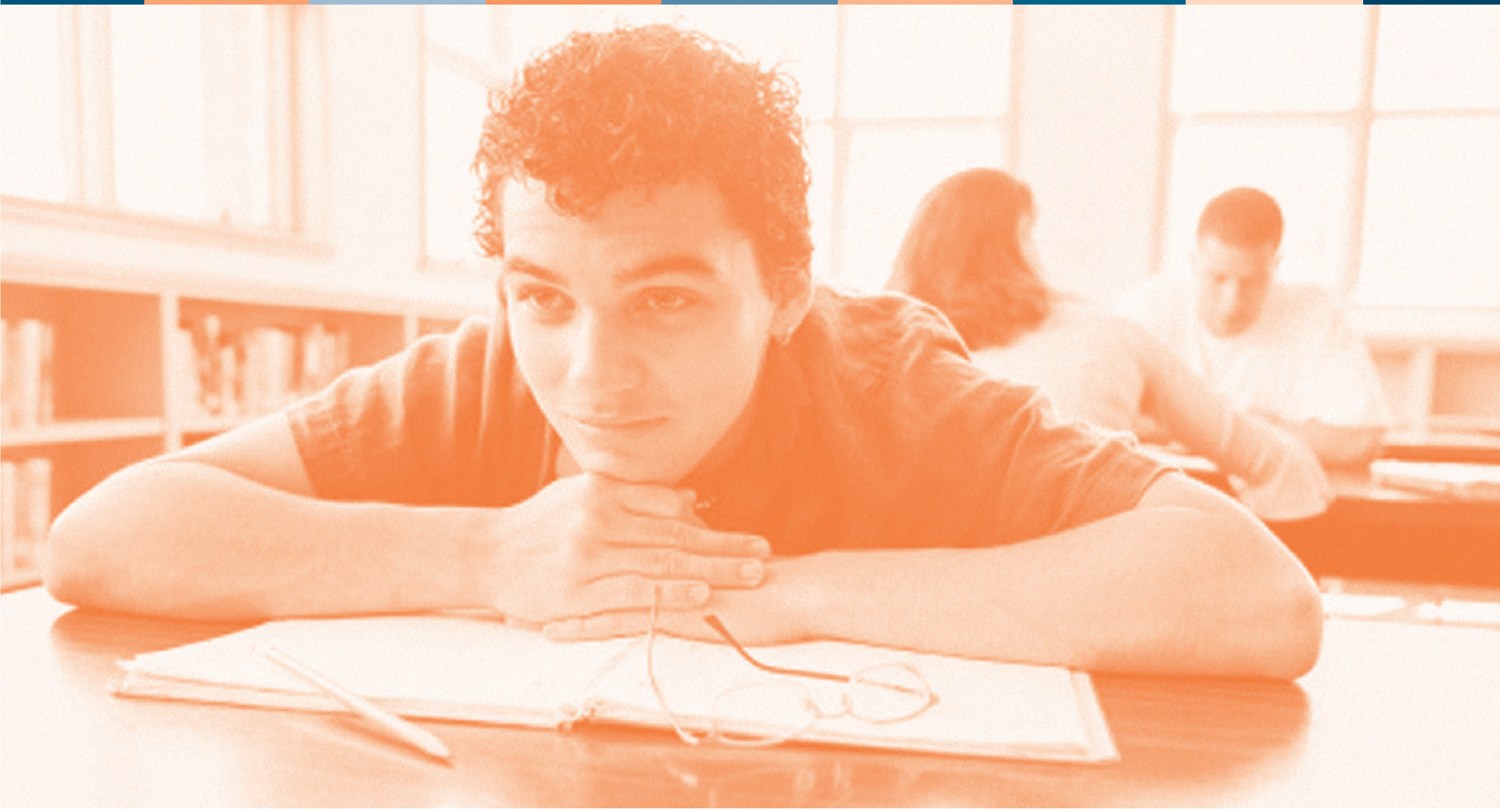


# 2003 | COMPREHENSIVE ANNUAL FINANCIAL REPORT

Arkansas Teacher Retirement System

A Component Unit of the State of Arkansas

Prepared by the staff of Arkansas Teacher Retirement System

David Malone
Executive Director

Copies of this report are available from:

Arkansas Teacher Retirement System
1400 West Third Street
Little Rock, Arkansas 72201
501.682.1517 or 1.800.666.2877
website: atrs.state.ar.us

# IN MEMORY OF FRANK WHITE

On May 21, 2003 the Arkansas Teacher Retirement System Board of Trustees lost a vital member with the sudden death of Frank White. Former Governor White served as an ex-officio trustee from August 1, 1998 until his death. He will be remembered for his leadership, vision and tireless involvement and will be sorely missed by Board and staff.

## INTRODUCTORY SECTION



## FINANCIAL SECTION



## SUPPORTING SCHEDULES



## INVESTMENT SECTION



## ACTUARIAL SECTION



## STATISTICAL SECTION

# INTRODUCTION

# Letter of Transmittal

December, 2003

*The Honorable Mike Huckabee and*
*Members of the 85th General Assembly*

Dear Governor and members of the General Assembly:

The Arkansas Teacher Retirement System (the 'System' or ATRS) is pleased to submit this 60th Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003. It provides comprehensive information on the retirement plan that we administer. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and presents fairly the System's financial status and changes in financial status.

The 2003 Financial Report is presented in five sections. Contents are summarized below (a detailed Table of Contents may be found on Page 2).

- *Introductory Section:*
  Contains this Transmittal Letter, organization chart and the Board.
- *Financial Section:*
  Provides the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's expenses.
- *Investment Section:*
  Includes the investment consultant's report, investment policies, asset allocation, and investment results.
- *Actuarial Section:*
  Provides the certification letter from the independent actuary, supporting schedules, and a summary of plan provisions.
- *Statistical Section:*
  Presents schedules and tables of comparative data related to the membership, active and retired, of the System.

On March 17, 1937, ATRS was established by Act 266 of 1937. ATRS is a combination contributory/non-contributory retirement system governed by the State's retirement law, Chapter 24 of the Arkansas Code. ATRS is one of five State-supported retirement systems and provides retirement, disability and survivor's benefits to employees of Arkansas public schools and educationally related agencies. The system consists of 421 participating employers (see pages 66 - 68).

Iin January of this year the two (2) highest ranking positions at ATRS were filled by myself and Julie Cabe, both from outside the agency. We continue to address areas of operations that need improvement.

*The Honorable Mike Huckabee and*
*Members of the 85th General Assembly*
Page 2
December, 2003

*Investments*

As you are well aware, the investment climate has not been kind since late 2000. But with a late push in the markets, ATRS' investments held fairly steady for the past fiscal year.

A new consulting firm was hired in December, 2001, by the Board of Trustees (the 'Board'). The Board, with the help of the consultants and with my active encouragement, are slowly restructuring the overall portfolio to maximize opportunities that should come with the economic recovery taking hold.

One of the most aggressive implementations has been a true accountability system for the money managers employed by the ATRS. Operating within mutually agreed upon benchmarks for investment performance and a formal written policy of action has led to the dismissal of several money managers, who have not performed well within their respective sectors.

*Additions/Deductions to Plan Net Assets*

In a model retirement system, employer and employee contributions along with investment income should fund all retirement benefits and operating costs. This scenario leaves the investment nucleus untouched to continue to provide the required investment income.

Current year contributions of $277.0 million covered 72.3% of the $383.1 benefits paid, compared with a 74.1% coverage last year. This percent should increase in the short term as the result of a 1% employer contribution increase authorized during the 2003 legislative session. In addition, employer contributions due the System on members in the Teacher Deferred Retirement Option Plan (T-DROP) are being systematically phased up from 0% to 12% over a 10 year timetable. These increases will reduce the reliance on investment income, and built the fund nucleus.

*Funding Status*

Economic improvements provided positive results in the actuarial analysis for the fiscal year ended June 30, 2003. Although the funding status decreased from 93% at June 30, 2002 to 86% this year, amortization of the unfunded accrued liability decreased from 38 years to 36. This decrease reflects positive investing results and legislative changes implemented in the 2003 session. More detail is available in the actuarial section of this report.

*The Honorable Mike Huckabee and*
*Members of the 85th General Assembly*
Page 3
December, 2003

*Internal Control*

The Board, Administration, and the ATRS staff are in the final stages of implementing a new policy manual to more narrowly define agency direction and responsibility. Final editing on a comprehensive rewrite of the System's investment policies is underway, in coordination with the investment consultant. These documents define the role of individual money managers of the System, assign a particular benchmark for performance assessment, and explicitly delineate the steps the Board will take for varying performance results.

*Professional Services*

The ATRS Board employs firms considered experts in their field to draw from pools of knowledge while getting other views of policy administration. The System's independent investment consultant is Ennis + Knupp & Associates, headquartered in Chicago, IL, and the independent actuary is Gabriel Roeder Smith & Company, headquartered in Southfield, MI.

Currently, the ATRS is relying on a regional CPA firm, Thomas & Thomas CPAs, LLP, to advise and assist in, the development of detailed real estate guidelines. It is the intent, once completed and in place, that these procedures will provide senior management and the Board more timely and accurate information regarding real estate investments, operations, and more productive results.

*Acknowledgments*

This report is intended to provide complete and reliable information as a foundation for management decisions, determining compliance with legal provisions, and determining conscientious administration of the System's funds. Compilation of this report symbolizes the collective efforts of the staff, under the direction of the Board of Trustees.

Copies of this report are available to all members of the System via request, and copies will be mailed to each employer with members in the System.

Respectfully submitted:

David R. Malone
Executive Director

# Board of Trustees

*The authority and responsiblity for the administration, management and control of the Arkansas Teacher Retirement System (ATRS), and for the construing and carrying out the provisions of the plan is vested in the Board of Trustees by Act 427 of 1973, as amended. The Board is comprised of 15 persons. The State Bank Commissioner, the State Treasurer, the State Auditor, and the State Commissioner of Education serve as ex officio trustees.*

*Act 418 of 1997 provides that eleven (11) members shall be elected to the Arkansas Teacher Retirement System Board of Trustees. Seven trustees (7) shall be active members of the system with at least five (5) years of credited service in force; three (3) shall be retirants receiving an annuity paid by ATRS who are residents of the State of Arkansas, and one (1) shall be of a minority racial ethnic group, and may be either an active or retired member.*

***Position #1***
***Member Trustee***
***1st Congressional District***
Louis Midkiff
(Jonesboro)
Term Expires 6/30/2007

***Position #2***
***Member Trustee***
***2nd Congressional District***
*Linda Parsons, Chair
(Conway)
Term Expires 6/30/2004

***Position #3***
***Member Trustee***
***3rd Congressional District***
Ann Harbison (West Fork)
Term Expires 6/30/2007

***Position #4***
***Member Trustee***
***4th Congressional District***
Betty McGuire (Malvern)
Term Expires 6/30/2005

***Position #5***
***Member Trustee***
***Superintendent***
Charles Dyer (Alma)
Term Expires 6/30/2006

***Position #6***
***Member Trustee***
***Administrator***
*Charles Vondran, Vice-Chair
(McCrory)
Term Expires 6/30/2003

***Position #7***
***Member Trustee***
***Non-certified***
*Mary Harris (Genoa)
Term Expires 6/30/2003

***Position #8***
***Member Trustee***
***Minority***
Hazel Coleman (Helena)
Term Expires 6/30/2003

***Position #9***
***Retirant Trustee***
*Dr. Paul Fair (Little Rock)
Term Expires 6/30/2004

***Position #10***
***Retirant Trustee***
*Winfred Clardy (Maumelle)
Term Expires 6/30/2005

***Position #11***
***Retirant Trustee***
John Fortenberry (Little Rock)
Term Expires 6/30/2006

***Ex Officio Trustees***

Vacant
State Bank Commissioner

Raymond Simon, Director
State Department of Education

Gus Wingfield
State Treasurer

Jim Wood
State Auditor

* Members of the Arkansas Teacher Retirement System Investment Committee

## Professional Consultants

***Actuary***
Gabriel Roeder Smith & Co.
1000 Town Center
Suite 1000
Southfield, MI 48075

***Auditors & External Accountants***
State Legislative Auditors
Thomas & Thomas CPAs

***Data Processing***
AR Dept. of Information Services
1 Capitol Mall
Room 30310
Little Rock, AR 72201

***Legal Counsel***
Dover & Dixon, P.A.
TCBY Building, Suite 3700
425 West Capitol
Little Rock, AR 72201

***Medical Board***
Dr. John Stotts, Chairman
137 Pleasant Valley Drive
Little Rock, AR 72212

Dr. Worthie Springer
3810 DeBusk Circle
Little Rock, AR 72206

Dr. Ewing C. Reed
8 Combonne Court
Little Rock, AR 72211

***Investment Consultant***
ENNIS KNUPP & Associates
10 South Riverside Plaza, Suite 700
Chicago, IL 60606-3709

***Custodian***
***Domestic and International***
State Street Bank
One Enterprise Drive
Quincy, MA 02171

***Investment Counsel***
AIB Govett
Shackleton House
4 Battle Bridge Lane
London SE12HR
ENGLAND

Aeltus Investment Management
10 State House Square
Hartfort, CT 06103-3602

Alliance Capital Management
U.S. Bank Place
602 2nd Ave South, Suite 5000
Minneapolis, MN 55402-4300

Blackstone Mezzanine Partners
345 Park Avenue
New York, NY 10154

UBS-Brinson
209 South La Salle St
Suite 111
Chicago, IL 60604-1295

Cinven
Pinners Hall
105-108 Old Broad St
London EC2N 1EH
ENGLAND

The Cypress Group
65 East 55th Street
19th Floor
New York, NY 10022

Daruma Asset Management
60 East 42nd Street
Suite 1112
New York, NY 10165

DLJ Real Estate Capital Partners
277 Park Avenue
New York, NY 10172

DLJ Merchant Banking III
DLJ Mezzanine
277 Park Avenue
19th Floor
New York, NY 10172

