02%	0.01%	0.10%	0.08%	12.00%	11.00%
30		0.03%	0.02%	0.08%	0.07%	10.80%	7.60%
35		0.04%	0.02%	0.08%	0.07%	8.20%	5.40%
40		0.06%	0.03%	0.14%	0.12%	5.80%	4.70%
45		0.11%	0.05%	0.24%	0.19%	4.10%	4.20%
50		0.20%	0.08%	0.53%	0.42%	2.90%	2.80%
55	0.31%	0.13%	0.88%	0.70%	1.90%	1.70%	
60	0.46%	0.21%	1.00%	0.80%	1.50%	1.50%	
65	0.78%	0.35%	1.00%	0.80%	1.50%	1.50%	
Ref:		30 x 0.5	31 x 0.5	135 x 1	135 x 0.8	273	274
						560	559

Age	Pay Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	6.1%	4.0%	10.1%
25	5.2%	4.0%	9.2%
30	4.2%	4.0%	8.2%
35	3.6%	4.0%	7.6%
40	2.9%	4.0%	6.9%
45	1.5%	4.0%	5.5%
50	0.6%	4.0%	4.6%
55	0.2%	4.0%	4.2%
60	0.0%	4.0%	4.0%
65	0.0%	4.0%	4.0%
Ref:	198		

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

JUNE 30, 2006

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements are assumed to occur mid-year, with the exception of normal and early retirement and T-DROP, which are assumed to occur at the beginning of the year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and exact fractional service on the date of the valuation.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and mortality decrements do not operate during the first 5 years of service. Disability and turnover do not operate during retirement eligibility.
Normal Form of Benefit:	The assumed normal form of benefit is the straight life form.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made. The payroll used for this purpose is payroll for all active members plus payroll for members who entered T-DROP on or after September 2003.
Approximations:	Adjustments were made to liabilities for T-DROP to allow for interest accumulation at 2% below the assumed rate of return and to reflect partial employer contributions for people who entered T-DROP prior to September 2003.
Loads:	A 1.0% load was included to account for subsidized Options, Service Purchases, etc.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

November 21, 2006

Mr. David Malone
Executive Director
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Re: Report of June 30, 2006 Actuarial Valuation of Active and Inactive Members

Dear Mr. Malone:

Enclosed are 25 copies of the report. We will be sending the remaining 10 copies for Monday delivery. If you need anything else, please call.

Sincerely,

Judith A. Kermans

JAK/lr
Enclosures