

AR TEACHER RETIREMENT SYSTEM

Enabling Laws

Act 1488 of 2003
ACA 24-7-101 et. seq.

History and Organization

MISSION

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

As of June 30, 2003, ATRS had 62,432 active members; 20,271 retired members and beneficiaries receiving benefits; 4,032 T-DROP participants; and 6,784 terminated plan members entitled to but not yet receiving benefits. The monthly benefits payroll averaged \$31,956,303. The System had 421 participating employers.

As of June 30, 2003, total assets consisting of employer and employee contributions along with investment assets had risen to over \$7,000,000,000; total assets currently exceed \$9,000,000,000.

The System's appropriations are funded by its trust funds.

HISTORY OF THE AGENCY

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 Act 93 of 1957 was superceded by Act 42 of 1971, which included the changes made since 1957.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

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

Act 504 of 1985 established a non-contributory plan for members of the system in addition to the contributory plan. Members were allowed to elect to be contributory or non-contributory and could change that election one time. Beginning July 1, 1993, the law was amended by Act 435 of 1993 to allow any member to change his/her election concerning member contributions once each fiscal year. Under Act 14 of 1991, effective July 1, 1991, all new members of the Teacher Retirement System automatically became members of the non-contributory plan but could elect to become contributory members prior to the preparation of the first payroll of the fiscal year. Act 435 of 1993, effective July 1, 1993, provided that any former active member who returns to service also automatically becomes a non-contributory member, with the option to become a contributory member, and must make the election in the same manner as a new member. Act 81 of 1999, amended by Act 907 of 1999, provided that new members who enter covered service after July 1, 1999 will be automatically enrolled in the contributory plan. Act 907 also provided that members who were working in a covered position prior to July 1, 2000 must before June 30, 2000 make an irrevocable election to be in either the contributory or non-contributory plan and that this election would remain in effect for the remainder of the member's covered service. In addition, this act provided former active members who entered covered service after June 30, 1999, one year to make an irrevocable election of the contributory or non-contributory plan. In both cases of active and former active members, if no election was made by the prescribed deadline, the member was permanently enrolled in the plan in which he/she was enrolled on the deadline. Act 23 of the Second Extraordinary Session of 2003, as amended by Act 47, provides that effective July 1, 2005 and each July 1 thereafter, active members of ATRS who have previously elected to eliminate members contributions to make an irrevocable election to become contributory. The Acts further mandate that, effective July 1, 2005, any active member whose status changes from nonteacher status to teacher status under contract for 181 days or more shall become contributory. Implementation of Acts 23 and 47 will be dependent upon obtaining a favorable revenue ruling from the IRS.

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

Act 776 of 1979 provided for an alternate benefit formula multiplier of 1.125% of the final average salary times total years of service. Act 435 of 1981 increased the multiplier to 1.4% and Act 127 of 1983 increased it to 1.5% effective July 1, 1983, and to 1.59% effective July 1, 1984. Act 802 of 1987 increased the contributory multiplier of 1.59% to 1.65% effective July 1, 1987, to 1.70% effective July 1, 1988, and to 1.75% effective July 1, 1989. This act also set the multiplier for non-contributory service for the same effective dates at 1.0%, 1.0378%, 1.07% and 1.10% respectively. Act 44 of 1991 increased the 1.75% contributory multiplier to 1.85% effective July 1, 1991, 1.95% effective July 1, 1992, and provided certain financial conditions were met, to 2.05% effective July 1, 1993. This act also set the non-contributory multiplier for the same effective dates at 1.17%, 1.23% and 1.29% respectively. Act 992 of 1997 again increased the contributory multiplier to 2.065% and 1.305% for non-contributory service. Act 396 of 1999 authorized the Board of Trustees to raise the multipliers for contributory and non-contributory service to 2.125% and 1.365% respectively, which was implemented by the Board effective January 1, 2000. On July 1, 2001, the Board of Trustees raised the multipliers for contributory and non-contributory service to 2.15% and 1.39% respectively under the provisions of Act 396 of 1999. Beginning in 1997, ATRS

is prohibited by various statutes from implementing any benefit enhancement if (1) it would cause ATRS' unfunded actuarial accrued liabilities to exceed a thirty-year amortization or (2) ATRS has unfunded actuarial accrued liabilities being amortized over a period exceeding thirty years until the unfunded actuarial accrued liability is reduced.

