Gabriel Roeder Smith & Company
Consultants & Actuaries

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL ACTUARIAL VALUATION OF ACTIVE AND INACTIVE MEMBERS

JUNE 30, 2008

REPORT OF THE JUNE 30, 2008 ACTUARIAL VALUATION
OUTLINE OF CONTENTS

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December 1, 2008

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, 2008 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 Arkansas Teacher Retirement System 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 Section G of this report. These assumptions reflect experience during the period July 1, 1997 to June 30, 2002.

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. The actuaries submitting this report are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Brian B. Murphy

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BBM/JAK:lr

SECTION A

EXECUTIVE SUMMARY

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, 2008 actuarial valuations, ***ATRS is satisfying the financial objective of level-contribution-percent financing.***

This report contains the results of the June 30, 2008 valuation. The table below shows a summary of the data used in the valuation. This data was the basis for determining valuation results and recommended employer contribution rates.

	Number	Average	Type of Average
Active not in TDROP	70,172	$32,319	Pay
Active in TDROP	4,630	57,621	Pay
Deferred Vested	11,688	4,816	Annual Projected Benefit
Retired	26,801	19,237	Annual Current Benefit
Total Members	**113,291**		

The June 30, 2008 valuation results are used to determine the contribution rate for the plan year beginning July 1, 2009.

Employer Contribution Rates for Fiscal Years 2010 and 2009 (Prior Year)

	Percents of Active Member Full Payroll			
Computed Contributions for	**Teachers**	**Support**	**Combined**	**Prior Year**
Normal Cost	13.44%	11.50%	**12.87%**	12.77%
Average Member Contributions	4.91%	3.66%	**4.54%**	4.44%
Net Employer Normal Cost	8.53%	7.84%	**8.33%**	8.33%
Unfunded Actuarial Accrued Liabilities			**5.67%**	5.67%
Employer Contribution Rate			**14.00%**	14.00%
Amortization Years			**21.0**	19.1
Funded Ratio			**84.9%**	85.3%

EXECUTIVE SUMMARY - (CONCLUDED)

The amortization period this year is 21 years, an increase from last year's 19-year period. However, investment experience for the year ending June 30, 2008 was very unfavorable. The annual market rate of return was (4.19)% compared to an assumed rate of 8.0%. Investment gains and losses that occur each year are smoothed in over a 4-year period. Although there were carryover gains from prior years that were recognized this year, the unfavorable experience this year nearly offset those gains. As of June 30, 2008, the actuarial value of assets exceeds the market value of assets by $301 million. Given the loss this year and considering the current economic environment, it is very likely that the amortization period will exceed 30 years in the next valuation even without any further changes in benefit provisions.

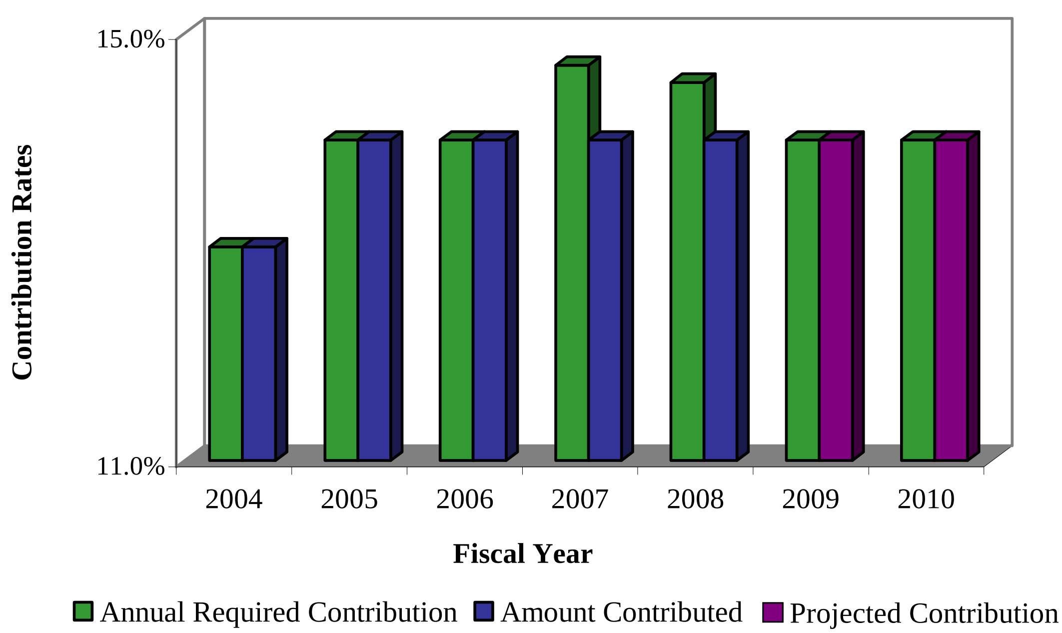
Since the previous actuarial valuation, there were changes in benefit provisions.

- The July 1, 2009 cost of living adjustment for retirees will be compounded and the base amount will be reset to be the July 1, 2009 benefit amount.
- Recognition of Domestic Federal and Federal service, elimination of the earnings limit for Department of Education employees and extending the waiver renewal period to 6 years.

Reflecting these changes in this valuation increased the amortization period by just under 3 years.

Even though these are difficult economic times, the Arkansas Teacher Retirement System remains strong with a 84.9% funded position as of June 30, 2008. However, it is very possible that the next valuation will show a greatly reduced funding ratio and a greatly increased amortization period. If the Board thinks it would be helpful, we would be happy to provide rough projections of the June 30, 2009 valuation results based on various investment return scenarios.

The following graph shows a history of the amounts contributed vs. the annual required contributions (ARC) and a projection of the amounts that are expected to be contributed in FY09 and FY10.



Since the amortization period exceeded 30 years in the 2005 and 2006 valuation, the amount contributed is less than the ARC in FY 2007 and 2008. In fiscal year 2009 (June 30, 2007 valuation) and 2010 (June 30, 2008 valuation), the amount contributed will once again equal the ARC.

SECTION B

VALUATION RESULTS

EMPLOYER CONTRIBUTION RATE COMPUTED AS OF JUNE 30, 2008 FOR THE FISCAL YEAR BEGINNING JULY 1, 2009

Computed Contributions for	Percents of Active Member Payroll			
	Teachers	Support	Combined	Prior Year
Normal Cost				
Age & Service Annuities	10.85%	8.42%	**10.13%**	10.06%
Deferred Annuities	1.29%	1.60%	**1.38%**	1.38%
Survivor Benefits	0.30%	0.25%	**0.29%**	0.28%
Disability Benefits	0.62%	0.52%	**0.59%**	0.59%
Refunds of Member Contributions	0.38%	0.71%	**0.48%**	0.46%
Total	13.44%	11.50%	**12.87%**	12.77%
Average Member Contributions	4.91%	3.66%	**4.54%**	4.44%
Net Employer Normal Cost	8.53%	7.84%	**8.33%**	8.33%
Unfunded Actuarial Accrued Liabilities			**5.67%**	5.67%
Employer Contribution Rate			**14.00%**	14.00%
Amortization Years			**21.0**	19.1

The amortization period is the number of years it will take to pay off the unfunded liability of $2.0 billion assuming that the employer contribution rate remains at the 14% of payroll level. In recent times the period has varied from a low of 4 years to a high of 125 years. Given the investment loss that occurred during fiscal year 2008 and considering the current economic environment, it is very likely that the amortization period will exceed 30 years in the next valuation.