Doughty Hanson and Company
45 Pall Mall
London SW1Y5JG
ENGLAND

Doughty Hanson and Company
European Real Estate Fund
Times Place
45 Pall Mall
London UK SW1Y5JG
ENGLAND

Eubel Brady & Suttman
Asset Management
777 Washington Village Drive
Suite 210
Dayton, Ohio 45459

Hicks Muse Tate & Furst Inc
200 Crescent Court
Suite 1600
Dallas, TX 75201

Hyperion Capital Management, Inc
165 Broadway
36th Floor
New York, NY 10006

ICC Capital Management
145 Montair Court
Danville, CA 94526

Kennedy Capital Management
10829 Olive Blvd
St. Louis, MO 63141-7739

Loomis Sayles & Company
227 West Monroe St, 60th Floor
Chicago, IL 60606

Nicholas/Applegate
600 West Broadway
29th Floor
San Diego, CA 92101

Oak Hill Capital Partners, L.P.
201 Main Street
Fort Worth, TX 76102

## *Professional Consultants (continued)*

Oppenheimer Capital
1345 Avenue of the Americas
49th Floor
New York, NY 10105-4800

Putnam Institutional Management
1 Post Office Square
Boston, MA 02109

Regions Capital Management
400 West Capitol
Little Rock, AR 72201

State Street Global Advisory
10 South Walker Drive
Suite 3250
Chicago, IL 60606

State Street Global Markets
225 Franklin Street
Boston, MA 02110

The TCW Group
865 South Figueroa St
Suite 1800
Los Angeles, CA 90017

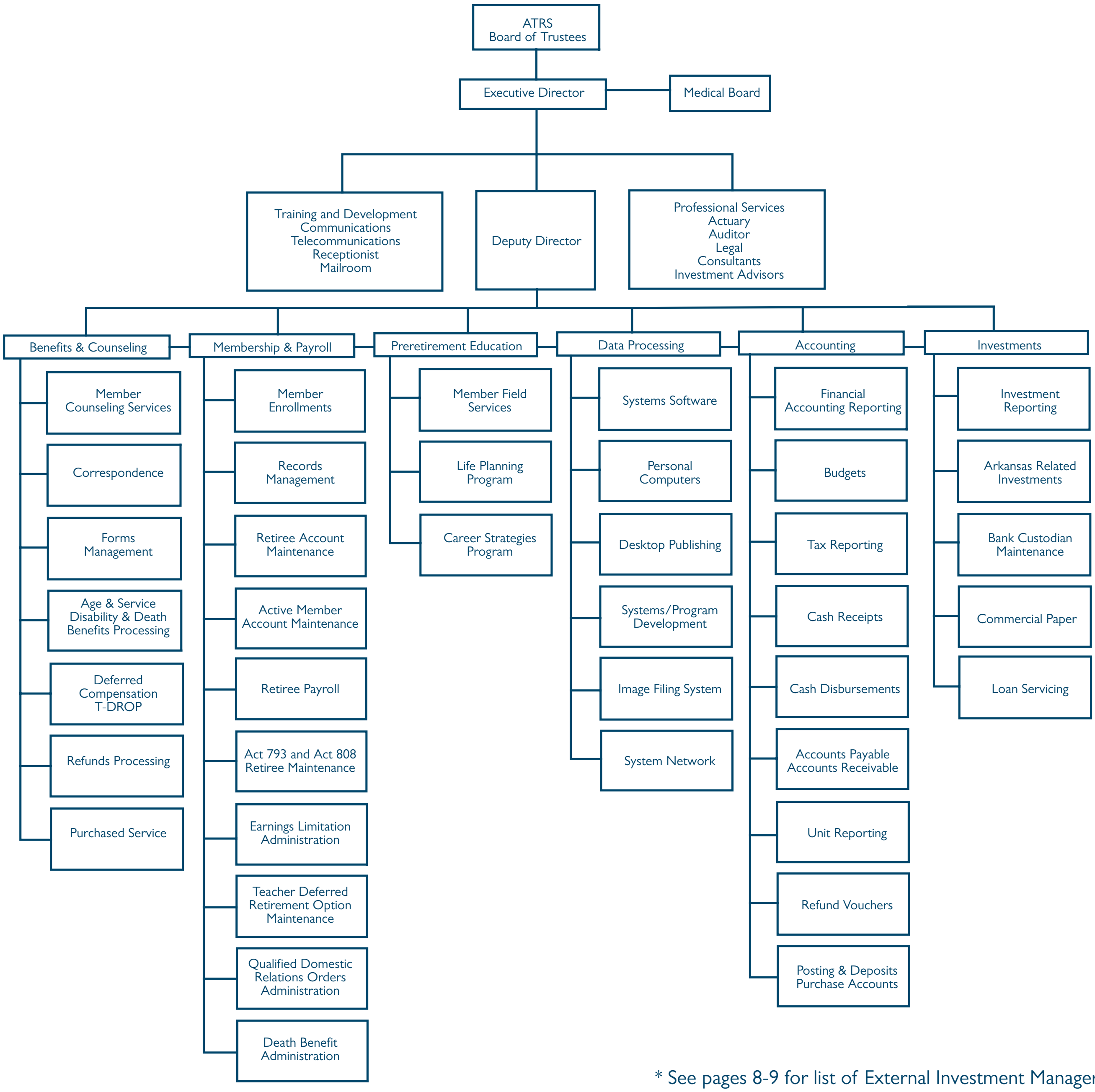
Wachovia Timberland/Evergreen Investments
Wachovia Bank, N.A.
191 Peachtree Street, GA0201
Atlanta, GA 30303

Wachovia Timberland/Evergreen Investments
100 North Main Street-NC 37132
Winston-Salem, NC 27150

Western Asset Management
117 East Colorado Boulevard
Pasadena, CA 91015

Westbrook Partners, LLC
599 Lexington Avenue
Suite 3800
New York, NY 10022

## Organizational Chart




* See pages 8-9 for list of External Investment Managers

## *Administrative Staff*

***David R. Malone***
Executive Director

***George Snyder, CPA***
Internal Controller

***Gail Blair***
Manager, Data Processing

***Julie M. Cabe***
Deputy Director

***Bernice L.G. Smith***
Manager, Accounting

***Dena Dixson***
Manager, Membership & Payroll

***G. Wayne Greathouse***
Associate Director, Investments

***Michael S. Ray***
Manager, Benefits & Counseling

***Barbara Waldrop***
Manager, Preretirement Education

# FINANCIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2003

## Statement of Plan Net Assets
### As of June 30, 2003

| | **2003** |
|---|---|
| Assets: | |
| Cash held outside the Treasury | $ 10,227,944 |
| Cash in Treasury | 672,486 |
| | 10,900,430 |
| Receivables: | |
| Other Receivables | 85,563 |
| Employer Contributions | 5,581,598 |
| Employee Contributions | 9,128,624 |
| Investment Principal Unsettled Trades | 164,986,812 |
| Interest and Dividends | 22,458,418 |
| Total Receivables | 202,241,015 |
| Securities Lending-Domestic & International | 717,697,827 |
| Total Investments at fair value | 7,233,767,954 |
| Net Property and Equipment | 793,770 |
| | 7,952,259,551 |
| Other Assets: | 2,759,500 |
| Total Assets | 8,168,160,496 |
| Liabilities: | |
| Accounts Payable | 1,158,132 |
| Accrued Expense-Escrow | 24,988 |
| | 1,183,120 |
| Investment Principal Payable | 398,924,005 |
| Securities Lending Collateral | 717,697,827 |
| | 1,116,621,832 |
| Total Liabilities | 1,117,804,952 |
| Net Assets Available for Benefits | $7,050,355,544 |

# Statement of Changes in Plan Net Assets
## for the Fiscal Year Ended June 30, 2003

| | | 2003 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer | | $ 200,455,916 |
| Employee | | 76,734,478 |
| Total Contributions | | 277,190,394 |
| | | |
| Investment Income: | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | | (86,631,752) |
| Interest | | 142,192,757 |
| Dividends | | 52,807,256 |
| Real Estate Operating Income | | 8,577,766 |
| Other | | 2,463,988 |
| From Securities Lending Activities: | | |
| Lending Income | 11,211,899 | |
| Less Rebate & Fees | (8,281,778) | 2,930,121 |
| Less Investment Income | | (38,868,941) |
| Net Investment Income | | 83,471,195 |
| | | |
| Total Additions | | 360,661,589 |
| | | |
| Deductions: | | |
| Annuity Benefits | | 383,071,936 |
| Refund of Employer Contributions | | 1,376 |
| Refund of Employee Contributions | | 3,583,812 |
| Administrative Expenses | | 7,973,933 |
| | | |
| Total Deductions | | 394,631,057 |
| | | |
| Net Increase (Decrease) | | (33,969,468) |
| | | |
| Net Assets available for Benefits | | |
| Beginning of year | | 7,084,325,012 |
| End of year | | $7,050,355,544 |

# Notes to Basic Financial Statements

June 30, 2003

## *1. DESCRIPTION OF PLAN*

The following is a brief description of the Arkansas Teacher Retirement System (ATRS or the System). Participants should refer to their Summary Plan description for more complete information.

### *General Information*

ATRS is a cost-sharing multiple-employer, defined benefit pension plan established by authority of the Arkansas General Assembly on March 17, 1937. The General Assembly is responsible for setting benefits and contributions and amending plan provisions. ATRS is a component unit of the State of Arkansas.

### *Membership*

The ATRS is a mandatory retirement plan for full-time employees of the following agencies:

- Arkansas Activities Association
- Board of Education
- Department of Correction School
- Department of Education - General Division
- Educational Cooperatives
- Educational Television Commission
- Public Schools
- School for the Blind
- School for the Deaf
- Teacher Retirement System

Part-time employees are not eligible for membership in the System until they have worked thirty (30) days. All part-time employees must be members of ATRS if employed full-time in another covered position.

Unless an alternate retirement plan is selected, full-time employees above grade 17, of the following agencies are required to be members of ATRS:

- Colleges and Universities
- Department of Education (Vocational Division)
- Vocational-Technical Schools

At June 30, 2003, the latest actuarial valuation date, employee membership data was as follows:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 20,127 |
| Teacher Deferred Retirement Option Plan Participates | 4,032 |
| Terminated plan members entitled to but not yet receiving benefits | 6,784 |
| Active plan members | 62,432 |
| Total | 93,375 |

The number of participating employers was 421.

***DESCRIPTION OF PLAN (Continued)***

***Contributions***

Members of ATRS are contributory or non-contributory. Contribution percentages are set by law and may only be amended by an act of the Arkansas General Assembly.

The employee rate for a contributory member is currently six percent of gross earnings, or $7,800, whichever applies. Effective July 1, 1997, all member contributions are tax-deferred. These contributions are deposited in the Member Deposit Account.

Non-contributory members make no contributions to the System. If the member made contributions before July 1, 1986, they are not refundable until the member terminates covered employment. All new members are automatically placed in the contributory plan. Exceptions to this include new members employed on a part-time basis, new members employed without contracts and former active members returning to employment. Other exceptions may occur, however, after July 1, 1999, all full-time new employees will be contributory.

All school districts are members of the System and Act 1194 of 1995 requires local school districts to pay the teacher retirement employer contribution rate for any eligible employee in accordance with the rules and regulations established by the Board. For the year ended June 30, 2003, the employer contribution rate was 12% of gross earnings.

***Vesting***

Five (5) years of Arkansas service credit are required for vesting purposes. Out-of-state, overseas, private school, sabbatical leave or military service may not be used for vesting purposes in ATRS.

***Retirement, Disability, and Survivor Benefits***

The System is a defined benefit pension plan that offers the following types of benefits: Active Membership retirement, Disability retirement, Survivor Benefit, Teacher Deferred Retirement Option Plan and Lump Sum Death benefit.

The retirement benefits are based on age and/or years of credited service and highest average salary. A member earns one year of service credit for 120 days of service; however, no more than one year of service credit may be earned in any fiscal year. Members of the System may retire after 28 years of service at any age, after 5 or more years of service at age 60 or after 25 years of service at any age with a reduced benefit.

The disability benefits are payable to a member who has 5 or more years of credited service who has become or becomes totally and permanently incapacitated to perform the duties of his/her position in Arkansas service while an active member.

The survivor benefits are payable to qualified survivors upon the death of an active member with five or more years of credited service, including service for the year immediately preceding death. If no monthly survivor benefits are payable, a lump sum of the member's contribution plus interest is paid to the designated beneficiary.

The Teacher Deferred Retirement Option Plan (T-DROP) was designed to allow teachers having 30 or more years of service to freeze retirement benefits and continue working in a position covered by this system. Members of any Arkansas reciprocal system may count their combined service in the systems to meet service requirements for benefits under the System's deferred retirement

***DESCRIPTION OF PLAN (continued)***

option plan. Each month a large portion of the amount the member would have received in a retirement check is placed into a tax-deferred account and accrues interest at 6%. Benefits are reduced 1% for each contributory year of service and 6/10 of 1% for each year of non-contributory service credit. The reduction for years of service above 30 is 0.5% for contributory service and 0.3% for non-contributory service. The remainder goes into a tax-deferred account where it will accrue interest at a rate of 6% compounded annually. The System's actuary determined that this reduction is necessary to keep the plan cost neutral.