Act 1096 of 1995 established the Teacher Deferred Retirement Option Plan (T-DROP), which allows members to defer receipt of benefit payments, and to continue to work in a position covered by Teacher Retirement. In order to make T-DROP more cost neutral, Acts 991 and 992 of 2003 made changes in the methods for determining plan contributions for new members in the T-DROP on or after September 1, 2003 and required that employer contributions recommence for members whose effective date in T-DROP is before September 1, 2003.

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

ADMINISTRATION

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

The trustees serve without compensation except reimbursement for any necessary expenses incurred in attending meetings of the Board or in performing other official Board duties as defined by the Board. The Board appoints the Executive Director for the system as well as an actuarial firm to serve as technical advisor on matters regarding the operation of the system on an actuarial basis. The Board has the authority to employ professional investment counsel and to appoint a medical board to advise the Board on disability claims.

The Board meets at least quarterly and must have eight (8) members present for a quorum. At least eight (8) concurring votes are needed to reach a decision.

Agency Commentary

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

benefits that will enhance the quality of life for its members.

A further objective of ATRS is to serve retired members in a manner that recognizes their service to the State while taking into account inflationary effects on fixed retirement incomes. The Teacher Retirement System is administered in a manner that will provide service to the membership and fiscally sound management of the trust fund. The proposed 2005-2007 budget will continue to enable the staff to provide an improved information program and an expanded public presence to ATRS' members. It will enable the System to maintain a more efficient and effective record keeping system, an improved investments/accounting system, an expanded range of counseling services, greater coverage of counseling services outside the Little Rock office, more member-oriented printed brochures and newsletters, and more pre-retirement programs for active members.

BASE LEVEL REQUEST

A Base or Continuing Level budget would not be adequate for the rapid growth of this agency and the increasing level of sophistication of both personnel and systems necessary for its efficient operation. System assets under management now exceed \$9 billion. We continue to implement numerous legislative changes that directly impact members of the System. Listed below are legislative changes made in 2003 that have had, or will have, a direct impact on the system:

Act 340 of 2003; Act 347 of 2003; Act 659 of 2003; Act 853 of 2003; Act 991 of 2003; Act 992 of 2003; Act 1470 of 2003; Act 23 of the 2nd Extraordinary Session, 2003; Act 47 of the 2nd Extraordinary Session, 2003.

What is often misunderstood about pension systems is the growing need for services even if no changes are made in legislatively approved benefits or school employment levels (an unrealistic expectation). To simply deliver the promised benefits to the current 20,271 retirees until they die; meet the pre-retirement needs of the current 73,248 active and inactive members (including T-DROP) and pay them retirement benefits when they retire, and meet the needs of new employees who replace current active members, will require increased resources.

In the next ten years, the assets to be managed must grow from a current 9 billion dollar level to 13 billion. The assets to be managed must grow to a 20 billion dollar level in twenty years, 35 billion in thirty years, 54 billion in 40 years and 78 billion dollars in 50 years if ATRS is to meet its current and projected obligations. Additional staff will be required to manage the growing investment pool.

The System's actuary projects that even if the number of active members remains constant, total membership to be served (actives, current retirees, future retirees, and T-DROP participants) will grow from 85,000 to more than 100,000 in the next ten years. Additional staff will be required to provide services to the growing number of members until 2040-50, when the client base is projected to reach its maximum size.

Benefits to be paid are projected by the agency's actuary to more than double over the next ten years. Additional staff will be required to calculate and administer the growing benefits obligation.