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	Amount	% Change	Value	% Change	Computed Financing Period	Total Employer Rate
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 %
2007#	69,226	2,191	31,645	3.0 %	208.4	2.7 %	19	14.0 %
2008	70,172	2,268	32,319	2.1 %	218.8	5.0 %	18	14.0 %
2008#	70,172	2,268	32,319	2.1 %	218.8	5.0 %	21	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.*

COMPUTED ACTUARIAL LIABILITIES
AS OF JUNE 30, 2008

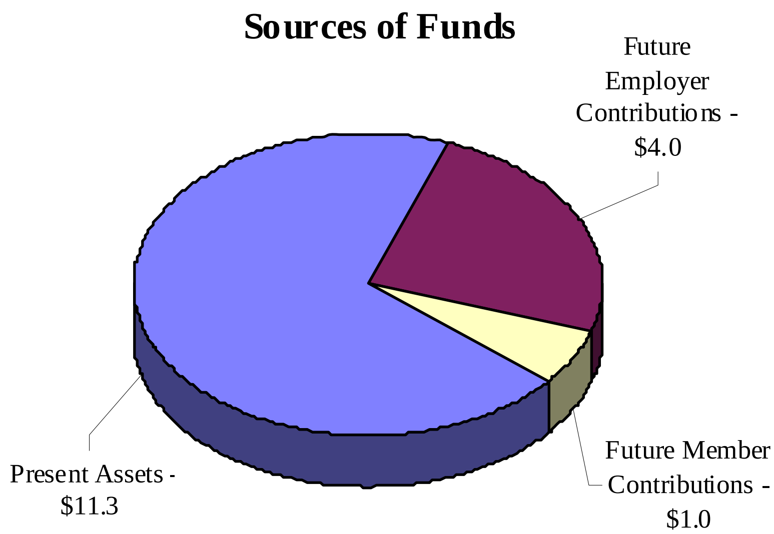
Actuarial Present Value of	(1) Total Present Value	Entry Age Actuarial Cost Method (2) Portion Covered by Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Age and service retirement allowances based on total service likely to be rendered by present active members.	$ 7,237,306,857	$2,267,598,594	$ 4,969,708,263
Age and service retirement allowances based on total service likely to be rendered by present T-DROP members.	2,205,056,026	48,930,140	2,156,125,886
Vested Deferred Benefits likely to be paid present active and inactive members.	880,127,670	312,786,194	567,341,476
Survivor benefits expected to be paid on behalf of present active members.	143,937,046	61,684,685	82,252,361
Disability Benefits expected to be paid on behalf of present active members.	225,890,397	129,369,923	96,520,474
Refunds of Member contributions expected to be paid on behalf of present active members.	17,901,831	99,340,205	(81,438,374)
Benefits payable to present retirees and beneficiaries.	5,457,834,487	0	5,457,834,487
Lump Sum Death benefits payable to present retirees and beneficiaries.	85,841,324	0	85,841,324
Total	$16,253,895,638	$2,919,709,741	$13,334,185,897
Applicable Assets	11,319,195,490	0	11,319,195,490
Liabilities to be Covered by Future Contributions	$ 4,934,700,148	$2,919,709,741	$ 2,014,990,407

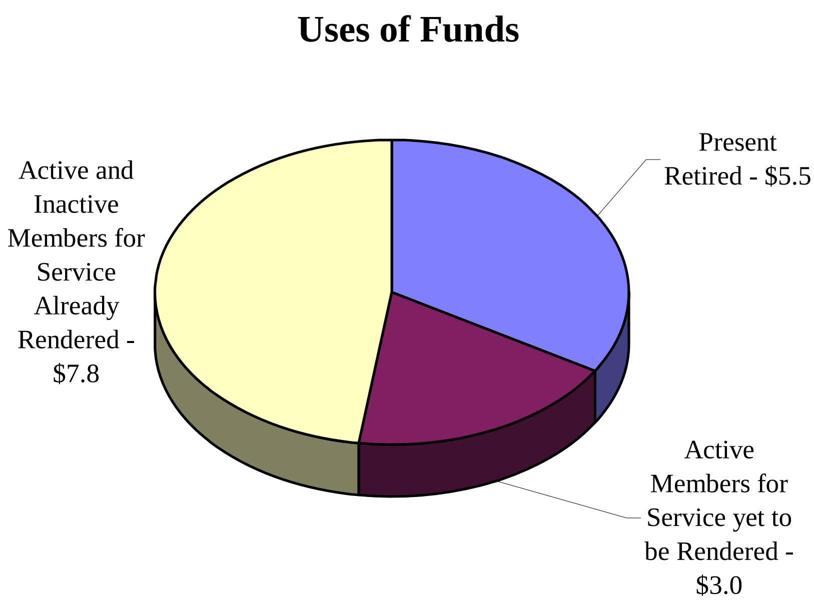
LIABILITIES FOR ANNUITIES BEING PAID JULY 1, 2008
TABULATED BY TYPE OF ANNUITY BEING PAID

Type of Annuity	Liabilities July 1, 2008* Men	Women	Totals
RETIREMENT RESERVE ACCOUNT			
Age & Service Annuities			
Option 1 (Straight Life)	$ 771,148,086	$ 2,910,325,113	$ 3,681,473,199
Option A (100% Joint & Survivor)	385,365,073	258,750,515	644,115,588
Option B (50% Joint & Survivor)	232,216,293	235,987,958	468,204,251
Option C (10 Years Certain & Life)	44,294,540	105,457,714	149,752,254
Beneficiaries	19,177,765	72,181,330	91,359,095
Total Age & Service	1,452,201,757	3,582,702,630	5,034,904,387
Disability Annuities			
Option 1	35,240,745	184,340,580	219,581,325
Option A	16,545,635	20,184,907	36,730,542
Option B	5,424,234	7,561,936	12,986,170
Option C	1,082,989	5,496,657	6,579,646
Beneficiaries	14,698,253	20,199,466	34,897,719
Total Disability	72,991,856	237,783,546	310,775,402
Act 793	11,557,639	5,677,146	17,234,785
Total Retirement Reserve Account			5,362,914,574
SURVIVORS' BENEFIT ACCOUNT			
Beneficiaries of Deceased Members	$ 23,818,549	$ 42,677,990	$ 66,496,539
OTHER LIABILITIES			
Act 808	20,437,167	7,986,207	28,423,374
RETIREMENT SYSTEM TOTALS			
Total Annuity Liabilities			$ 5,457,834,487

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

FINANCING 16.3 BILLION* OF BENEFIT PROMISES FOR PRESENT ACTIVE AND RETIRED MEMBERS JUNE 30, 2008





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

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.

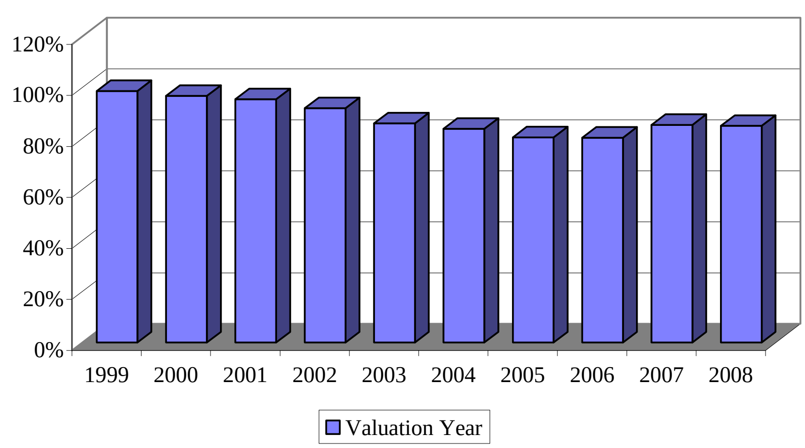
A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities 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.