Act 1590 of 1999, allows for participation in the T-DROP after 28 years of credited service. An additional reduction of 6% for each year under 30 will be imposed. A member with 28 years would be reduced an additional 12%, while a member with 29 years would be reduced an additional 6%. A decision to enter the plan is irrevocable. Upon retirement, the members' deferred monthly ATRS check will have grown by 3% for each year the member participated in T-DROP resulting from annual cost of living raises. In addition to the member's ATRS retirement check the member will have accumulated money in a T-DROP account. Members may take a lump sum, rollover the money into another tax-deferred account or ATRS will annuitize the lump sum amount and add it monthly to the member's regular ATRS lifetime check.

The System also provides a lump sum death benefit for ATRS active and retired members who have five or more years of credited service. The amount for contributory members will be up to $10,000 and up to $6,667 for non-contributory members. The amount will be prorated according to the relationship between their non-contributory credited service and total credited service for members who have both contributory and non-contributory service. In addition to the benefits noted above, each surviving dependent child will receive a lump sum benefit of $10,000, regardless of the member's option.

***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***Reporting Entity***

The management of the System is the responsibility of the Board of Trustees (Board). The Board is comprised of 15 members whose term expires at various times. The Executive Director of the System is appointed by the Board and oversees the administrative operation of the System, aided by a Deputy Director and six department managers. Although separate financial statements are presented for the System as a whole, the System is also considered a component unit of the State of Arkansas Financial Reporting entity.

***Reciprocal Service Retirement***

A member may combine covered service in the ATRS, Public Employees Retirement System, Highway Employees Retirement System, State Police Retirement System, the Arkansas Judicial Retirement System, an alternate retirement plan for a state supported college or university, the Arkansas Department of Higher Education, a vocational-technical school or the Division of Vocational and Technical Education to qualify for an annuity. (Act 611 of 1975, as amended.)

***Basis of Accounting***

The financial statements are presented on the accrual basis. Employer and member contributions are recognized when due and the employer has made a formal commitment to provide the contributions. These contributions are considered to be fully collectible; therefore, an allowance for uncollectible receivables was not provided for. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

## *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

### *Administrative Expenses*

Expenses for the administration of the System are budgeted and approved by the General Assembly and are paid from investment earnings.

### *Investments*

Investments are reported at fair value. Cash and cash equivalents, which have a maturity of three months or less when purchased, are reported at cost which approximates fair value.

Investments other than real estate, commercial mortgages and other loans, and municipal revenue bonds are reported at fair market values determined by the custodial agents. The agent's determination of market values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages and other loans and municipal revenue bonds have been valued on an amortized cost basis which approximates market or fair value. The current values of the interests in limited partnerships are based on historical costs as adjusted by current appraisals. Real estate mortgages are valued on the basis of future principal and interest payments. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. The fair value of real estate investments is determined based on third party appraisers. Short-term investments are reported at cost which approximates fair market value. For investments where no readily ascertainable fair market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

All security transactions are recorded on a settlement date basis.

There were no investments in excess of 5% of net assets held in trust for pension benefits as of June 30, 2003.

### *Derivatives*

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels or currency exchange rates. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis; so-called "exotic" derivatives and leverage are never employed. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may only use derivatives as part of an overall strategy to enhance returns.

ATRS enters into foreign exchange forward contracts to sell or purchase certain foreign currencies at specified rates at stated dates and to hedge currency risk of investments denominated in foreign currencies such as foreign equity securities, bonds issued by foreign entities and foreign short-term investments and money market funds. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offset in the forward markets. At June 30, 2003, the System had 20 open forward exchange contracts in various foreign currencies at varying rates and dates. At June 30, 2003, the aggregate unrealized gain on such open contracts was $850,265.

***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***

Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomic.

***Equipment***

Equipment with a cost of $2,500 or more is capitalized at the original cost and depreciation is recognized in administration expenses. Depreciation is computed based on the life of asset as stipulated by the Arkansas Administrative Statewide Information System and the method used is the straight life method of depreciation.

***Payables and Liabilities***

Payables and liabilities consists of securities related payables and bills received after the year end. These liabilities are recorded on the financial statement. The liability on securities lending transactions are reported on the financial statement for reporting purposes.

***Compensated Absences***

The agency employees are permitted to accumulate earned but unused vacation and sick pay benefits. Accumulation rate varies according to employee length of service with the State. Upon separation of service, in good standing, employees will be paid for a maximum of thirty unused vacation leave days. Employees do not accumulate sick leave, therefore no liability is reported.

***Tax Status***

During the fiscal year ended June 30, 2003, the System qualified under Section 501(a) of the Internal Revenue Code and was exempt from federal income taxes.

***3. DEPOSITS AND INVESTMENTS***

The following is a reconciliation of the carrying amounts of cash and investments at June 30, 2003.

| | |
|---|---|
| As presented in Statement of Plan Net Assets: | |
| Cash and cash equivalents | $ 10,900,430 |
| Investments | 7,233,767,953 |
| Total | $7,244,668,383 |
| | |
| As presented below: | |
| Deposits | $ 1,921,529 |
| Investments | 7,242,746,854 |
| Total | $7,244,668,383 |

***DEPOSITS AND INVESTMENTS (continued)***

Listed below is a summary of the deposit and investment portfolio as of June 30, 2003. Investing is governed by the prudent investor rule in accordance with Statutes of the State of Arkansas. All investments of the System are considered to have been made in accordance with these governing statutes.

(a) Deposits
A summary of deposits, including certificates of deposits, at June 30, 2003, is as follows:

| | |
|---|---|
| Carrying amount | $ 1,921,529 |
| Bank balance | 2,114,320 |
| Amount insured or collateralized (Category 1) | 2,114,320 |
| Amount uninsured | 0 |

***Credit Risk***

The following table presents the System's investments as of June 30, 2003, categorized to give an indication of the level of risk assumed by the System. The categories of investment risk are:

1. Insured or registered investments, or securities held by the System or its agent in the System's name.

2. Uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the System's name.

3. Uninsured and unregistered investments, with securities held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name.

A security, for purposes of classification in the various categories, is a transferable financial instrument that evidences ownership or creditorship. Investments not evidenced by securities are not categorized to credit risk.

| ***Category 1 Classification*** | Fair Value |
|---|---|
| Domestic Equities | $2,482,377,880 |
| International Equities | 1,052,188,151 |
| Corporate Bonds | 559,347,150 |
| Revenue Bonds | 1,005,000 |
| Government Securities | 367,307,711 |
| Repurchase Agreements/Cash Equivalents | 346,932,109 |
| Convertible Corporate Bonds | 170,413,471 |
| Mortgage Back/ABS/CMO | 683,640,612 |
| FX Contracts | (5,897,888) |
| ***Amounts Not Subject to Classification*** | |
| Limited Partnerships | 1,178,452,696 |
| Real Estate | 140,775,616 |
| Mortgage Loans | 203,724,144 |
| Other Investments | 53,501,300 |
| Cash | 8,978,901 |
| | 7,242,746,854 |
| Investments Held By Broker Dealers Under Securities Loans With Cash Collateral: | |
| Government Securities | 264,724,612 |
| Corporate Bonds | 291,947,773 |
| International Equities | 161,025,440 |
| | $7,960,044,679 |

### *4. SECURITIES LENDING ARRANGEMENTS*

The System participates in a securities lending program, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12 (the Code) whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the United States Government or an agency thereof equal to at least 100% of the full market value of the security lent. The program is administered by a custodial agent bank. The Code does not specify certain types of securities that may be lent; accordingly, ATRS has on loan at June 30, 2003, common and preferred stock, government securities, corporate bonds and international securities. State Street Bank and Trust Company (State Street) does not have the ability to pledge or sell collateral securities delivered absent a borrower default. There are no restrictions on the amount of securities that can be lent at one time. In the total amount of $697,736,225, ATRS has minimized its exposure to credit risk due to borrower default by having the custodial banks determine daily that the required collateral meets at least 100% of the market value of securities on loan. A net earning of $2.9 million was earned on securities lending activities as shown on the Statement of Changes in Plan Net Assets. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. There were no violations of the security lending provisions that occurred during the year ended June 30, 2003.

ATRS invested the cash collateral in short-term securities, short term investment funds maintained by State Street, and many market mutual funds. ATRS authorizes State Street to purchase or sell investments of cash collateral to or from other accounts held by State Street or its affiliates. Investments purchased with cash collateral are held by State Street in separate collateral accounts. The contract with State Street requires it to indemnify ATRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). The risks involved in a security lending program generally include borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest. ATRS had no losses on securities lending transactions resulting from the default of a borrower or the lending agents for the year ended June 30, 2003.

Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the lent securities. The collateral held and the market value of securities on loan for ATRS as of June 30, 2003, were $722,507,413 and $697,736,225, respectively.

The carrying amounts and fair value of securities lending collateral by type of investment due is as follows:

| | Cash Collateral | Securities Collateral |
|---|---|---|
| U.S. Government and Agency | $264,724,613 | $ - |
| U.S. Corporate | 291,947,773 | 25,863 |
| International Equity | 161,025,441 | 4,783,723 |
| Total Values | $717,697,827 | $4,809,586 |

### *5. RELATED PARTY TRANSACTIONS*

As of June 30, 2003, the System loaned $18,117,813 to the State of Arkansas Department of Education for purposes of acquiring a computer network. During the fiscal year ended June 30, 2003, ATRS paid the Department of Information Services approximately $1,061,482 for data processing services.

### *6. LEGALLY REQUIRED RESERVES*

Arkansas Code Annotated 24-7-405 requires that the net assets held in trust for pension benefits be recorded in five accounts, namely, the members' deposit account, the employer's accumulation account, the retirement reserve account, the survivor benefit account and the income-expense account. At June 30, 2003, the balances of each of these accounts are as follows:

| | |
|---|---|
| Members' deposit account | $ 4,247,017,878 |
| Employers' accumulation account | (800,017,559) |
| Retirement reserve account | 3,530,747,216 |
| Survivor benefit account | 50,835,629 |
| Income-expense account | 21,772,380 |
| Net assets held in trust for pension benefits | $ 7,050,355,544 |

### *7. COMMITMENTS AND CONTINGENCIES*

At June 30, 2003, the System was committed to purchase investments at an aggregate cost of approximately $1,116.6 million.

# Required Supplementary Information

***Schedule I - Schedule of Funding Progress***
***(Dollar Amounts in Millions)***

| Actuarial Valuation Date June 30 | Actuarial Value of Assets(a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded (AAL) (b-a) | Funding Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 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 | 7,580 | (40) | 100.5% | 1,485 | - |
| 2000+ | 7,620 | 7,879 | 259 | 96.7% | 1,485 | 17.4% |
| 2001 | 8,166 | 8,469 | 303 | 96.4% | 1,557 | 19.5% |
| 2001+ | 8,166 | 8,561 | 395 | 95.4% | 1,557 | 25.4% |
| 2002 | 8,328 | 9,170 | 842 | 90.8% | 1,628 | 51.7% |
| 2002* | 8,328 | 9,062 | 734 | 91.9% | 1,628 | 45.1% |
| 2003 | 8,263 | 9,672 | 1,409 | 85.4% | 1,683 | 83.7% |
| 2003* | 8,113 | 9,445 | 1,332 | 85.9% | 1,683 | 79.1% |

+ Legislated benefit increase.

* Revised actuarial assumptions.

## Required Supplementary Information (continued)

***Schedule 2 - Schedule of Employer Contributions***

($ Millions)

| Year Ended June 30 | (A) Covered Payroll BOY | (B)=(A)x12% Annual Required Contribution | (C) Actual Contributions | (C)/(B) Percent Contributed |
|---|---|---|---|---|
| 1995 | $1,167 | $140.04 | $139.80 | 99.4% |
| 1996 | 1,234 | 148.08 | 132.60 | 89.5% |
| 1997 | 1,260 | 151.20 | 153.50 | 101.5% |
| 1998 | 1,302 | 156.24 | 159.00 | 101.8% |
| 1999 | 1,368 | 164.16 | 166.80 | 101.6% |
| 2000 | 1,429 | 171.48 | 175.70 | 102.5% |
| 2001 | 1,485 | 178.20 | 181.10 | 101.6% |
| 2002 | 1,557 | 186.84 | 191.35 | 102.4% |
| 2003 | 1,628 | 195.36 | 200,46 | 102.6% |

## Required Supplementary Information (continued)

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

## Schedule 3 - Notes to Trend Data

| | |
|---|---|
| Valuation Date | June 30, 2003 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level percent of payroll |
| Remaining Amortization Period | 36 years |
| Asset Valuation Method | 4-year smoothed market<br>80%/120% Corridor |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.0% |
| Cost-of-living adjustments | 3.0% Simple |
| Projected Salary Increases | 4.0% to 10.1% |
| *Includes inflation at | 4.0% |

ARKANSAS TEACHER RETIREMENT SYSTEM

# SUPPORTING SCHEDULES

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2003

## *Schedule 4 - Schedule of Administrative Expenses*

Fiscal Year ended June 30, 2003

| | |
|---|---|
| Personnel Services: | |
| Staff Salaries | $ 1,946,057 |
| Employee Benefits | 546,509 |
| Total Personnel Services | 2,492,566 |
| | |
| Professional Services: | |
| Actuary | $ 222,300 |
| Data Processing | 3,894,912 |
| Other Professional Services and Fees | 60,904 |
| Total Professional Services | 4,178,116 |
| | |
| Miscellaneous: | |
| Equipment | $ 33,678 |
| Other Operating Expenses | 1,269,573 |
| Total Miscellaneous | 1,303,251 |
| | |
| Total Administrative Expenses | $ 7,973,933 |

## *Schedule 5 - Schedule of Investment Expenses*

Fiscal Year Ended June 30, 2003

| | |
|---|---|
| Investment Counsel | $ 954,401 |
| Professional Services: | |
| International | 3,815,010 |
| Alternative Investment | 21,779,514 |
| Domestic | 8,718,020 |
| Custodian Fee | 734,029 |
| Real Estate Expense | 2,867,967 |
| Security Lending | 8,281,778 |
| Total Professional Services | 46,196,318 |
| Total Investment Expense | $ 47,150,719 |

## Schedule 6 - Schedule of Payments To Consultants

Fiscal Year Ended June 30, 2003

| Individual or Firm | Commission/Fee |
|---|---|
| Actuary | |
| Gabriel, Roeder, Smith & Company | 222,300 |
| | 222,300 |
| Data Processing | |
| Department of Information Services | $ 1,061,482 |
| Optdata | 2,125,506 |
| Other supplies/services | 707,924 |
| | 3,894,912 |
| Other Professional Services and Fees | |
| Mercer Human Resources | 46,931 |
| Gabriel, Roeder, Smith & Company | 6,500 |
| G. Robert Bowers | 2,891 |
| Other | 4,582 |
| | 60,904 |
| Total | $4,178,116 |

# INVESTMENTS

# ENNISKNUPP

November 21, 2003
Board of Trustees
Arkansas Teacher Retirement System
1400 West Third Avenue
Little Rock, AR 72201

**Market Overview**

The fiscal year ended June 30, 2003 proved to be a volatile period for the capital markets. Geopolitical developments in the Middle East combined with the difficulties of the U.S. economy to kick start created uncertainty in the market that led to large price fluctuations on a daily basis. The Gross Domestic Product, driven largely by consumer and defense spending, grew at an average rate of 2.5% during the fiscal year. The Federal Open Market Committee (FOMC) attempted to help economic momentum through further interest rate cuts and liberal currency policies. The federal funds rate dipped from 1.75% on June 30, 2002 to 1.00% at the end of the fiscal year, reaching the lowest level in 45 years. The continued focus to avoid deflation combined with the observable desire of the FOMC to keep interest rates low for the foreseeable future led to a flattening of the Treasury yield curve over the course of the year.