In addressing these staffing issues, a continuing serious concern is our inability to recruit experienced staff in certain areas due to state-imposed salary limits. We are requesting some flexibility in this

area. We have requested special language to help us meet our staffing needs. The agency also contracted with a management-consulting firm in FY04 to conduct a position analysis. As discussed previously, our agency has been understaffed for some time and we have bright, dedicated employees who are woefully underpaid for the services they are contributing to this agency and its members. The position study only reinforced this fact. We are requesting appropriation for the reclassification of 9 supervisor and management positions. A pension agency of our size and complexity must have highly qualified individuals on staff. Per a survey conducted by the Public Pension Coordination Council, a pension fund with an asset base of our size should have a staff size of 97 in order to adequately serve the needs of the System. The agency requests additional appropriation to add 15 new positions to our staff. This would bring our authorized positions for each year to 80. We have requested no change from Base Level for this biennium in Extra Help or Overtime.

The net change for our operations program, excluding salaries requests, is a net decrease of \$(2,629,078) for FY06 and a net decrease of \$(3,052,714) for FY07. Our agency has worked diligently to get our new membership system completed on time and according to contractual deadlines. We are entering the implementation phase of the new member data system in FY05. In the first year of the biennium, we will enjoy the savings that are due to the completion of the agency contract for the building of our new membership system. Because the new system is server based in-house, the expense of operation by a centralized data center will be drastically reduced. We are in dire need of more office space and we have budgeted for the expense of reconfiguring our existing space to accommodate more employees. In our auto pool, we will need to replace three vehicles in FY06 and one in FY07. Our Handbook of Benefits and five of our informational booklets will need to be updated during this period.

As submitted on our Information Technology Plan filed with the Office of Information Technology, our agency will need an appropriation increase of \$ 1,656,194 in FY06 and \$ 1,141,808 in FY07. During this biennium, we must hire very competent professionals to enhance and maintain our new member system. Legislative and policy changes require frequent computer program changes. Our new member system has greatly increased our internal printing needs now that they are not being met by an outside data center. To enable efficient work processes and take full advantage of the speed of our new member system, we need to replace existing older laser printers and to purchase one high-speed centralized printer for our large-scale batch printing jobs. Because the new system will allow remote access, we will purchase laptops and portable printers for our field service counselors who travel around the State. We will be replacing existing computers that are nearing 7 to 8 years of age and are not meeting our performance needs.

We are requesting an increase in appropriation of \$ 5,865,000 in FY06 and an increase in appropriation of \$ 92,185,000 in FY07 for our benefits program. The Change Levels requested reflect the anticipated increase in benefits expense per actuarial projections and agency historical trend analyses. In FY06 we were able to absorb most of our anticipated increase in benefits into the Base Level amount of appropriation carried over from FY05. T-Drop benefit expense will rise dramatically in FY06 and stay up in FY07 due to the 10-year limit of participation being reached for the first time for this plan. This limit requires participants to leave the plan once they complete their 10th year.

Total Base Level for the agency is \$ 663,047,226 in FY06 and \$ 663,129,756 in FY07. The changes

requested represent a \$ 4,214,994 addition to Base Level in FY06 and a \$96,011,882 addition to Base Level in FY07.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2002