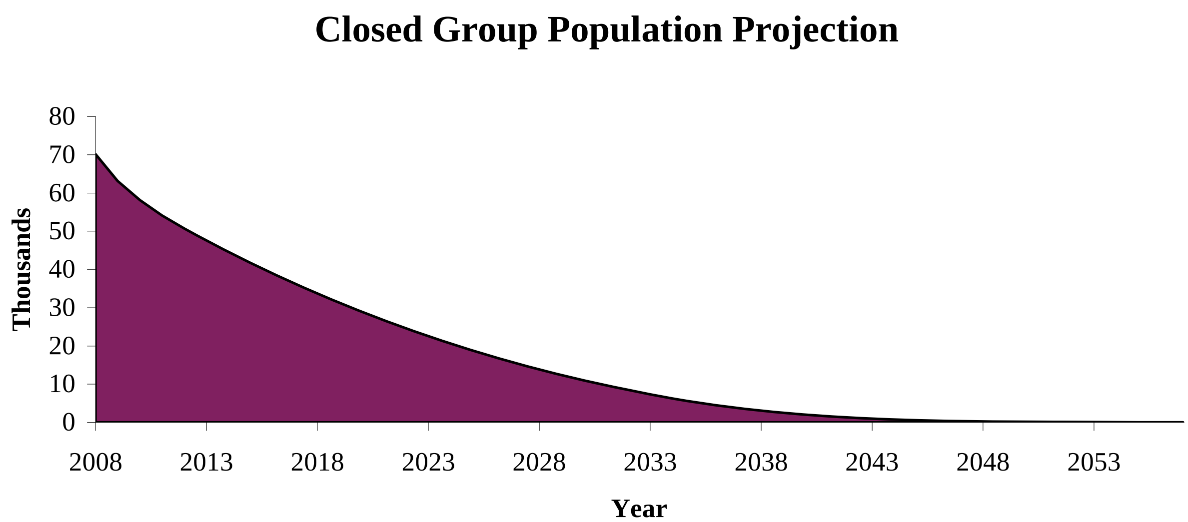
The schedule below illustrates the history of liability 3 of the System and is indicative of the ATRS objective of following the discipline of level percent-of-payroll financing.

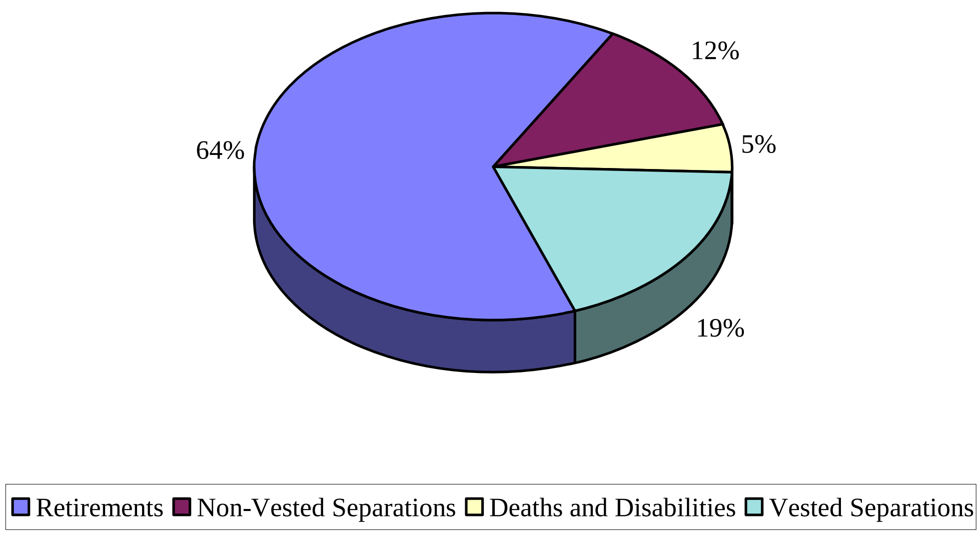
Val. Date June 30	(1) Member Contrb.	(2) Retirees and Benef.	(3) Active and Inactive Members (Employer Financed Portion)	Present Valuation Assets	Portion of Present Values Covered by Present Assets (1)	(2)	(3)	Total
	-----------------------$ Millions-----------------------							
1999#	$447	$2,566	$3,821	$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%
2007#	679	4,960	6,690	10,519	100%	100%	73%	85%
2008	732	5,371	7,058	11,319	100%	100%	74%	86%
2008#	732	5,544	7,058	11,319	100%	100%	71%	85%

* *Revised actuarial assumptions or methods.*
\# *Legislated benefit and contribution rate change.*

Actuarial Value of Assets as Percents of Accrued Liabilities (Funded Ratio)







The charts show the expected future development of the present population in simplified terms. The retirement system presently covers 70,172 active members. Eventually, 12% 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. Approximately 5% 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.

SECTION C

SUMMARY OF BENEFITS

SUMMARY OF PROVISIONS
JUNE 30, 2008

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.

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. *The July 1, 2009 cost of living adjustment for retirees will be compounded. The annuity will be adjusted by multiplying 3% times the June 30, 2009 retirement benefit amount. After it has been calculated on July 1, 2009, the base amount will be reset to be the July 1, 2009 benefit amount. Future cost of living raises will be established by the new updated base amount. Future cost of living adjustments will be evaluated on an annual basis to determine if a simple or compound cost of living increase will be given, depending on the financial condition of the System.*

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 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 10 or more years of ATRS credited service are eligible to receive a lump sum death benefit of up to $10,000 ($6,667 for non-contributory service-benefit is prorated).

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 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. Effective July 1, 2007, all noncontributory members may elect to change to contributory status. The election is irrevocable.

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 as of June 30, 2008, 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. For all members retiring on or after July 1, 2008, a minimum of 10 years of ATRS credited service is required to receive the $75 per month stipend.

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 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, 2008

The data for the Example member is shown below.

A.	$35,000	Final Average Compensation
B.	32	Total Service Credit
C.	27	Contributory Service Credit
D.	60	Age of Retiree
E.	55	Age of Spouse
F.	100%	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:

	Annual
G. Non-Contributory Base: 0.0139 x A x B	$15,568
H. Extra for Contributory: 0.00760 x A x C	7,182
I. Subtotal Benefit: G + H	22,750
J. Health Stipend	900
K. Total Benefit: I + J	23,650
L. Adjustment for Line F election: (1 - 0.83037) x I	3,859
M. Annual Amount Payable	$19,791

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

Year Ended June 30	Annual Amount
2009	$19,791
2010	20,385
2011	20,997
2012	21,609
2013	22,221

Thereafter, the amount would increase by $612 annually for life (*assumes that July 1, 2009 COLA is compounded and the base is updated).*

Sample T-DROP Benefit Computations for a Member Entering T-DROP June 30, 2008

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 x A x B	$13,622
F.	Extra for Contributory: 0.00760 x A x C	7,448
G.	Reduction for T-DROP Plan: (1% for each year of contributory service) 0.28 x (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 x (E + F - G)	1,820
I.	Annual Amount Payable E + F – G – H	$13,350

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

Year Ended June 30	Amount Deposited
2009	$13,350
2010	13,750
2011	14,163
2012	14,575
2013	14,988
Total	70,826