The U.S. stock market ended the fiscal year with only a marginal gain of 1.3%, although this return does not fully represent the considerable volatility endured in the past twelve months. Technology led the gains, posting a 6.5% return for the fiscal year thanks in large part to the resurgence of the downtrodden sector in the second and fourth fiscal quarters. Consumer durables (-11.5%), energy (-4.1%) and transportation (-6.9%) were the weakest performing sectors. On a style basis, medium growth companies earned the highest returns (7.4%) for the fiscal year. Value stocks ended their two year reign over growth stocks, with large cap value and small cap value stocks losing the most at -1.2% and -3.8%, respectively.

Non-U.S. markets declined 4.6% in the fiscal year ending June 30, 2003 as geopolitical tensions and doubts of a worldwide economic recovery created investor apprehension. The largest components of foreign equities proved to be the worst performing during the fiscal year. Japan, which accounts for 17.5% of the MSCI All Country World Ex-U.S. Index, declined 14.6% as the country struggled to rebuild the failing commercial banking system. Developed Europe (61.5% of the Index) declined 5.2% due to the failure of this continent to substantially rebound out of recession. Emerging markets tempered the losses of their developed market counterparts with a gain of 6.7% for the fiscal year. This resulted, in large part, due to the strong performance of oil-reliant countries in the Middle East and South America.

The fixed income market continued to be the bright spot among the major capital markets, ending the fiscal year 10.4% higher. Virtually all sectors of fixed income achieved gains, but high-yield bonds (22.8%) and corporate issues (15.6%) distinctly led the pace. Both of these areas benefited from renewed vigor in the economy as well as increasing investor confidence in the stability of many corporations. The mortgage sector was the lowest returning sector of the fixed income market, but still managed to earn 5.7% for the fiscal year. Falling interest rates fueled another round of consumer housing prepayments and refinancing. Additionally, recent accounting irregularities at Freddie Mac called into question the credibility of large government mortgage companies.

**Overview of Fund Structure**

The ATRS portfolio is diversified across several assets classes including U.S. equity, non-U.S. equity, fixed income and alternative investments. Within these asset classes, the investments are further diversified amongst different investment types and styles. A variety of investment firms are also employed within each category to minimize manager- and firm-specific risk. We believe the diversification level and general risk level of the fund structure to be appropriate for a fund of this type.

During the fiscal year 2003, some minor changes were made in manager structure. Redundancies within styles in the U.S. equity component were addressed with the termination of four managers. A broad-based, low-cost index fund was added to the U.S. equity component to better diversify the program and reduce trading and management costs. Furthermore, one manager was terminated and replaced within both the non-U.S. equity and fixed income components.

**ATRS Performance Overview**

After sustaining two negative return years, the ATRS portfolio earned a positive 2.0% return in the fiscal year ending June 30, 2003. This positive return, while welcomed, did not keep pace with the 3.3% return of the performance benchmark and the 3.5% return of the Russell/Mellon Public Fund Index, which represents 56 funds with aggregate assets of $398.3 billion. Returns over the longer-term three- and five-year periods were favorable on a relative basis as the ATRS portfolio outperformed the performance benchmark by 1.6 and 0.5 percentage points, respectively. Additionally, the portfolio ranked near median in a universe of its public fund peers. Since inception, the ATRS has achieved its long-term goal of earning an 8.0% return, as the total portfolio has earned an average 8.4% return since early 1986.

During the year, the U.S. equity component of the portfolio produced below-benchmark results when compared with the broad U.S. stock market. The fiscal year proved to be a difficult environment for many of the ATRS investment managers as six of the eight firms retained through the year underperformed their benchmarks. The value orientation of the ATRS portfolio also dampened results as these style managers, across the capitalization spectrum, underperformed their growth manager counterparts and the broad market.

The non-U.S. equity markets trailed the broad U.S. equity market in the first three quarters of the fiscal year, and consequently, the non-U.S. equity component detracted from both absolute and relative performance over the twelve months ending June 30, 2003. The small-capitalization and emerging market focus contributed by a portion of the assets helped offset some of the trailing performance.

The return of the fixed income component aided absolute results as this asset class produced the greatest positive returns during the year. This return did, however, fell short of its performance objective. The allocation to mortgage-backed securities dragged returns downward as the rapidly increasing rate of prepayments in this market during the year resulted in below-market performance. Additionally, underperformance earned by each of the remaining investment managers dampened the results.

The ATRS alternative investments - which include Arkansas related investments, real estate and private partnerships – acted as a beneficial diversifier during the year as they advanced 4.0%. Within this area, the international private equity investments proved to be the best performing along with the Arkansas-related real estate investments.

It has been our pleasure serving the ATRS, and we look forward to many more years of service.

Sincerely,

Stephen Cummings, CFA
Principal

STC:smw

# Investment Policies and Procedures

## STATEMENT OF INVESTMENT POLICY

This Investment Policy has been prepared within the context of applicable Arkansas laws and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that both prudence and care are maintained in the execution of the investment program. While safety of principal is given primary consideration, the Board may take appropriate levels of risk to earn higher levels of investment return.

The Board has arrived at this policy through careful study of the rates of return and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate for achieving the financial objectives of the Retirement System.

The Board has adopted a long-term investment horizon so that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Retirement System will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Retirement System will be in the sole interest of the members of the Retirement System.

The Retirement System shall manage those assets not specifically allocated to investment managers. Notwithstanding the provisions of this Investment Policy, the Board may direct a specific investment activity and shall be fully responsible for any such action.

To achieve the overall goal of the Retirement System as it pertains to investments, one or more investment consultants may be retained by the Board.  The scope of duties, together with the terms and conditions of engagement, of any investment consultant will be set forth in a contract approved by the Board.

### Standard of Care

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting monies in the fund and in acquiring, retaining, managing and disposing of investments of the fund there shall be exercised the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting trust assets and in acquiring, retaining, managing and disposing of investments of the trust assets, there shall be exercised the reasonable care, skill, and caution that a prudent investor would use after considering the purposes, terms, distribution requirements, and other circumstances of the trust. Investment and management decisions respecting individual assets shall be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. The investments of the trust shall be diversified unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying. The trust assets shall be invested and managed solely in the interest of the members and benefit recipients of the trust.

Investment and management functions may be delegated to an agent that a prudent trustee of comparable skills could properly delegate under the circumstances. When making such delegation, Trustees shall establish the scope and terms of the delegation, consistent with the purposes and terms of the trust, and shall monitor the agent's performance and compliance with the terms of the delegation. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

***INVESTMENT POLICIES AND PROCEDURES (continued)***

The standard of care set forth herein shall be applied by each party serving in a fiduciary capacity for the trust.

***Asset Allocation***

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will-over time-provide the appropriate risk-adjusted return to the Retirement System.

It shall be the goal of the System to maintain the following asset allocation ranges: Asset Category

| | Minimum | Target | Maximum |
|---|---|---|---|
| Domestic Equity | 35.0% | 40.0% | 45.0% |
| International Equity | 15.0% | 17.5% | 20.0% |
| Domestic Fixed Income | 20.0% | 25.0% | 30.0% |
| Alternatives | 4.0% | 6.0% | 8.0% |
| Real Estate | 3.0% | 5.0% | 7.0% |
| Timberland | 0.0% | 1.5% | 3.0% |
| Arkansas Related | 3.0% | 5.0% | 7.0% |
| Cash Equivalents | 0.0% | 0.0% | 3.0% |

***Rebalancing***

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will – over time – provide the appropriate risk-adjusted return to the Retirement System.

The Executive Director is responsible to rebalance among the allowable asset classes and the individual portfolios at such time that any of the asset classes falls outside of the designated range. The Executive Director will monitor the asset values by classification and for each asset manager on a monthly basis, based on month-end data provided by the custodial bank, and report to the Board any movement of funds necessary to carry out any rebalancing.

***Goals***

The overall goal is to achieve, over a period of years, the greatest rate of return for the Retirement System with due consideration being given to preserving capital and its purchasing power and to maintaining an element of risk at a prudent investor level.

The System's actuary sets an expected return based on the Board's policy decisions. Market cycles may result in the Retirement System earning a return materially above or below the actuarial rate of return for extended periods of time. Therefore, the actuarial rate of return will not be used for performance comparison purposes.

***Domestic Equity***

The manager structure of the domestic equity portfolio's risk and style exposure should resemble the aggregate domestic equity market as measured by the Wilshire 5000 Index. To help achieve this goal, the Board will employ managers utilizing various or multiple capitalization (small, mid and large) and investment styles (growth and value) so that the overall size and capitalization structure of the total component will approximate that of the broad market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the domestic equity assets to a passive investment portfolio that approximates the return of the broad domestic equity market.

***INVESTMENT POLICIES AND PROCEDURES (continued)***

Domestic Equity Active/Passive Allocation (as a percent of the domestic equity portfolio)

| | Minimum | Target | Maximum |
|---|---|---|---|
| Active Component | 50% | 70% | 90% |
| Passive Component | 10% | 30% | 50% |

The goal for domestic equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic equity market as measured by the Wilshire 5000 Index over a full market cycle (approximately five years).

***International Equity***

The manager structure of the aggregate international equity portfolio's risk and style exposure should resemble the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-US. Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (both developed and emerging markets), capitalization (small, mid and large) and style (growth and value) so that the overall style and capitalization structure of the total component will approximate that of the broad international market. An active management strategy for international equity investments will be used.

The goal for international equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index over a full market cycle (approximately five years).

***Fixed Income***

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index. To help achieve this goal, the Board will employ managers that invest assets in a broad array of sectors (Government, mortgage backed, credits, asset backed and commercial mortgage backed bonds), maturities, and credit qualities so that the overall portfolio structure is not materially different from that of the domestic fixed income market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the fixed income assets to a passive investment portfolio that approximates the return of the broad fixed income market.

Fixed Income Active/Passive Allocation (as a percent of the fixed income portfolio)

| | Minimum | Target | Maximum |
|---|---|---|---|
| Active Component | 50% | 70% | 90% |
| Passive Component | 10% | 30% | 50% |

The goal for fixed income investments shall be to achieve a total rate of return that will exceed, net of all costs and fees, the return of the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index over a full market cycle (approximately five years).

***Alternative Investments***

The structure of alternative investments should include domestic and foreign private equity partnerships, venture capital and mezzanine financing partnerships to diversify the assets and reduce the likeliness of material losses in any individual investment classification.

### *INVESTMENT POLICIES AND PROCEDURES (continued)*

The goal for alternative investments is to achieve a total rate of return that will exceed, net of all costs and fees, the return of the public equity markets, as measured by the Wilshire 5000 Index, plus a liquidity premium of 2.0% per year.

#### *Real Estate*

The system may initiate direct ownership in raw land, commercial, industrial, and residential properties or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments.

The goal of the real estate investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic real estate market as measured by the NCREIF National Property Index over a full market cycle (approximately five years).

#### *Timberland*

The system may initiate direct ownership in timberland or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

The goal of the timberland investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Southeast Timberland NCREIF index over a full market cycle (approximately five years).

#### *Arkansas-Related Investments*

The System may initiate Arkansas related mortgage loans, direct real estate investments, or purchase insured certificates of deposit or short term securities of Arkansas financial institutions to meet the goals of the mandated requirements.

The goal of Arkansas-related investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Lehman Mortgage Index as measured over a full market cycle (approximately five years).

#### *Cash Equivalents*

The system may hold direct ownership in short-term investments or may permit or require managers to hold cash or cash equivalents to meet liquidity needs of the manager or of the System.

The goal of the cash management shall be to preserve capital and maintain liquidity.

#### *Commingled or Mutual Funds*

If a commingled fund or mutual fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. In those cases, the System will utilize the A TRS Investment Guidelines in selecting and evaluating funds initially and in monitoring them on an on- going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested to avoid risk of loss.