Findings	Recommendations
<p>A teacher retirement disability annuitant was overpaid \$3,985 due to inadequate policies and procedures established by benefits and counseling department management for verification of annuities. The Agency collected the overpayment by reducing the annuitant's monthly benefit \$443 for the period October 2002 through June 2003.</p>	<p>Establish policies and procedures for verification of annuities.</p>
<p>Dr. Angelo Coppola, former Deputy Director, erroneously waived interest totaling \$943 on a retiree purchasing military service who was also receiving military retirement benefits. The Agency requested reimbursement of these funds on August 13, 2003. The Agency does not have policies and procedures in place to ensure members who have received free military service credits are not receiving military retirement.</p>	<p>Establish written policies and procedure to ensure consistency in purchase of military service.</p>
<p>On October 8, 2001, the Arkansas Teacher Retirement System paid 2000 real estate taxes on Arkansas State Police property totaling \$81,191. The payment should have been recovered when the Agency closed on the property and transferred title to the Arkansas State Police on March 30, 2002. The Agency did not request reimbursement from Arkansas State Police until it was brought to their attention during the audit. The Agency requested reimbursement on June 4, 2003 and received reimbursement of \$81,191 on July 2, 2003.</p>	<p>Implement policies and procedure to ensure adequate monitoring of all transactions.</p>
<p>The investment department management's failure to establish effective controls over real estate transactions resulted in numerous errors. A review of six (6) of seventeen (17) real estate properties revealed the following:</p> <ul style="list-style-type: none">• Cash balances per Agency's general ledger were not reconciled on a monthly basis to cash balances per building manager• Agency did not properly account for transfers of cash totaling \$191,757• Numerous errors in recording income, expenses and transfers were found in the general ledger and subsidiary ledger• There was no accountability for rental equipment located at Office of Child Support Enforcement totaling \$627,167• Support documentation was not adequate for many journal entries• Real estate investment files in disarray	<p>Provide written policies and procedures, proper supervision and appropriate staff training.</p>
<p>These circumstances indicate inadequate staff training, lack of proper supervision and absence of written policies, which could jeopardize the reliability of the Agency's financial records.</p> <p>Investment department management's inability to properly supervise the recording of alternative investment transactions</p>	<p>Implement proper procedures to ensure that all alternative investment transactions are properly reviewed before being</p>

DIVISION OF LEGISLATIVE AUDIT
 AUDIT OF :
 ARKANSAS TEACHER RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30, 2002

Findings	Recommendations
<p>resulted in thirteen (13) of twenty-three (23) alternative money manager accounts containing numerous errors and resulted in cost of investments being understated by \$12,206,494.</p> <p>The Arkansas Teacher Retirement System contracted with the PrivateEdge Group to provide reports and assistance in accounting and analysis of the Agency's private equity (alternative) investments. The Agency did not utilize the reports supplied by PrivateEdge due to the large number of unreconciled differences between the Agency's records and PrivateEdge.</p> <p>The Agency formed a limited liability corporation, ATRS Recoveries, LLC, to account for the nursing homes, retirement center and office building obtained in a default agreement with Pat Riley, Sr. The investment department management's failure to establish effective controls, develop written policies and procedures and maintain accountability over the investment resulted in the following:</p> <ul style="list-style-type: none"> • Financial reports were not available from the management firm, Healthcare Systems of Arkansas, LLC, on the nursing homes and retirement center for the nine months ended March 31, 2002 • There was not a signed contract with Healthcare Systems of Arkansas, LLC for management services • Agency did not record the financial activity of the nursing homes and retirement center in the general ledger • Activity for the office building was not correctly recorded in the general ledger • Support documentation for cost and market value was inadequate • Journal entries were not adequately documented <p>These problems indicate unqualified staff, inadequate staff training and inadequate supervision by management.</p> <p>Prior year audit adjustments totaling \$7,488,240 were incorrectly recorded as other income instead of adjusting the proper income and expense accounts. Due to lack of proper supervision and follow-up procedures, this situation could jeopardize the validity of the Agency's financial statements.</p>	<p>recorded on the general ledger.</p> <p>Monitor and evaluate the services provided to ensure compliance with the professional services contract.</p> <p>Implement policies and procedures to ensure that all transactions are properly recorded on the general ledger.</p> <p>Implement policies and procedures to ensure that all transactions are properly recorded on the general ledger.</p>

Employment Summary

	Male	Female	Total	%
White Employees	11	32	43	81 %
Black Employees	2	7	9	17 %
Other Racial Minorities	0	1	1	2 %
Total Minorities			10	19%
Total Employees			53	100 %

Cash Fund Balance Description as of June 30, 2004

Fund Account	Balance	Type	Location
3750000	\$0	Wire Transfer	Metropolitan National Bank

Statutory/Other Restrictions on use:

ACA 19-4-801 establishes that the agency can use funds for payments to retired members and their beneficiaries by check or wire transfer.