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

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

ASSET VALUATION METHOD

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

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

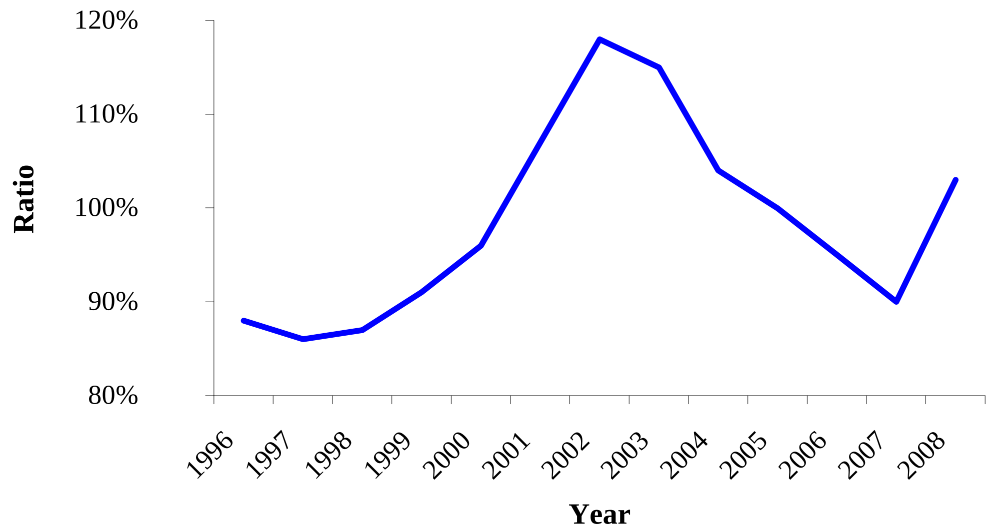
Under the ATRS asset valuation method (see page D-3), assumed investment return is recognized fully each year. Differences between actual and assumed investment return are phased in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, the funding value will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

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

ASSET VALUATION METHOD

Valuation Date June 30	Market Value of Assets (1)	Actuarial Value of Assets (2)	Ratio of AV to MV (2) / (1)
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%
2007	11,637	10,519	90%
2008	11,018	11,319	103%

Ratio of Actuarial Value to Market Value



This year, the actuarial value of assets exceeds the market value by approximately 3%. To prevent unreasonably large differences between market value and funding value, there is a requirement that the recognized assets must always be between 80% and 120% of the market value (See page D-3).

DEVELOPMENT OF FUNDING VALUE OF ASSETS

Year Ended June 30:	2006	2007	2008	2009	2010	2011
A. Funding Value Beginning of Year	$ 8,817,254,313	$ 9,331,667,789	$ 10,519,229,198			
B. Market Value End of Year	9,868,311,510	11,636,934,713	11,018,088,336			
C. Market Value Beginning of Year	8,811,146,753	9,868,311,510	11,636,934,713			
D. Non-Investment Net Cash Flow	(110,130,248)	(118,415,605)	(134,590,267)			
E. Investment Return						
E1. Market Total: B - C - D	1,167,295,005	1,887,038,808	(484,256,110)			
E2. Amount for Immediate Recognition (8%)	700,975,135	741,796,799	836,154,725			
E3. Amount for Phased-In Recognition: E1-E2	466,319,870	1,145,242,009	(1,320,410,835)			
F. Phased-In Recognition of Investment Return						
F1. Current Year: 0.25 x E3	116,579,968	286,310,502	(330,102,709)	Unknown	Unknown	Unknown
F2. First Prior Year	25,614,073	116,579,968	286,310,502	$ (330,102,709)	Unknown	Unknown
F3. Second Prior Year	135,675,672	25,614,073	116,579,968	286,310,502	$ (330,102,709)	Unknown
F4. Third Prior Year	(354,301,124)	135,675,672	25,614,073	116,579,966	286,310,504	$(330,102,708)
F5. Accelerated Market Value Recognition						
F6. Total Recognized Investment Gain	**(76,431,411)**	**564,180,215**	**98,401,834**	**72,787,759**	**(43,792,205)**	**(330,102,708)**
G. Funding Value End of Year:						
G1. Preliminary Funding Value End of Year: A+D+E2+F6	**9,331,667,789**	**10,519,229,198**	**11,319,195,490**			
G2. Upper Corridor Limit: 120% x B	**11,841,973,812**	**13,964,321,656**	**13,221,706,003**			
G3. Lower Corridor Limit: 80% x B	**7,894,649,208**	**9,309,547,770**	**8,814,470,669**			
G4. Funding Value End of Year	**9,331,667,789**	**10,519,229,198**	**11,319,195,490**			
H. Actual/Projected Difference between Market and Funding Value	536,643,721	1,117,705,515	(301,107,154)	(373,894,913)	(330,102,708)	-
I. Market Rate of Return	13.33 %	19.24 %	(4.19)%			
J. Funding Rate of Return	7.13 %	14.08 %	8.94 %			
K. Ratio of Funding Value to Market Value	94.56 %	90.40 %	102.73 %			

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, 2008, were reported to your actuary to be $11,018,088,336. This amount, together with a market value adjustment of $301,107,154, is used to finance the Retirement System liability.

	Assets at June 30	
Accounts	**2008**	**2007**
Regular Accounts		
Members' Deposit Accounts		
Contributions	$ 711,499,206	$ 656,382,162
Interest	6,012,051,839	6,916,232,477
Total	6,723,551,045	7,572,614,639
T-Drop Member Deposit Accounts		
Contributions	20,850,383	22,286,243
Interest	64,742,365	64,413,268
Total	85,592,748	86,699,511
Employer's Accumulation Account	(1,472,122,558)	(1,328,251,686)
Retirement Reserve Account	5,097,871,823	4,766,630,952
Act 808 Retirement Reserve Account	28,177,492	29,304,893
T-Lump Payable	476,444,313	435,927,804
Survivors Benefit Account	64,084,144	59,775,461
Total Regular Accounts	11,003,599,007	11,622,701,574
Other Accounts		
Income Expense Account	14,489,329	14,233,139
Other Special Reserves	-	-
Miscellaneous	-	-
Total Other Accounts	14,489,329	14,233,139
Total Accounting Value of Assets	11,018,088,336	11,636,934,713
Market Value Adjustment	301,107,154	(1,117,705,515)
Funding Value of Assets	$11,319,195,490	$10,519,229,198

MARKET VALUE OF ASSETS

The net market value of assets at year end was $11,018,088,336 and was invested as shown below.

	Market Value at June 30	
	2008	2007
Cash	$ 8,230,219	$ 31,909,110
Receivables		
Unsettled Trades and Accrued Return	186,215,560	191,213,525
Member Contributions	15,887,767	13,045,014
Employer Contributions	55,162,876	44,603,623
Other	31,569	59,780
Total Receivables	257,297,772	248,921,942
Investments		
Short Term	538,538,274	298,776,298
Common and Preferred	2,851,567,040	2,705,612,225
International	549,223,816	1,584,082,413
Corporate Bonds	454,377,023	423,630,296
Alternative Investments	1,258,069,330	1,072,971,482
Market Valuation	274,126,204	2,113,503,767
Real Estate	114,267,213	101,859,129
Mortgage Loans	50,306,600	54,309,933
Revenue Bonds	-	-
Government Securities	270,154,162	365,946,053
Other Investments	4,699,314,721	3,056,637,345
Repurchase Agreements	-	-
Total Investments	11,059,944,383	11,777,328,941
Invested Securities Lending	741,151,400	1,292,638,364
Net Equipment	415,142	256,714
Total Assets	12,067,038,916	13,351,055,071
Liabilities		
Escrow Payables	-	-
Other Payables	1,197,137	1,503,787
Securities Related Payables	306,602,043	419,978,207
Securities Lending Collateral	741,151,400	1,292,638,364
Total Liabilities	1,048,950,580	1,714,120,358
Net Market Value	$ 11,018,088,336	$ 11,636,934,713
Change from Prior Year	(618,846,377)	1,768,623,203