#### *Derivatives*

Derivatives may be used to reduce the risk in a portfolio. At no time shall derivatives be used to create a position of leverage or substantially increase the risk of the overall portfolio. Each investment manager's derivative usage shall be specified in the investment management agreement or specific guidelines.

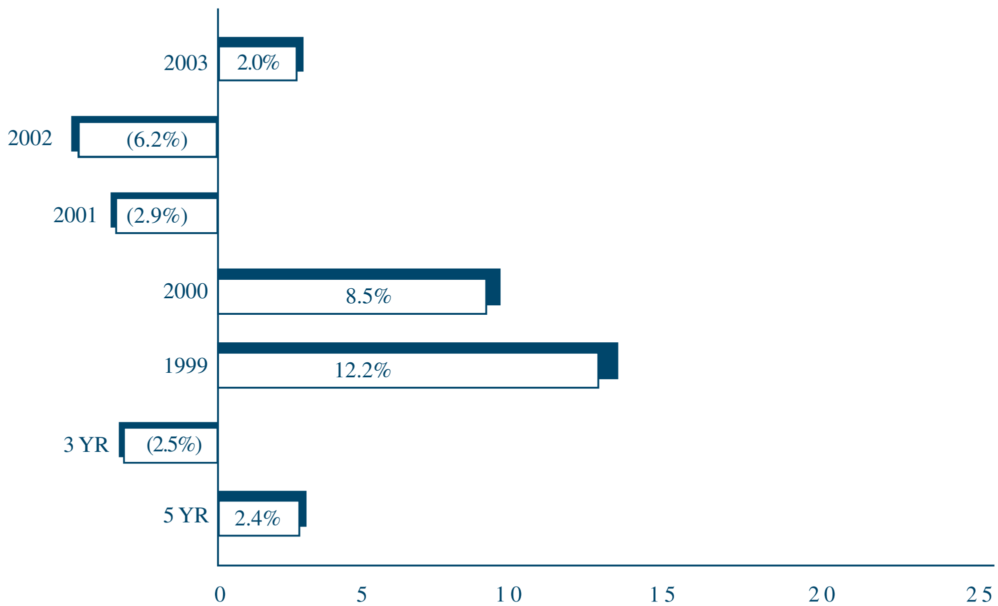
***INVESTMENT POLICIES AND PROCEDURES (continued)***

The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The notional value of the underlying securities of the futures contracts shall not exceed 15% of the market value of the total portfolio.

***Loaning of Securities***

To increase investment income with minimal risk, the Board may loan bonds, stocks, or other securities provided at least 102% of the full market value of the security loaned is collateralized by cash or securities at the time the loan is executed.

At all times during the term of each loan, the collateral shall be equal to not less than 100% of the full market value calculated on the total value of all securities on loan.



## *Asset Allocation Analysis*

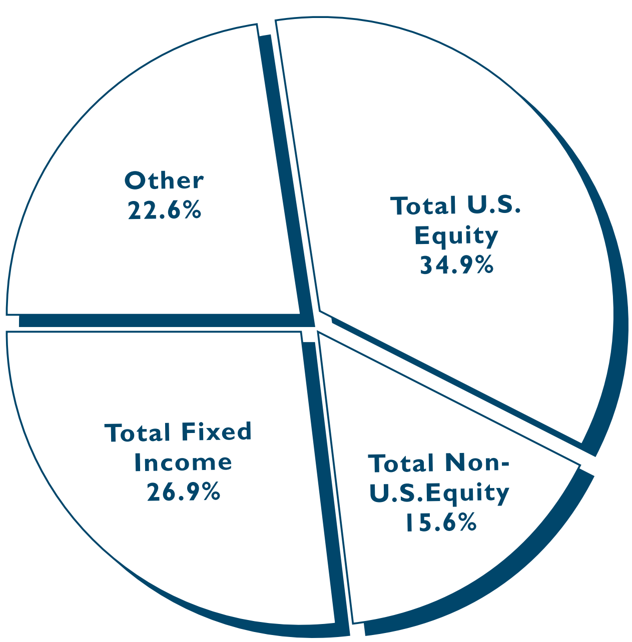
As of June 30, 2003

| Asset Class | Market Value | Current % |
|---|---|---|
| Total U.S. Equity | $2,438,353 | 34.9% |
| Total Non-U.S. Equity | 1,088,572 | 15.6% |
| Total Fixed Income | 1,878,979 | 26.9% |
| Total Mezzanine | 63,645 | 0.9% |
| Total Domestic Private Equity | 326,383 | 4.7% |
| Total Foriegn Private Equity | 118,351 | 1.7% |
| Total Real Estate | 558,633 | 8.0% |
| Arkansas Related | 462,967 | 6.6% |
| Total Cash | 47,354 | 0.7% |
| | $6,983,237 | 100.0% |

| | |
|---|---|
| Total U.S. Equity | 34.9% |
| Total Non-U.S. Equity | 15.6% |
| Total Fixed Income | 26.9% |
| Other | 22.6% |

## *Current Allocation by Asset Class*

As of June 30, 2003



## *Schedule of Investment Results*

Returns for Period Ended June 30, 2003

The table below details the rates of return for the System's investment managers over various time periods ended June 30, 2003.

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Total Fund | 2.0 | (2.5%) | 2.4% |
| Bench Mark | 3.3 | (4.1%) | 1.9% |
| LARGE CAP GROWTH EQUITY | | | |
| Alliance Capital | (2.4%) | (21.9%) | (5.9%) |
| S&P 500 Index | 0.3% | (11.2%) | (1.6%) |
| LARGE CAP VALUE EQUITY | | | |
| Oppenheimer | (2.9%) | (2.9%) | (0.8%) |
| ICC Capital | (7.4%) | (2.9%) | 3.6% |
| Russell 1000 Value Index | (1.0%) | (0.2%) | 1.1% |
| Russell 1000 Index | 1.0% | (11.0%) | (1.3%) |
| MID CAP VALUE EQUITY | | | |
| Eubel Brady & Suttman | 7.7% | 21.8% | - |
| Russell Mid Cap Value | (0.7%) | 7.9% | 4.1% |
| SMALL CAP VALUE EQUITY | | | |
| Kennedy Capital Management | (1.0%) | 15.7% | 10.1% |
| Daruma Asset Management | (10.0%) | - | - |
| Russell 2000 Value Index | (3.8%) | 10.9% | 5.0% |
| SMALL CAP DOMESTIC EQUITY | | | |
| Aeltus Investment Management | (3.5%) | (12.4%) | - |
| The TCW Group | (0.4%) | (35.0%) | - |
| Russell 2000 Growth | 0.7% | (16.7%) | (4.3%) |
| INTERNATIONAL EQUITY MANAGERS | | | |
| UBS Global Asset Management | (5.5%) | (7.5%) | (0.9%) |
| MSCI World Ex-U.S. Index | (5.6%) | (13.3%) | (3.6%) |
| Govett Investment Management LTD | (2.7%) | (11.4%) | (3.0%) |
| MSCI All Country World Ex-U.S. Index | (4.6%) | (12.8%) | (3.1%) |

***Schedule of Investment Results (continued)***

Returns for Period Ended June 30, 2003

The table below details the rates of return for the System's investment managers over various time periods ended June 30, 2002.

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| FIXED INCOME MANAGERS | | | |
| Regions Capital Management | 9.9% | 9.7% | 7.3% |
| Loomis Sayles & Company | 9.6% | 6.6% | 5.6% |
| Nicholas Applegate | 7.5% | (6.5%) | - |
| Hyperion Capital | 6.4% | 8.9% | 5.9% |
| Mezzanie Partnerships | 0.8% | 6.6% | - |
| Total Fixed Income | 8.3% | 5.0% | 5.8% |
| Lehman Brothers Intermediate Gov't/Credit | 10.8% | 10.0% | 7.6% |
| Lehman Brothers Gov't/Credit | 13.2% | 10.8% | 7.7% |
| Lehman Brothers Aggregate | 10.4% | 10.1% | 7.5% |
| Lehman Brothers Mortgage-Backed | 5.7% | 8.6% | 7.0% |
| Credit Suisse First Boston Convertible Securities | 15.5% | (3.8%) | 5.3% |
| Citigroup (Salomon) High Yield Market Index | 26.4% | 6.0% | 3.3% |
| ALTERNATIVE INVESTMENTS | | | |
| Arkansas Related | 6.1% | 4.9% | 3.6% |
| Real Estate | | | |
| Real Estate Partnerships | (4.9%) | 3.4% | 8.8% |
| Total Real Estate | 2.8% | 4.9% | 5.9% |
| Private Equity | | | |
| Domestic Private Equity | (3.4%) | (6.6%) | 3.3% |
| International Private Equity | 44.0% | 8.0% | - |
| Total Private Equity | 5.2% | (3.8%) | 4.4% |
| Total Alternative Investments | 4.0% | 0.2% | 4.8% |

| INDIVIDUAL PARTNERSHIPS | Inception Date | Annualized Internal Rate of Return |
|---|---|---|
| Mezzanine | | |
| Blackstone Mezzanine | 11/30/1999 | (13.6%) |
| DLJ Mezzanine | 10/31/1999 | (4.2%) |
| Domestic Private Equity | | |
| Hicks Muse Tate & Furst Fund III | 2/28/1997 | (0.1%) |
| Hicks Muse Tate & Furst Fund IV | 7/31/1998 | (11.0%) |
| Hicks Muse Tate & Furst Fund V | 11/31/2000 | (14.8%) |
| Oakhill Capital Partners | 3/31/1999 | (4.2%) |
| Cypress | 5/31/1999 | (9.0%) |
| Diamond State Ventures | 3/31/2000 | (0.4%) |
| LJM2 Co-Investment | 4/30/2000 | - |
| DLJ Merchant III | 8/31/2000 | (5.1%) |
| Hicks Muse Tate & Furst-Century Fund | 4/30/2000 | (6.7%) |
| Foreign Private Equity | | |
| Doughty Hanson-Fund III | 10/31/1997 | (5.1%) |
| Doughty Hanson-Tech I | 10/31/2000 | (29.7%) |
| Cinven Funds | 7/31/1998 | 0.2% |
| Real Estate | | |
| Doughty Hanson-Euro Real Estate | 6/30/1999 | 7.9% |
| DLJ Real Estate Capital II | 8/31/1999 | 0.9% |
| Westbrook Fund II | 4/30/1997 | 14.2% |
| Westbrook Fund III | 8/31/1998 | 6.6% |
| Westbrook Fund IV | 4/30/2001 | 0.4% |
| Westbrook SHP | 10/31/1999 | 8.7% |
| Olympus | 7/31/2000 | 7.8% |
| Wachovia Timberland | 1/31/1998 | 8.3% |
| Wachovia Timberland II | 10/31/1999 | 8.6% |

Note: All returns are shown net of all fees.

# Ten Largest Holdings

(By Market Value)
As of June 30, 2003

## Fixed Income

| Par | Security Name | Market Value |
|---|---|---|
| 41,940,000 | United States Treasury Notes 6.125% due 8/15/2007 | $ 48,519,338 |
| 37,200,000 | GNMA I TBA Jul 30 Single Family 7.00% due 7/15/2026 | 39,315,750 |
| 26,600,000 | FNMA TBA Jul 30 Single Family 5.50% due 7/1/2033 | 27,495,673 |
| 25,000,000 | United States Treasury Notes 3.625% due 5/15/2013 | 25,195,313 |
| 16,604,231 | United States Treasury Bonds 3.875% due 4/15/2029 | 21,147,045 |
| 19,850,000 | FNMA TBA Jul 15 Single Family 5.00% due 7/1/2018 | 20,507,531 |
| 18,000,000 | International Lease Financial Corp 5.625% due 6/1/2007 | 19,600,918 |
| 18,000,000 | FNMA TBA Jul 30 Single Family 5.00% due 7/1/2033 | 18,288,281 |
| 15,850,000 | FNMA TBA Jul 30 Single Family 6.50% due 7/1/2026 | 16,528,578 |
| 15,807,290 | GNMA Pool 592294 5.50% due 3/15/2033 | 16,496,390 |
| | | $ 253,094,817 |

(A complete listing of portfolio holdings is available upon request.)

## *Ten Largest Holdings (continued)*

(By Market Value)
As of June 30, 2003

### *Domestic Equities*

| Shares | Security Name | Market Value |
|---|---|---|
| 45,099,689 | US Total Market Index | $ 635,364,416 |
| 3,047,600 | AMR Corp | 33,523,600 |
| 711,017 | Citigroup Inc | 30,431,528 |
| 717,070 | Pfizer Inc | 24,487,941 |
| 330,900 | Federal National Mortgage Assn | 22,315,896 |
| 592,000 | Boeing Co | 20,317,440 |
| 556,200 | International Paper Co | 20,230,326 |
| 371,200 | Federal Home Loan Mtg Corp | 18,845,824 |
| 312,300 | Conocophillips | 17,114,040 |
| 1,509,652 | Ford Motor Co | 16,591,075 |
| | | $ 839,222,086 |

(A complete listing of portfolio holdings is available upon request.)

## Ten Largest Holdings (continued)

(By Market Value)
As of June 30, 2003

### International Equities

| Shares | Security Name | Market Value |
|---|---|---|
| 214,813 | Total SA | $ 32,463,142 |
| 13,138,554 | Vodafone Group | 25,691,473 |
| 118,218 | Nestle SA | 24,393,290 |
| 537,119 | Novartis AG | 21,253,980 |
| 2,883,137 | Shell Transport & Trading | 19,030,419 |
| 1,131,269 | Nokia (AB) | 18,628,983 |
| 690,800 | Toyota Motor Corp | 17,892,051 |
| 847,829 | Glaxosmithkline | 17,110,307 |
| 424,761 | Astrazeneca | 17,032,327 |
| 589,611 | Royal Bank Scotland Grp | 16,540,079 |
| | | $ 210,036,051 |

(A complete listing of portfolio holdings is available upon request.)

## *Ten Largest Holdings (continued)*

(By Market Value)
As of June 30, 2003

## *Arkansas Related Investments*

| Security Name | Market Value |
|---|---|
| Dillard's Building | $ 50,000,000 |
| Victory Building | 42,914,241 |
| Donaghey Foundation | 41,956,455 |
| The Peabody Hotel | 27,571,922 |
| Arkansas Department of Education | 18,117,813 |
| American Center-Nashville, TN | 16,147,572 |
| Crescent Center/Forum 1-Memphis, TN | 15,897,096 |
| Retirement Village | 13,230,618 |
| Southcenter Shopping Center-Hot Springs, AR | 12,720,955 |
| Cooper Financial, LLL | 8,277,626 |
| | $246,834,298 |

(A complete listing of portfolio holdings is available upon request.)

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ARKANSAS TEACHER RETIREMENT SYSTEM

# ACTUARIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2003

# Actuary's Certification Letter

***GABRIEL, ROEDER, SMITH & COMPANY***
Consultants & Actuaries
One Towne Square I Suite 800 I Southfield, Michigan 48076 I 248-799-9000 I 800-521-0498 I fax 248-799-9020

January 23, 2003

Board of Trustees
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Dear Board Members:

The basic funding objective of the Arkansas Teacher Retirement System (ATRS) is to establish and receive contributions which:

- When expressed in terms of the percentage of active member payroll will remain approximately level from generation to generation, and

- When combined with present assets and future investment return will be sufficient to meet the financial obligations of ATRS to present and future retirees and beneficiaries.

The progress being made toward the realization of the financing objectives of the System through June 30, 2003, is illustrated in the attached Exhibits 1 and 2. The funding objective is currently being realized. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e. the cost assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll. The actuarial valuations are performed each year and the most recent valuations were completed based upon census data, asset data, and plan provisions as of June 30, 2003.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. Asset information was accepted without further audit.

The figures disclosed in the Supplementary Schedules to the Financial Section were provided by Gabriel, Roeder, Smith & Company, as were the Notes to Trend Data. In addition, Gabriel, Roeder, Smith & Company was responsible for the following schedules found in the Actuarial Section:

Computed Actuarial Liabilities
Employer Contribution Rate Computed as of June 30, 2003
Active Members in Valuation Data
Retirees and Beneficiaries Added to and Removed From Rolls

Board of Trustees
January 28, 2003
Page 2

- Solvency Test
- Summary of Actuarial Assumptions and Methods
- Single Life Retirement Values
- Probabilities of Retirement for Members
- Probabilities of T-DROP for Members
- Teachers Separations and Individual Pay Increases
- Non-Teachers Separations and Individual Pay Increases
- Analysis of Financial Experience
- Comments and Conclusion

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2003 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

ATRS is 86% funded as of June 30, 2003, indicating a strong financial position even with disappointing investment markets during the las few years. In response to those markets, the Board increased the employer contribution rate to 13% of payroll for the period beginning July 1, 2003 and other adjustments were made including certain benefit changes. However, the continued phasing in of unrecognized investment losses is likely to exert upward pressure on contribution rates in the near term. We recommend that the Board consider a further contribution rate increase for the period beginning July 1, 2004.

**Based upon the results of the June 30, 2003 valuations, we are pleased to report to the Board of Trustees that the Arkansas Teacher Retirement System is meeting its basic financial objective and is in sound condition in accordance with actuarial principles of level percent of payroll financing. A return to more normal investment markets is important for ATRS as well as for virtually every retirement system in the country.**

Respectfully Submitted,
**GABRIEL, ROEDER, SMITH & COMPANY**

Judith A. Kermans, E.A., M.A.A.A. | Brian B. Murphy, F.S.A., M.A.A.A.

## *Exhibit I*
## *Computed Actuarial Liabilities*

As of June 30, 2003

| | | Entry Age Actuarial Cost Method | |
|---|---|---|---|
| Actuarial Present Value of | (1) Total Present Value | (2) Portion Covered By Future Normal Cost Contributions | (3) Actuarial Accrued Liabilities (1)-(2) |
| Age and service retirement and T-DROP allowances based on Total service likely to be rendered by present active and T-DROP members | $6,635,034,858 | $1,390,692,546 | $5,244,342,312 |
| Vested Deferred Benefits likely to be paid present active and inactive members | 595,610,400 | 232,338,408 | 363,271,992 |
| Survivor benefits expected to be paid on behalf of present active members | 72,842,689 | 32,781,373 | 40,061,316 |
| Disability Benefits expected to be paid on behalf of present active members | 175,427,687 | 90,995,863 | 84,431,824 |
| Refunds of Member contributions expected to be paid on behalf of Present active members | 10,944,050 | 52,942,637 | (41,998,587) |
| Benefits payable to present retirees and beneficiaries | 3,640,629,604 | 0 | 3,640,629,604 |
| Lump Sum Death benefits payable to present retirees and beneficiaries | 65,129,006 | 0 | 65,129,006 |
| Load for subsidized options, service purchases and members who transfer to ATRS | 49,067,598 | 0 | 49,067,598 |
| Total | $11,195,618,294 | $1,799,750,827 | $9,444,935,065 |
| Applicable Assets | 8,113,258,915 | 0 | 8,113,258,915 |

# *Exhibit 2*
# *Employer Contribution Rate*

Computed as of June 30, 2003

| | Percents of Active Member Full Payroll | | | |
|---|---|---|---|---|
| Computed Contributions for | Teachers | Support | Combined | Prior Year |
| Normal Cost | | | | |
| Age & Service Annuities | 10.46% | 9.00% | **10.07%** | 10.83% |
| Deferred Annuities | 1.49% | 1.98% | **1.62%** | 1.62% |
| Survivor Benefits | 0.24% | 0.24% | **0.24%** | 0.24% |
| Disability Benefits | 0.66% | 0.59% | **0.64%** | 0.64% |
| Refunds of Member Contributions | 0.33% | 0.56% | **0.39%** | 0.37% |
| Total | 13.18% | 12.37% | **12.96%** | 13.70% |
| Average Member Contributions | 4.27% | 2.86% | **3.90%** | 3.88% |
| Net Employer Normal Cost | 8.91% | 9.51% | **9.06%** | 9.82% |
| Unfunded Actuarial Accrued Liabilities | | | **3.94%** | 2.18% |
| **Employer Contribution Rate** | | | **13.00%** | 12.00% |
| **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. This year’s result reflects changes in benefits and a contribution rate increase enacted to decrease the amortization period.. Experience was poor this year for ATRS, as it was for most plans in the country. As unrealized investment losses flow into the valuation over the next several years, the amortization period is likely to increase rapidly. **Based on the current investment outlook, an increase in the contribution rate to the 14% area or higher will almost certainly be needed to maintain the funding program. The employer rate was close to 14% in the mid 1980s.**

## Schedule of Active Member Valuation Data

| Valuation Date June 30 | Active Members in Valuation Number | Active Members in Valuation Annual Payroll | Average Annual Pay Amount | Average Annual Pay % Change |
|---|---|---|---|---|
| 2003 | 62,432 | 1,683 | 26,963 | 6.3% |
| 2002& | 62,011 | 1,628 | 26,254 | 3.5% |
| 2001 | 61,389 | 1,557 | 25,365 | 2.7% |
| 2000#! | 60,147 | 1,485 | 24,696 | 2.8% |
| 2000# | 60,147 | 1,485 | 24,696 | 2.8% |
| 1999# | 59,499 | 1,429 | 24,019 | 2.7% |
| 1998#*& | 58,528 | 1,368 | 23,380 | 2.3% |
| 1997# | 56,997 | 1,302 | 22,847 | 1.7% |
| 1996 | 56,100 | 1,260 | 22,463 | 7.2% |

** Revised financial assumptions.*

*# Legislated benefit increases.*

*& Revised decrement assumptions.*

*! Benefit increases proposed for 2001 and assuming 8% investment return for Fiscal Year Ended 6/30/2002.*

## Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

| Year | Estimated Number Added | Estimated Number Removed | Total Retirees | Annual Allowances (Millions) | % Increase in Annual Allowances | Average Annual Allowances |
|---|---|---|---|---|---|---|
| 2003 | 1,621 | 548 | 20,272 | 360 | 7.7% | 17,759 |
| 2002 | 1,989 | 568 | 19,199 | 334.15 | 8.1% | 17,404 |
| 2001 | 1,571 | 450 | 17,778 | 309.03 | 10.3% | 17,383 |
| 2000 | 1,249 | 479 | 16,657 | 280.14 | 12.6% | 16,818 |
| 1999 | 1,582 | 497 | 15,887 | 248.75 | 12.9% | 15,658 |
| 1998 | 809 | 240 | 14,802 | 220.38 | 13.1% | 14,888 |
| 1997 | 1,049 | 475 | 14,233 | 194.90 | 14.3% | 13,694 |
| 1996 | 1,107 | 654 | 13,659 | 170.59 | 8.9% | 12,489 |

Total Retirees does not include any members who are currently participating in T-Drop.

# Short Condition Test

The 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 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 | 2,804 | 4,322 | 7,620 | 100% | 100% | 101% | 101% |
| 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 | 3,464 | 5,216 | 8,328 | 100% | 100% | 84% | 91% |
| 2002* | $490 | $3,441 | $5,131 | $8,328 | 100% | 100% | 86% | 92% |
| 2003 | 521 | 3,706 | 5,445 | 8,263 | 100% | 100% | 74% | 85% |
| 2003# | 521 | 3,706 | 5,218 | 8,113 | 100% | 100% | 74% | 86% |

** Revised actuarial assumptions or methods.*

*# Legislated benefit increase.*

## Summary of Actuarial Assumptions and Methods

| | |
|---|---|
| Valuation Date | June 30, 2003 |
| Actuarial Cost Method | Entry Age |
| Amortized Method | Level percent of payroll |
| Remaining Amortization Period | 36 years |
| Asset Valuation Method | 4-year smoothed market 80%/120% corridor |
| Actuarial Assumptions: | |
| Investment Rate of Return | 8.0% |
| Projected Salary Increase | 4.0% to 10.1% |
| Cost-of-living Adjustments | 3% Simple |
| Includes inflation at | 4% |

An actuarial valuation is based upon an actuarial cost method, an asset valuation method, and actuarial assumptions. These methods and assumptions are chosen by the Board of Trustees after consultation with the Actuary and other advisors.

The actuarial cost method is called the Entry Age Actuarial Cost Method. This method is consistent with the Board's level percent of payroll funding objective. With this method, the level percent of payroll is determined that will fund a member's retirement benefit over the member's entire working lifetime, from date of hire (Entry Age) to date of exit from the active member population. Differences in the past between assumed and actual experience become part of unfunded actuarial accrued liabilities and are amortized with level percent of payroll contributions. This cost method was first used in the ***June 30, 1986*** valuation (actuarial gains and losses).

The asset valuation method is a four year smoothed market value method in which assumed investment return is recognized immediately each year and differences between actual and assumed investment return are phased in over a closed four year period. This asset valuation method is intended to give recognition to the long term accuracy of market values while filtering out and dampening short term market swings. This method was first used in the ***June 30, 1995*** valuation.

The actuarial assumptions used in producing the valuation fall into two broad classes: economic assumptions, and demographic assumptions. Economic assumptions refer to long term rates of investment return, wage growth, covered population growth, and inflation. Demographic assumptions refer to retirement rates, turnover rates, disability rates, merit and seniority pay increases, and mortality rates. The current assumptions are based upon 1987-2002 experience of the ATRS. The assumptions are reviewed from time to time to keep them reasonably current with expected experience.

***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 is the portion of investment return which is more than the inflation rate. Considering inflation recognition of 4.0%, the 8.0% rate translates to an assumed real rate of return of 4.0%. This rate was first used for the **June 30, 2002** valuation.

***Pay increase assumptions*** for individual active members are shown on Tables IV and V. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation. These rates were first used for the **June 30, 2002** valuation. Price inflation is assumed to persist at a level sufficient to produce a 3% COLA.

***Summary of Actuarial Assumptions and Methods (continued)***

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 Table I. This table was first used for the June 30, 1998 valuation. It was reviewed as part of the June 30, 2002 valuation and deemed to still be an appropriate measurement of mortality for the plan. For disabled lives, the mortality table is set forward 5 years. This 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 Tables II and III. The rates for full retirement were first used in the ***June 30, 2002*** 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 Tables III and IV. 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 percent of payroll contributions.

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

---

***Asset Valuation Method***. A market value related asset 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.

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

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**Non-teacher members** were evaluated using non-economic assumptions shown on the following pages. Effective July 1, 1989 non-teacher employees who are newly hired by public schools become members of ATRS.