MARKET VALUE RECONCILIATION

Market value reconciliation assets during the year developed as follows:

	Year Ended June 30	
	2008	2007
Net Market Value July 1	$11,636,934,713	$ 9,868,311,510
Additions		
Employer Contributions	350,319,504	331,891,210
Employee Contributions	108,872,293	100,093,372
Appreciation	(1,839,498,538)	820,052,603
Interest	545,881,170	662,481,772
Dividends	842,213,226	436,344,868
Real Estate	6,455,808	6,292,882
Other	249,329	366,376
Securities Lending Activity	50,597,153	67,523,197
Total Additions	65,089,945	2,425,046,280
Deductions		
Age & Service Benefits	459,079,932	426,655,184
Disability Benefits	26,073,257	24,531,282
Option Benefits	13,613,226	12,388,886
Survivor Benefits	6,684,337	6,259,378
Reciprocal Service	19,588,246	16,732,846
Act 808	4,282,709	4,228,777
Refunds	6,462,122	5,179,850
Active Member Death	381,089	950,829
T-DROP Benefits	57,617,146	53,473,155
Investment Expense	83,498,400	100,211,285
Administrative Expense	6,655,858	5,811,605
Total Deductions	683,936,322	656,423,077
Miscellaneous	-	-
Net Market Value June 30	$11,018,088,336	$11,636,934,713

SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN MILLIONS)

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Entry Age AAL	(3) UAAL (2)-(1)	(4) Funding Ratio (1)/(2)	(5) Annual Payroll	(6) UAAL as % of 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%
2007+	10,519	12,329	1,810	85.3%	2,191	82.6%
2008	11,319	13,161	1,842	86.0%	2,268	81.2%
2008+	11,319	13,334	2,015	84.9%	2,268	88.8%

\+ *Legislated benefit or contribution rate change.*
* *Revised actuarial assumptions.*

SECTION E

COVERED MEMBER DATA

TOTAL ACTIVE MEMBERS IN VALUATION JUNE 30, 2008
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	92							92	$ 454,703
20-24	1,872	16						1,888	33,156,000
25-29	4,994	1,011	9					6,014	176,070,171
30-34	3,643	3,028	658	1				7,330	228,014,594
35-39	3,707	2,471	2,458	569	2			9,207	294,994,821
40-44	3,115	2,314	1,858	1,796	542	2		9,627	309,214,767
45-49	2,683	2,192	2,005	1,568	1,888	627	1	10,964	380,071,363
50-54	2,114	1,778	1,727	1,739	1,277	1,345	111	10,091	364,016,908
55-59	1,825	1,416	1,325	1,489	1,362	764	121	8,302	293,418,992
60	329	234	199	238	225	124	20	1,369	46,580,372
61	293	251	131	200	214	128	14	1,231	41,436,430
62	251	152	133	162	180	93	11	982	31,978,336
63	184	128	81	93	93	48	7	634	18,987,704
64	181	120	70	55	70	33	3	532	14,817,618
65	189	80	46	49	54	19	10	447	11,832,151
66	139	41	26	13	24	10	5	258	5,619,637
67	139	53	10	13	5	3		223	3,906,044
68	118	40	9	2	4	2	1	176	2,496,544
69	104	33	6	6	4	1	1	155	2,247,461
70 & Up	357	208	58	12	12	1	2	650	8,568,697
Totals	**26,329**	**15,566**	**10,809**	**8,005**	**5,956**	**3,200**	**307**	**70,172**	**$2,267,883,313**

This schedule does not include T-DROP members.

Group Averages:
Age: 44.5 years
Service: 9.4 years

WOMEN ACTIVE MEMBERS IN VALUATION JUNE 30, 2008
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	53							53	$ 227,426
20-24	1,420	9						1,429	25,960,639
25-29	3,906	801	4					4,711	135,897,566
30-34	2,926	2,388	504					5,818	172,016,517
35-39	3,098	2,036	1,899	474	2			7,509	226,623,630
40-44	2,585	1,964	1,502	1,407	463	1		7,922	240,522,578
45-49	2,100	1,832	1,685	1,282	1,466	506	1	8,872	291,625,131
50-54	1,593	1,396	1,402	1,501	1,084	1,039	96	8,111	282,151,260
55-59	1,248	1,028	1,066	1,264	1,178	643	85	6,512	224,949,571
60	229	160	157	196	203	115	13	1,073	36,007,958
61	195	180	95	148	191	104	11	924	30,430,547
62	166	102	95	122	152	85	7	729	23,077,849
63	119	80	54	70	83	41	6	453	13,272,718
64	107	88	49	42	60	29	3	378	10,603,042
65	124	55	37	36	44	17	7	320	8,088,674
66	77	27	17	10	23	9	5	168	3,902,383
67	84	34	10	11	5	3		147	2,303,331
68	69	22	5	2	3	2	1	104	1,446,549
69	50	21	5	5	4	1	1	87	1,292,641
70 & Up	212	112	25	7	7		2	365	4,303,564
Totals	**20,361**	**12,335**	**8,611**	**6,577**	**4,968**	**2,595**	**238**	**55,685**	**$1,734,703,574**

This schedule does not include T-DROP members.

Group Averages:

Age: 44.3 years
Service: 9.6 years

MEN ACTIVE MEMBERS IN VALUATION JUNE 30, 2008
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	39							39	$ 227,277
20-24	452	7						459	7,195,361
25-29	1,088	210	5					1,303	40,172,605
30-34	717	640	154	1				1,512	55,998,077
35-39	609	435	559	95				1,698	68,371,191
40-44	530	350	356	389	79	1		1,705	68,692,189
45-49	583	360	320	286	422	121		2,092	88,446,232
50-54	521	382	325	238	193	306	15	1,980	81,865,648
55-59	577	388	259	225	184	121	36	1,790	68,469,421
60	100	74	42	42	22	9	7	296	10,572,414
61	98	71	36	52	23	24	3	307	11,005,883
62	85	50	38	40	28	8	4	253	8,900,487
63	65	48	27	23	10	7	1	181	5,714,986
64	74	32	21	13	10	4		154	4,214,576
65	65	25	9	13	10	2	3	127	3,743,477
66	62	14	9	3	1	1		90	1,717,254
67	55	19		2				76	1,602,713
68	49	18	4		1			72	1,049,995
69	54	12	1	1				68	954,820
70 & Up	145	96	33	5	5	1		285	4,265,133
Totals	**5,968**	**3,231**	**2,198**	**1,428**	**988**	**605**	**69**	**14,487**	**$533,179,739**

This schedule does not include T-DROP members.

Group Averages:

Age: 45.3 years

Service: 8.7 years

SUMMARY OF ACTIVE MEMBERS (EXCLUDES T-DROP)

	Teachers		Support		Total Active Members	
	No.	Payroll	No.	Payroll	No.	Payroll
Women	27,402	$1,221,879,348	28,283	$ 512,824,226	55,685	$1,734,703,574
Men	7,221	368,438,774	7,266	164,740,965	14,487	533,179,739
All	34,623	$1,590,318,122	35,549	$ 677,565,191	70,172	$2,267,883,313

	Teachers	Support	Total
Members Contributing Now	28,652	16,632	45,284
Members Not Contributing	5,971	18,917	24,888
All	34,623	35,549	70,172

		Group Averages			Active Member Payroll
June 30	Number	Age	Service	Annual Earnings	($ Millions)
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
2007	69,226	44.4	9.3	31,645	2,191
2008	70,172	44.5	9.4	32,319	2,268

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, 2008
BY ATTAINED AGE

Age	Number	Estimated Annual Benefits	Contribution Balance
Below 40	1,787	$ 7,395,830	$ 9,942,692
40	305	1,186,956	924,375
41	349	1,413,381	1,381,257
42	354	1,420,552	1,281,122
43	412	1,677,124	1,383,357
44	466	1,773,118	1,764,037
45	441	1,773,114	1,840,804
46	472	1,840,228	1,816,798
47	471	1,918,157	2,111,863
48	415	1,715,943	2,264,222
49	512	2,500,307	3,319,898
50	451	2,244,633	3,522,368
51	506	2,827,655	5,034,391
52	492	2,838,890	4,528,613
53	495	2,800,384	5,285,122
54	468	2,662,820	4,654,784
55	467	2,955,929	5,756,236
56	441	2,450,340	4,373,931
57	426	2,752,680	5,834,130
58	473	3,018,786	6,966,445
59	411	2,478,977	5,363,478
60 & Up	1,033	4,442,875	9,517,544
Future Beneficiaries #	41	134,610	0
Totals	**11,688**	**$56,223,289**	**$88,867,467**

 # This valuation also includes 41 beneficiaries of deceased retirees who are eligible for a pension at age 62.

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

ALL MEMBERS PARTICIPATING IN T-DROP AT JUNE 30, 2008
BY ATTAINED AGE

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
46	2	$ 14,480	$ 14,033	$ 15,458	$ 71,172
48	2	34,958	32,429	96,052	96,539
49	7	141,958	109,735	187,679	403,158
50	40	796,891	767,822	1,081,548	2,278,779
51	168	3,200,529	3,087,198	5,058,351	9,313,815
52	249	4,855,418	4,568,124	9,836,937	13,999,056
53	295	5,971,399	5,603,258	14,939,687	16,968,180
54	399	8,059,923	7,386,403	26,096,261	23,083,424
55	413	8,035,032	7,256,349	30,951,407	23,277,415
56	433	8,579,581	7,708,831	39,078,653	25,005,349
57	420	8,489,133	7,507,032	45,224,976	24,754,894
58	422	8,484,767	7,413,574	48,704,961	24,473,010
59	438	8,932,029	7,700,701	57,243,362	25,760,263
60	391	8,063,232	6,934,213	54,874,745	22,567,747
61	348	6,981,508	5,936,184	49,405,067	19,472,972
62	187	3,977,964	3,351,445	29,598,745	11,264,580
63	124	2,634,455	2,234,113	18,408,790	7,014,643
64	106	2,530,861	2,135,780	18,131,593	6,857,125
65	76	2,083,601	1,302,922	11,867,172	4,194,022
66	45	1,162,589	722,047	6,849,945	2,324,613
67	25	610,939	392,581	3,683,636	1,342,788
68	17	498,815	289,246	3,214,815	975,649
69	8	213,576	118,940	1,660,856	482,314
70	5	132,902	89,454	1,019,637	146,563
71	6	243,650	138,134	2,188,478	392,506
72	1	34,153	18,221	280,130	65,195
73	2	86,103	49,231	633,772	147,423
74	1	32,575	17,096	303,658	52,676
0	0	0	0	0	-
Totals	**4,630**	**$94,883,021**	**$82,885,096**	**$480,636,371**	**$ 266,785,870**

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, 2008
BY ATTAINED AGE
ENTERING T-DROP BEFORE SEPTEMBER 2003

Age	Number	Current T-DROP Contribution	Original T-DROP Contribution	T-DROP Account Balance	Pay
51	2	$ 28,758	$ 24,771	$ 164,342	$ 122,561
52	2	32,343	29,766	176,404	119,098
53	17	278,399	245,604	1,543,368	909,155
54	81	1,518,569	1,326,376	8,383,610	4,754,967
55	154	2,857,373	2,512,835	16,482,917	8,532,552
56	227	4,456,538	3,895,347	28,231,940	13,496,955
57	267	5,344,791	4,597,584	37,188,656	15,864,078
58	273	5,502,987	4,684,381	41,078,603	16,064,811
59	302	6,320,547	5,276,483	50,559,924	18,262,835
60	277	5,882,930	4,893,021	49,597,158	16,388,590
61	242	5,132,645	4,242,558	44,514,870	14,391,289
62	136	2,985,891	2,417,805	26,897,131	8,420,682
63	81	1,863,735	1,515,583	16,354,245	4,819,860
64	76	1,915,689	1,553,529	16,547,823	5,075,842
65	58	1,759,193	999,888	10,912,217	3,304,182
66	33	959,408	533,005	6,275,112	1,733,619
67	17	486,122	275,760	3,310,084	949,364
68	14	460,291	252,311	3,032,116	848,489
69	7	208,968	115,462	1,644,683	456,417
70	4	109,188	68,281	921,175	80,364
71	6	243,650	138,134	2,188,478	392,506
72	1	34,153	18,221	280,130	65,195
73	2	86,103	49,231	633,772	147,423
74	1	32,575	17,096	303,658	52,676
0	0	-	-	-	-
Totals	**2,280**	**$ 48,500,846**	**$ 39,683,032**	**$ 367,222,416**	**$ 135,253,510**

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, 2008
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	2	$ 14,480	$ 14,033	$ 15,458	$ 71,172
48	2	34,958	32,429	96,052	96,539
49	7	141,958	109,735	187,679	403,158
50	40	796,891	767,822	1,081,548	2,278,779
51	166	3,171,771	3,062,427	4,894,009	9,191,254
52	247	4,823,075	4,538,358	9,660,533	13,879,958
53	278	5,693,000	5,357,654	13,396,319	16,059,025
54	318	6,541,354	6,060,027	17,712,651	18,328,457
55	259	5,177,659	4,743,514	14,468,490	14,744,863
56	206	4,123,043	3,813,484	10,846,713	11,508,394
57	153	3,144,342	2,909,448	8,036,320	8,890,816
58	149	2,981,780	2,729,193	7,626,358	8,408,199
59	136	2,611,482	2,424,218	6,683,438	7,497,428
60	114	2,180,302	2,041,192	5,277,587	6,179,157
61	106	1,848,863	1,693,626	4,890,197	5,081,683
62	51	992,073	933,640	2,701,614	2,843,898
63	43	770,720	718,530	2,054,545	2,194,783
64	30	615,172	582,251	1,583,770	1,781,283
65	18	324,408	303,034	954,955	889,840
66	12	203,181	189,042	574,833	590,994
67	8	124,817	116,821	373,552	393,424
68	3	38,524	36,935	182,699	127,160
69	1	4,608	3,478	16,173	25,897
70	1	23,714	21,173	98,462	66,199
Totals	**2,350**	**$ 46,382,175**	**$ 43,202,064**	**$ 113,413,955**	**$ 131,532,360**

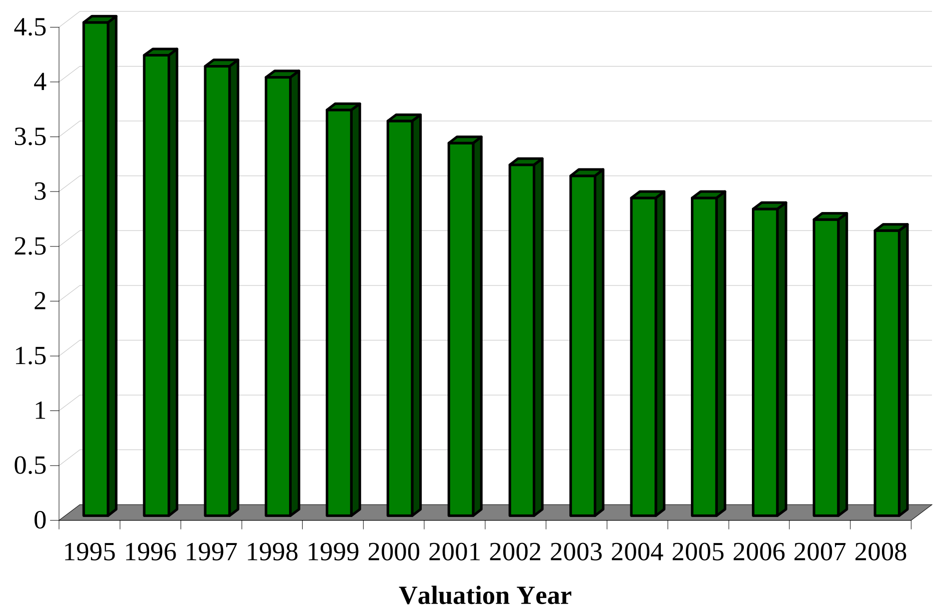
A full employer contribution is made to ATRS on behalf of these individuals in accordance with Act 992 of 2003.