# Table I
## Single Life Retirement Values

| Sample Attained | 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 | |
|---|---|---|---|---|---|---|---|---|
| Ages | 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% |

| 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% |

## Table II
## Probabilities of Retirement for Members

% of Active Participants Retiring with Unreduced Benefits

| Retirement Ages | Education Male | Education Female | Support Male | Support Female |
|---|---|---|---|---|
| 48 | 50% | 40% | 40% | 30% |
| 49 | 50% | 40% | 40% | 30% |
| 50 | 10% | 10% | 7% | 10% |
| 51 | 10% | 10% | 7% | 10% |
| 52 | 10% | 10% | 14% | 12% |
| 53 | 13% | 13% | 16% | 15% |
| 54 | 14% | 14% | 18% | 20% |
| 55 | 15% | 16% | 20% | 22% |
| 56 | 15% | 16% | 22% | 22% |
| 57 | 15% | 19% | 25% | 22% |
| 58 | 15% | 20% | 27% | 27% |
| 59 | 20% | 25% | 35% | 40% |
| 60 | 15% | 15% | 16% | 16% |
| 61 | 20% | 20% | 25% | 20% |
| 62 | 30% | 25% | 35% | 30% |
| 63 | 20% | 25% | 25% | 25% |
| 64 | 20% | 20% | 25% | 25% |
| 65 | 35% | 35% | 35% | 40% |
| 66 | 30% | 35% | 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% |

## Probabilities of Reduced Retirement for Members

% of Active Participants Retiring with Reduced Benefits

| Retirement Ages | Education Male | Education Female | Support Male | Support 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% |

## Table III
## Probabilities of T-DROP for Members

Percent of Eligible Active Members Entering T-DROP Within Next Year

| | Education | | Support | |
|---|---|---|---|---|
| Ages | Male | Female | Male | Female |
| 50 | 40% | 45% | 30% | 20% |
| 51 | 35% | 45% | 30% | 30% |
| 52 | 50% | 45% | 55% | 45% |
| 53 | 50% | 45% | 55% | 50% |
| 54 | 45% | 45% | 55% | 50% |
| 55 | 45% | 45% | 45% | 50% |
| 56 | 45% | 40% | 45% | 50% |
| 57 | 45% | 40% | 45% | 50% |
| 58 | 45% | 40% | 50% | 50% |
| 59 | 45% | 40% | 50% | 50% |
| 60 | 45% | 35% | 50% | 40% |
| 61 | 45% | 35% | 50% | 30% |
| 62 | 40% | 35% | 50% | 30% |
| 63 | 30% | 35% | 50% | 30% |
| 64 | 40% | 40% | 50% | 40% |
| 65 | 50% | 50% | 50% | 50% |
| 66 | 50% | 50% | 50% | 50% |
| 67 | 50% | 50% | 50% | 50% |
| 68 | 50% | 50% | 50% | 50% |
| 69 | 50% | 50% | 50% | 50% |
| 70 | 50% | 50% | 50% | 50% |
| 71 | 50% | 50% | 50% | 50% |
| 72 | 50% | 50% | 50% | 50% |
| 73 | 50% | 50% | 50% | 50% |
| 74 | 50% | 50% | 50% | 50% |
| 75 | 50% | 50% | 50% | 50% |
| 76 | 50% | 50% | 50% | 50% |
| 77 | 50% | 50% | 50% | 50% |
| 78 | 50% | 50% | 50% | 50% |
| 79 | 50% | 50% | 50% | 50% |

Members entering T-DROP are assumed to remain in T-DROP according to the following table:

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

# Table IV
# Teachers Separations From Active Employment Before Age and Service Retirement and Individual Pay Increase

| Sample | | Percent of Active Members Separating Within the Next Year | | | | | |
|---|---|---|---|---|---|---|---|
| | | Death | | Disability | | Other | |
| Ages | Service | 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% |

Pay Increase Assumptions For an Individual Member

| Age | 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 | 0.0% | 4.0% | 4.0% |

# Table V
# Non-Teachers Separations From Active Employment Before Age and Service Retirement and Individual Pay Increase

Percent of Active Members Separating Within the Next Year

| Sample Ages | Service | Death Men | Death Women | Disability Men | Disability Women | Other Men | Other 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% |

Pay Increase Assumptions For an Individual Member

| Age | 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% |

## *Analysis of Financial Experience*

| | Gain (Loss) For Year Ended ($ Millions) | | | | |
|---|---|---|---|---|---|
| Type of Risk Area | 1998 | 1999 | 2000 | 2001 | 2002 |
| ***ECONOMIC RISK AREAS*** | | | | | |
| Pay increases. ***If there are smaller pay increases*** than assumed, there is a gain. If greater increases, a loss. | $ 12.6 | $ 5.9 | $(28.6) | $7.7 | $19.3 |
| Gross Investment Return. ***If there is greater investment*** return than assumed, there is a gain. If less return, a loss. | 475.2 | 490.4 | 399.1 | 16.5 | (392.9) |
| ***NON-ECONOMIC RISK AREAS*** | | | | | |
| Retirements and T-Drop. ***If members retire at*** older ages, there is a gain. If younger ages, a loss. | 10.8 | 10.5 | 13.4 | 7.4 | 7.0 |
| Disability Retirements. ***If there are fewer disabilities*** than assumed, there is a gain. If more, a loss. | 4.3 | 4.8 | 0.3 | (0.2) | (0.6) |
| Death-in-Service Benefits. ***If there are fewer claims*** than assumed, there is a gain. If more, a loss. | 1.2 | 0.7 | 1.5 | 1.6 | 1.4 |
| Withdrawal. ***If more liabilities are released by other*** separations than assumed, there is a gain. If smaller releases, a loss. | (1.4) | 4.9 | (5.8) | (1.6) | (0.9) |
| Death After Retirement. ***If there is higher mortality*** than assumed, there is a gain. If lower mortality, a loss. | 9.1 | (6.3) | (2.4) | (6.1) | 4.8 |
| **TOTAL** | **$511.8** | **$510.9** | **$ 377.5** | **$25.3** | **$(361.9)** |

## 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 ...."

***Teacher Retirement System Status.*** Based upon the results of June 30, 2002 actuarial valuations, ***TRS is satisfying the financial objective of level-contribution-percent financing.***

There were no benefit changes reflected in this valuation. This valuation incorporates the results of a 5 year Experience Study for the 1997-2002 period.

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The amortization period this year is 36 years, a decrease from last year's 125-year period. The amortization period of 36 years is the net of very unfavorable investment experience and a change in assumptions as a result of the 1997-2002 Experience Study. Investment experience for ATRS, and for most retirement systems in the United States, was unfavorable during the past year. The market value of assets actually dropped during the year. The asset valuation method phases in gains and losses over the current year and three future years. This means that ATRS must earn well above the assumed rate during each of the next three years in order to sustain the 30 year amortization period, based upon the present assumptions. An alternative is an increase in the contribution rates, which, in our judgment, deserves careful consideration at this time.

The funding value of assets now exceeds the market value by 17%. Present market conditions can lead to a situation where the recognized assets might deviate greatly from the market value. To prevent this, we recommended adding a requirement that the recognized assets must always be between 80% and 120% of the market value.

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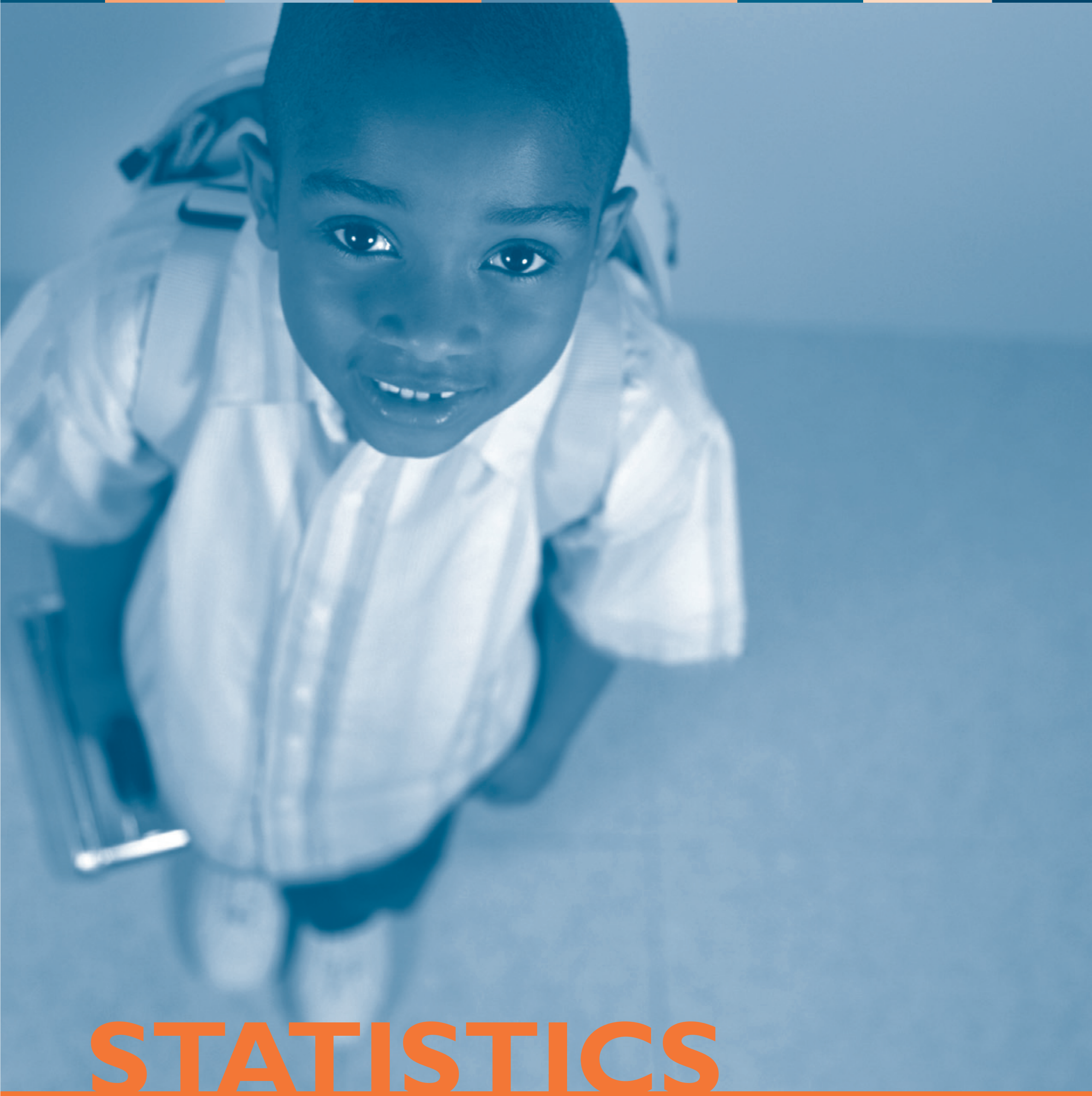
The Arkansas Teacher Retirement System is 92% funded as of this valuation date, indicating a solid financial position even in the face of weak investment markets.



# STATISTICS

## Schedule of Revenue By Source

| Year Ending June 30 | Member Contributions | Employer Contributions | Employer Contributions % of Annual Covered Payroll | Investment Income | Total |
|---|---|---|---|---|---|
| 2003 | $76,734,478 | $200,455,916 | 11.9% | $ 72,259,296 | $ 349,449,690 |
| 2002 | 71,893,349 | 191,352,910 | 11.8% | (461,538,652) | (198,292,393) |
| 2001 | 68,717,889 | 181,115,569 | 11.6% | (254,206,596) | (4,373,138) |
| 2000 | 55,633,069 | 175,686,958 | 11.8% | 638,534,760 | 869,854,787 |
| 1999 | 50,842,231 | 166,785,926 | 11.7% | 781,034,414 | 998,662,571 |
| 1998 | 48,329,053 | 158,962,714 | 11.6% | 921,429,638 | 1,128,721,405 |
| 1997 | 40,214,965 | 153,546,224 | 11.7% | 1,000,201,271 | 1,193,962,460 |

## Schedule of Expenses By Type

| Year Ending June 30 | Benefit Payments | Administrative Expenses | Refunds | Total |
|---|---|---|---|---|
| 2003 | $383,071,936 | $7,973,933 | $3,585,188 | $394,631,057 |
| 2002 | 354,949,683 | 7,354,162 | 2,744,684 | 365,048,529 |
| 2001 | 323,392,426 | 8,254,731 | 2,975,138 | 334,622,295 |
| 2000 | 284,356,092 | 9,729,999 | 3,317,881 | 297,403,972 |
| 1999 | 243,710,242 | 4,344,055 | 3,405,210 | 251,459,507 |
| 1998 | 215,573,711 | 4,375,104 | 3,373,945 | 223,322,760 |
| 1997 | 191,717,604 | 3,705,351 | 3,933,212 | 199,356,167 |

## Schedule of Benefit Expenses By Type

| Year Ending June 30 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| Age and Service | $315,456,745 | $291,969,589 | $ 265,279,449 | $ 237,039,361 | $ 207,331,239 | $ 184,758,216 |
| Disability | 19,836,787 | 18,965,804 | 18,097,625 | 16,270,465 | 14,133,718 | 12,652,960 |
| Option | 8,847,041 | 7,947,966 | 6,877,850 | 6,007,193 | 5,074,249 | 4,412,313 |
| Survivor | 5,503,873 | 5,306,397 | 4,837,322 | 4,376,641 | 3,686,637 | 3,358,483 |
| Reciprocity | 10,245,385 | 8,878,504 | 7,524,324 | 5,983,136 | 4,610,128 | 3,945,093 |
| Active Members Death Benefit | 713,094 | 580,689 | 688,447 | 695,623 | 329,678 | 302,275 |
| T-DROP | 18,600,700 | 17,038,780 | 15,934,672 | 9,474,689 | 4,916,716 | 2,211,362 |
| Act 808 | 4,272,018 | 4,261,953 | 4,152,737 | 4,544,286 | 3,627,877 | 3,933,009 |
| Total | $383,475,643 | $354,949,682 | $ 323,392,426 | $ 284,391,394 | $ 243,710,242 | $ 215,573,711 |