ANNUITIES BEING PAID RETIREES AND BENEFICIARIES JULY 1, 2008
BY TYPE OF ANNUITY BEING PAID

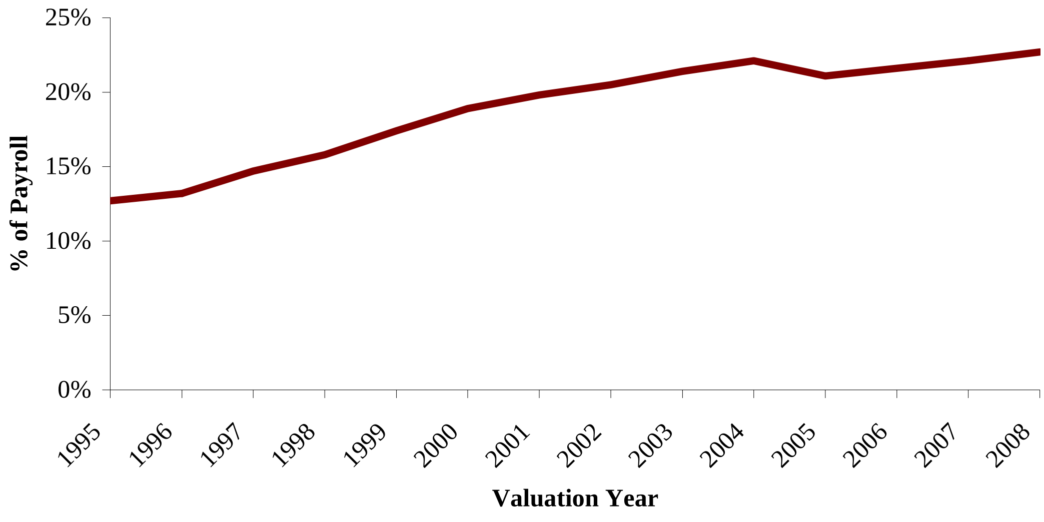
Type of Annuity	No.	Annual Amounts Original Annuities	Base Annuities	Current Annuities
RETIREMENT RESERVE ACCOUNT				
Age & Service				
Option 1 (Basic single life)	18,620	$ 236,302,290	$ 287,677,281	$ 362,715,827
Option A (Joint & 100% Survivor)	2,404	35,953,199	39,555,303	48,584,227
Option B (Joint & 50% Survivor)	1,412	28,144,907	32,049,611	40,273,222
Option C (10 year certain)	638	9,800,839	10,112,670	12,020,464
Beneficiaries	619	8,080,585	8,326,314	10,602,037
Totals	23,693	318,281,820	377,721,179	474,195,777
Disability				
Option 1	1,650	13,743,592	17,092,209	21,072,826
Option A	222	1,981,312	2,260,555	2,711,412
Option B	65	799,566	898,228	1,078,932
Option C	50	460,182	464,066	521,362
Beneficiaries	276	2,313,424	2,826,783	3,548,920
Totals	2,263	19,298,076	23,541,841	28,933,452
Act 793	191	1,186,998	1,963,626	1,963,626
Totals	26,147	338,766,894	403,226,646	505,092,855
SURVIVOR'S BENEFIT ACCOUNT				
Beneficiaries of Deceased Members	543	3,985,667	5,117,996	6,269,551
ACT 808				
Act 808	111	1,894,712	4,201,431	4,201,431
RETIREMENT SYSTEM TOTALS				
Total Annuities Being Paid	26,801	$ 344,647,273	$ 412,546,073	$ 515,563,837

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. *This amount will be updated on July 1, 2009 to be equal to the current annuity.*
The Current Annuity is the annuity payable at July 1, 2008.

Active Members Per Retired Life



Retirement Benefits Being Paid as a Percent of Member Payroll



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

Year Ended June 30	Increase Beginning of Year	Benefit Dollars in Year*	Inflation (Loss) in Year#	Purchasing Power at Year End	
				1980 $	% of 1980
1980	- - - -	$ 5,000	- - - -	$ 5,000	100%
1981	$ 75	5,075	(9.6)%	4,632	93%
1982	152	5,227	(7.1)%	4,456	89%
1983	152	5,379	(2.6)%	4,471	89%
1984	431	5,810	(4.2)%	4,633	93%
1985	438	6,248	(3.7)%	4,802	96%
1986	509	6,757	(1.7)%	5,103	102%
1987	197	6,954	(3.7)%	5,067	101%
1988	400	7,354	(3.9)%	5,154	103%
1989	503	7,857	(5.1)%	5,236	105%
1990	497	8,354	(4.7)%	5,319	106%
1991	230	8,584	(4.7)%	5,220	104%
1992	762	9,346	(3.1)%	5,513	110%
1993	792	10,138	(3.0)%	5,806	116%
1994	820	10,958	(2.5)%	6,123	122%
1995	303	11,261	(3.0)%	6,107	122%
1996	303	11,564	(2.8)%	6,103	122%
1997	1,657	13,221	(2.3)%	6,821	136%
1998	1,214	14,435	(1.7)%	7,324	146%
1999	323	14,758	(2.0)%	7,344	147%
2000	1,039	15,797	(3.7)%	7,583	152%
2001	1,220	17,017	(3.2)%	7,907	158%
2002	672	17,689	(1.1)%	8,132	163%
2003	468	18,157	(2.1)%	8,174	163%
2004	468	18,625	(3.3)%	8,120	162%
2005	468	19,093	(2.5)%	8,118	162%
2006	468	19,561	(4.3)%	7,973	159%
2007	468	20,029	(2.7)%	7,950	159%
2008	468	20,497	(5.0)%	7,747	155%
2009	468	20,965			

* *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	(2.7)%	7,185	144%
2008	270	11,794	(5.0)%	7,002	140%
2009	270	12,064			

* *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 F

FINANCIAL PRINCIPLES

FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES

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

The related ***key financial questions*** are:
Which generation of taxpayers contributes the money to cover the IOU?
The present taxpayers, who receive the benefit of the member's present year of service?
Or the future taxpayers, who happen to be in Arkansas at the time the IOU becomes a cash demand?

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

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

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

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

> Normal Cost (the cost of members' service being rendered this year)
> … plus …
> Interest on Unfunded Actuarial Accrued Liabilities (unfunded accrued liabilities are the difference between (i) liabilities for service already rendered and (ii) the accrued assets of the plan).