## Schedule of Retired Members By Type of Benefit

| Monthly Benefit | Number of Retirants | Type of Retirement* 1 | 2 | 3 | 4 | 5 | Option Selected # Life | Opt. A | Opt. B | Opt. C |
|---|---|---|---|---|---|---|---|---|---|---|
| $1-250 | 1,989 | 1,665 | 27 | 106 | 178 | 13 | 1,700 | 211 | 18 | 60 |
| 251-500 | 1,984 | 1,550 | 43 | 162 | 193 | 36 | 1,687 | 214 | 41 | 42 |
| 501 - 750 | 1,694 | 1,341 | 65 | 34 | 211 | 43 | 1,394 | 193 | 74 | 33 |
| 751 - 1000 | 1,507 | 1,140 | 55 | 36 | 223 | 53 | 1,225 | 178 | 77 | 27 |
| 1001 - 1250 | 1,513 | 1,194 | 45 | 46 | 194 | 34 | 1,215 | 166 | 94 | 38 |
| 1251 - 1500 | 1,680 | 1,382 | 34 | 39 | 200 | 25 | 1,416 | 141 | 95 | 28 |
| 1501 - 1750 | 1,904 | 1,678 | 26 | 21 | 159 | 20 | 1,564 | 171 | 140 | 29 |
| 1751 - 2000 | 1,951 | 1,771 | 33 | 31 | 107 | 9 | 1,589 | 164 | 147 | 51 |
| Over $2000 | 5,709 | 5,455 | 78 | 45 | 119 | 12 | 4,419 | 569 | 552 | 169 |
| Totals | 19,931 | 17,176 | 406 | 520 | 1,584 | 245 | 16,209 | 2,007 | 1,238 | 477 |

* Type of Retirement

1. Normal retirement for age and service
2. Survivor payment - normal or early retirement
3. Survivor payment - death-in-service
4. Disability retirement
5. Survivor payment - disability retirement

*Excludes Act 793 and Act 808 retirees.*

# Option selected

Life - Straight life annuity

Option A - 100% survivor annuity

Option B - 50% survivor annuity

Option C - Annuity for 10 years certain and life thereafter

## *Schedule of Average Benefit Payments*

| Retirement Effective Dates<br>July 1, 1997 to June 30, 2002 | | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ |
|---|---|---|---|---|---|---|---|
| 7/01/97-6/30/98 | Average Monthly Benefit | $199 | $297 | $712 | $1,117 | $1,584 | $2,096 |
| | Average Final Salary | $21,528 | $16,808 | $24,491 | $28,474 | $33,396 | $36,007 |
| | Number of Active Retirants | 46 | 152 | 107 | 142 | 268 | 272 |
| 7/01/98-6/30/99 | Average Monthly Benefit | $174 | $369 | $777 | $1,197 | $1,636 | $2,149 |
| | Average Final Salary | $13,734 | $19,411 | $26,758 | $32,278 | $35,179 | $36,306 |
| | Number of Active Retirants | 492 | 187 | 119 | 114 | 317 | 301 |
| 7/01/99-6/30/00 | Average Monthly Benefit | $204 | $362 | $860 | $1,226 | $1,743 | $2,361 |
| | Average Final Salary | $13,612 | $17,288 | $28,523 | $30,543 | $36,513 | $37,919 |
| | Number of Active Retirants | 219 | 138 | 102 | 137 | 308 | 318 |
| 7/01/00-6/30/01 | Average Monthly Benefit | $210 | $422 | $920 | $1,333 | $1,887 | $2,459 |
| | Average Final Salary | $14,772 | $19,899 | $31,531 | $33,529 | $39,490 | $39,512 |
| | Number of Active Retirants | 315 | 229 | 125 | 132 | 387 | 333 |
| 7/01/01-6/30/02 | Average Monthly Benefit | $207 | $363 | $797 | $1,348 | $1,919 | $2,528 |
| | Average Final Salary | $14,505 | $17,606 | $27,482 | $34,586 | $39,489 | $40,211 |
| | Number of Active Retirants | 505 | 376 | 195 | 171 | 424 | 269 |
| 7/01/02-6/30/03 | Average Monthly Benefit | $213 | $439 | $824 | $1,321 | $1,982 | $2,530 |
| | Average Final Salary | $16,577 | $21,197 | $28,856 | $34,031 | $40,871 | $39,797 |
| | Number of Active Retirants | 304 | 225 | 155 | 151 | 473 | 265 |

## Schedule of Participating Employers

As of June 30, 2003

***PUBLIC SCHOOLS***

Acorn School District
Alma School District
Alpena School District
Alread School District
Altheimer Unified School District
Altus-Denning School District
Arkadelphia School District
Arkansas City School District
Armorel School District
Ashdown School District
Atkins School District
Augusta School District
Bald Knob School District
Barton-Lexa School District
Batesville School District
Bauxite School District
Bay School District
Bearden School District
Beebe School District
Benton School District
Bentonville School District
Bergman School District
Berryville School District
Biggers-Reyno School District
Bismark School District
Black Rock School District
Blevins School District
Blytheville School District
Booneville School District
Bradford School District
Bradley School District
Bright Star School District
Brinkley School District
Brookland School District
Bryant School District
Buffalo Island Central School District
Cabot School District
Caddo Hills School District
Calico Rock School District
Camden-Fairview School District
Carlisle School District
Carthage School District
Cave City School District
Cedarville School District
Centerpoint School District
Charleston School District
Clarendon School District
Clarksville School District
Clay County Central School District
Clinton School District
Concord School District
Conway School District
Cord-Charlotte School District
Corning School District
Cotter School District
Cotton Plant School District
County Line School District
Crawfordsville School District
Cross County School District
Crossett School District
Cushman School District
Cutter-Morning Star School District
Danville School District
Dardanelle School District
Decatur School District
Deer School District
Delaphaine School District
Delight School District
Delta Special School District
DeQueen School District
Dermott School District
Des Arc School District
DeValls Bluff School District
DeWitt School District
Dierks School District
Dollarway School District
Dover School District
Drew Central School District
Dumas School District
Earle School District
East End School District
East Poinsett School District
El Dorado School District
Elaine School District
Elkins School District
Emerson School District
Emmet School District
England School District
Eudora School District
Eureka Springs School District
Evening Shade School District
Farmington School District
Fayetteville School District
Flippin School District
Fordyce School District
Foreman School District
Forrest City School District
Fort Smith School District
Fouke School District
Fountain Hill School District
Fountain Lake School District
Fourche Valley School District
Genoa-Central School District
Gentry School District
Gillett School District
Glen Rose School District
Gosnell School District
Gould School District
Grady School District
Gravette School District
Green Forest School District
Greenbrier School District
Greene County Technical
Greenland School District
Greenwood School District
Gurdon School District
Guy-Perkins School District
Hackett School District
Hamburg School District
Hampton School District
Harmony Grove School District (Benton)
Harmony Grove School District (Camden)
Harrisburg School District
Harrison School District
Hartford School District
Hatfield School District
Hazen School District
Heber Springs School District
Hector School District
Helena-West Helena School District
Hermitage School District
Highland School District
Holly Grove School District
Hope School District
Horatio School District
Hot Springs School District
Hoxie School District
Hughes School District
Humphrey School District
Huntsville School District
Huttig School District
Izard County School District
Jackson County School District
Jasper School District
Jessieville School District
Jonesboro School District
Junction City School District
Kingsland School District
Kingston School District
Kirby School District
Lake Hamilton School District
Lakeside School District (Hot Springs)

## *Schedule of Participating Employers (continued)*

As of June 30, 2003

***PUBLIC SCHOOLS***

Lakeside School District (Lake Village)
Lakeview School District
Lamar School District
Lavaca School District
Lead Hill School District
Lee County School District
Leslie School District
Lewisville School District
Lincoln School District
Little Rock School District
Locksburg School District
Lonoke School District
Lynn School District
Magazine School District
Magnet Cove School District
Magnolia School District
Malvern School District
Mammoth Spring School District
Manila School District
Mansfield School District
Marion School District
Marion County School District
Marked Tree School District
Marmaduke School District
Marshall School District
Marvell School District
Mayflower School District
Maynard School District
McCrory School District
McGehee School District
McNeil School District
McRae School District
Melbourne School District
Mena School District
Midland School District
Mineral Springs School District
Monticello School District
Mount Holly School District
Mount Ida School District
Mount Judea School District
Mount Pleasant School District
Mount Vernon-Enola School District
Mountain Home School District
Mountain Pine School District
Mountain View School District
Mountainburg School District
Mulberry School District
Murfreesboro School District
Nashville School District
Nemo Vista School District
Nettleton School District
Nevada County School District
Newark School District
Newport School District
Norfork School District
Norphlet School District
North Little Rock School District
Oark School District
Oden School District
Ola School District
Omaha School District
Osceloa School District
Ouachita School District
Ozark School District
Palestine-Wheatley School District
Pangburn School District
Paragould School District
Paris School District
Parkers Chapel School District
Parkin School District
Paron School District
Pea Ridge School District
Perry-Casa School District
Perryville School District
Piggott School District
Pine Bluff School District
Plainview-Rover School District
Pleasant View School District
Pocahontas School District
Pottsville School District
Poyen School District
Prairie Grove School District
Prescott School District
Pulaski County School District
Quitman School District
Randolph County School District
Rector School District ( Clay Co. Central)
Rison School District
River Valley School District
Riverside School District
Riverview School District
Rogers School District
Rosebud School District
Rural Special School District
Russellville School District
Saint Joe School District
Saint Paul School District
Salem School District
Saratoga School District
Scotland School District
Scranton School District
Searcy School District
Sheridan School District
Shirley School District
Siloam Springs School District
Sloan-Hendrix School District
Smackover School District
South Conway Cty School District
So. Mississippi Cty. School District
Southside School District (Batesville)
Southside School District (Bee Branch)
Sparkman School District
Spring Hill School District
Springdale School District
Stamps School District
Star City School District
Stephens School District
Stone County School District
Strong School District
Stuttgart School District
Sulphur Rock School District
Swifton School District
Taylor School District
Texarkana School District
Trumann School District
Turrell School District
Umpire School District
Union County School District
Valley Springs School District
Valley View School District
Van Buren School District
Van-Cove School District
Vilonia School District
Viola School District
Waldo School District
Waldron School District
Walker School District
Walnut Ridge School District
Warren School District
Watson Chapel School District
Weiner School District
West Fork School District
West Memphis School District

## Schedule of Participating Employers (continued)

As of June 30, 2003

West Side School District (Hartman)
West Side School District (Jonesboro)
Western Grove School District
Western Yell Cty. School District
Westside-Craighead School District
Westside-Johnson School District
White Cty. Central School District
White Hall School District
Wickes School District
Wilburn School District
Williford School District
Winslow School District
Witts Springs School District
Wonderview School District
Woodlawn School District
Wynne School District
Yellville-Summitt School District

### BOARD OF EDUCATION

Craighead Cty Board of Education
Hot Springs Cty Board of Education
Logan County Board of Education
Phillips County Board of Education
White County Board of Education

### ED COOPERATIVES

Arch Ford Education Service Coop
AR River Education Cooperative
Boston Mountain Education Coop
CADDO Special Education Coop
Crowley's Ridge Educational Coop
Dawson Education Service Coop
DeQueen/Mena Educational Coop
Great Rivers Cooperative
North Central AR Ed Service Center
Northeast AR Educational Coop
Northwest AR Education Ser Coop
Ozarks Unlimited Resources Coop
South Central Service Coop
Southeast AR Education Ser Coop
Southwest AR Educational Coop
Western AR Migrant Ed Coop
Wilbur D. Mills Ed Service Coop

### VOCATIONAL CENTERS

Camden Vocational Center
Conway Vocational Center
Fayetteville Vocational Center
Jefferson County Vocational Center
Jonesboro Vocational Center
Metropolitan Vocational Center
Monticello Vocational Center
North Central Vocational Center
River Valley Technical Center
Russellville Vocational Center
Texarkana Vocational Center
Warren Vocational Center

### STATE COLLEGES

AR State University-Jonesboro
AR State University-Beebe
AR State University-Mt. Home
AR State University-Newport
AR Tech University
Black River Technical College
Cossatot Community College U of A
East Arkansas Community College
Garland County Community College
Henderson State University
Mid-South Community College
Mississippi Cty Community College
North AR Community/Tech College
North West AR Community College
Ouachita Technical College
Ozarka Technical College
Petit Jean Technical College
Phillips Com. College-DeWitt
Phillips Com. College U of A
Pulaski Technical College
Rich Mountain Community College
South AR Com. College-El Dorado
South AR University Tech-Camden
Southeast AR Technical College
Southern AR University-Magnolia
University of Arkansas-Batesville
University of Arkansas-Fayetteville
University of Arkansas-Fort Smith
University of Arkansas-Hope
University of Arkansas-Little Rock
University of Arkansas-Medical Science
University of Arkansas-Monticello
University of Arkansas-Morrilton

### STATE COLLEGES (cont.)

University of Arkansas-Pine Bluff
University of Central Arkansas

### STATE AGENCIES

Arkansas Valley Technical Institute
AR Activities Association
AR Association Education Admin
AR Dept of Ed-General Education
AR Department of Workforce Ed
AR Dept of Economic Development
AR Education Television Network
AR Rehabilitation Services
AR School Boards Trust
AR School for the Blind
AR School for the Deaf
AR Teacher Retirement System
AR Workforce Investment Board
Cotton Boll Technical Institute
Crowley's Ridge Technical Institute
Department of Corrections
Florence Crittenden Home
Foothills Technical Institute
Forest Echoes Technical Institute
Great Rivers Vocational Tech School
Laidlaw Transportation
North West Technical Institute
Quapaw Technical Institute
Riverside Vocational Tech School

### OTHER

Academics Plus Charter School
Benton County School of Arts
Imboden Area Charter School
KIPP: Delta College Preparatory

### PRIVATIZED

Southern AR Developmental Center

Arkansas
Teacher
Retirement
System

1400 West Third Street • Little Rock, Arkansas 72201 • 501.682.1517 or 1.800.666.2877 • website: atrs.state.ar.us