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

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

THE ACTUARIAL VALUATION PROCESS

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

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

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

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

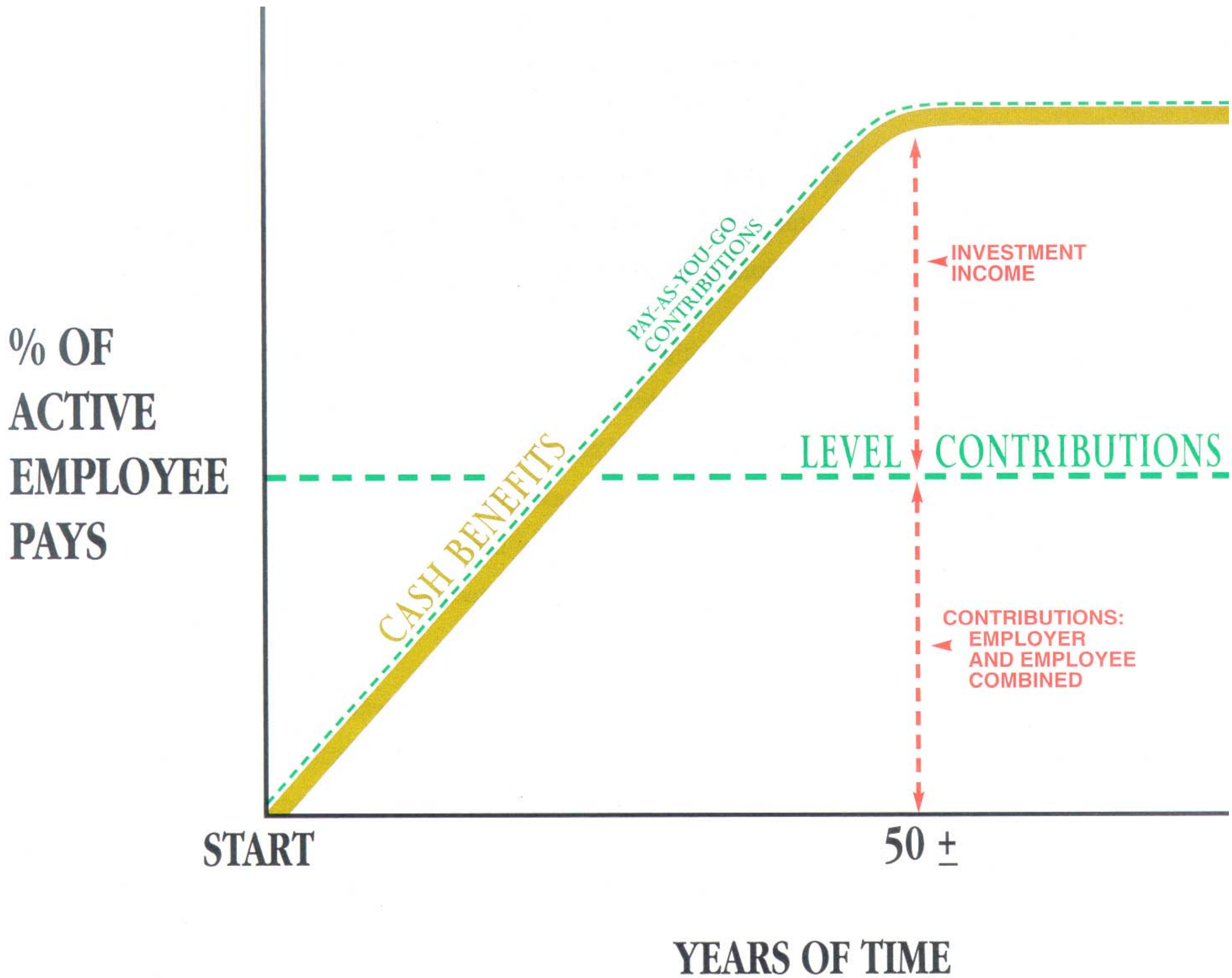
C. + **Benefit provisions** that establish eligibility and amounts of payments to members

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

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

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

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



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

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

- Economic Risk Areas
  - Rates of investment return
  - Rates of pay increase
  - Changes in active member group size
- Non-Economic Risk Areas
  - Ages at actual retirement
  - Rates of mortality
  - Rates of withdrawal of active members (turnover)
  - Rates of disability

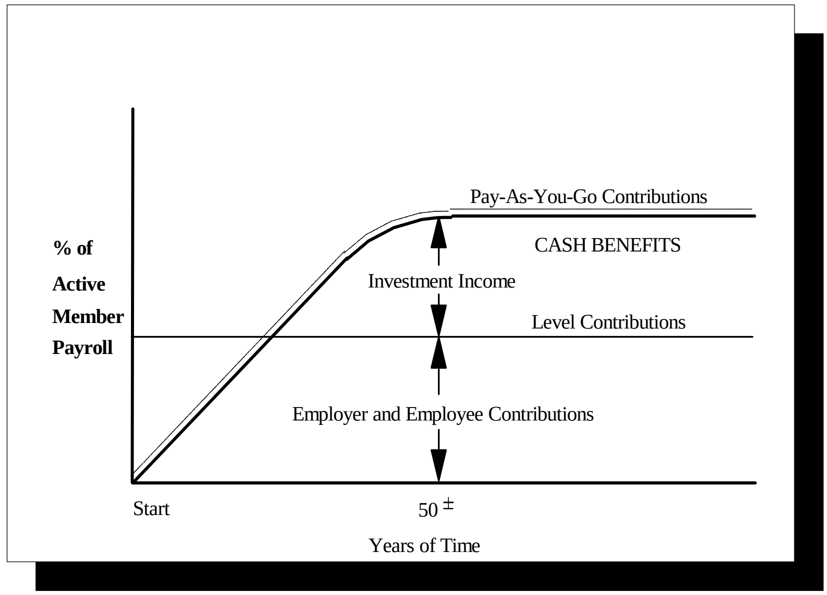
SECTION G

ACTUARIAL ASSUMPTIONS

SELECTION OF ASSUMPTIONS USED IN ACTUARIAL VALUATIONS

Economic Assumptions

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



Demographic Assumptions

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

RELATIONSHIP BETWEEN PLAN GOVERNING BODY AND THE ACTUARY

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

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

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% 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%, the 8% rate translates to an assumed real rate of return over wage inflation of 4%. 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 G-7 and G-8. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4% 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% 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 G-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 G-5 and G-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 G-7 and G-8. 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-1. This method was first used in the June 30, 1995 valuation. It was modified following the 1997-2002 Experience Study to include an 80% - 120% market value corridor.

The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date. No adjustment was made for members in T-DROP whose salaries were not supplied.

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.

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%
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 based on the schedule above.

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

Sample Ages	Service	Percent of Active Members Separating Within the Next Year: Death Men	Death Women	Disability Men	Disability Women	Other Men	Other 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%
25	5 & Up	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	Service	Percent of Active Members Separating Within the Next Year					
		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%
25	5 & Up	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	273 560	274 559

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, 2008

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements are assumed to occur mid-year, with the exception of normal and early retirement which are assumed to occur at the beginning of the year.
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 does not operate during the first 5 years of service. Disability and turnover do not operate during retirement eligibility.
Normal Form of Benefit:	The assumed normal form of benefit is the straight life form.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made. The payroll used for this purpose is payroll for all active members plus payroll for members 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. Age and Service liabilities were loaded by 2.5% to account for fluctuations in data submission.

SECTION H

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.

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December 1, 2008

Ms. Gail Bolden
Interim Executive Director
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Re: Report of June 30, 2008 Actuarial Valuation of Active and Inactive Members

Dear Ms. Bolden:

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

Sincerely,

Judith A. Kermans

Judith A. Kermans

JAK:lr
Enclosures