Statutory Provisions for Fees, Fines, Penalties:

None

Revenue Receipts Cycle:

Monthly

Fund Balance Utilization:

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

Publications

A.C.A 25-1-204

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

Department Appropriation / Program Summary

Appropriation / Program	Historical Data						Agency Request and Executive Recommendation							
	2003-2004		2004-2005		2004-2005		2005-2006				2006-2007			
	Actual	Pos	Budget	Pos	Authorized	Pos	Agency	Pos	Executive	Pos	Agency	Pos	Executive	Pos
0375P01 TERS-Operations/Admin Program	8,872,529	62	21,434,777	65	21,447,277	65	19,897,220	80	18,429,391	65	19,591,638	80	18,312,077	65
0375P02 TERS-Benefit Payments Program	410,529,882	0	641,500,000	0	641,500,000	0	647,365,000	0	647,365,000	0	739,550,000	0	739,550,000	0
Total	419,402,411	62	662,934,777	65	662,947,277	65	667,262,220	80	665,794,391	65	759,141,638	80	757,862,077	65

Funding Sources		%		%		%		%		%		%		
Cash Fund 4000045	324,420,478	77.4	510,000,000	76.9			515,825,000	77.3	515,825,000	77.5	583,000,000	76.8	583,000,000	76.9
Trust Fund 4000050	94,981,933	22.6	152,934,777	23.1			151,437,220	22.7	149,969,391	22.5	176,141,638	23.2	174,862,077	23.1
Total Funds	419,402,411	100.0	662,934,777	100.0			667,262,220	100.0	665,794,391	100.0	759,141,638	100.0	757,862,077	100.0
Excess Appropriation/(Funding)	0		0				0		0		0		0	
Grand Total	419,402,411		662,934,777				667,262,220		665,794,391		759,141,638		757,862,077	

No fund balances are reflected because funds are transferred to the State Treasury as needed to process payments.

Analysis of Budget Request

Appropriation / Program: 0375P01 - TERS-Operations/Admin Program

Funding Sources: TER-Trust

The Administration Program of the Arkansas Teacher Retirement System provides age, service, survivor and disability benefits for public school teachers and other covered employees. The System is managed in such a way as to provide service to the membership while remaining fiscally sound. This program is funded by trust funds of the Teacher Retirement System.

For the fiscal year ending June 30, 2004, ATRS was able to obtain a majority of the measures set forth in their 2003-2007 strategic plan. ATRS is awaiting actuarial data to be able to determine 75% of their measures were achieved.

The Agency is requesting fifteen new positions:

- Associate Director of Operations - Grade 99 (\$87,100 for FY06, \$89,305 for FY07)
- Associate Director of Investments - Grade 99 (\$106,300 for FY06, \$108,800 for FY07)
- Associate Director of Fiscal Affairs - Grade 99 (\$83,000 for FY06, \$85,127 for FY07)
- General Counsel - Grade 99 (\$85,000 for FY06, \$87,165 for FY07)
- Applications Development Specialist - Grade 26 (\$41,641 for FY06, \$42,890 for FY07)
- Fiscal Research Manager - Grade 26 (\$41,641 for FY06, \$42,890 for FY07)
- Manger/Investments - Grade 26 (\$41,641 for FY06, \$42,890 for FY07)
- Computer Applications Manager - Grade 25 (\$39,103 for FY06, \$40,276 for FY07)
- Personnel Supervisor - Grade 23 (\$34,475 for FY06, \$35,509 for FY07)
- Communications/Media Manager - Grade 23 (\$34,475 for FY06, \$35,509 for FY07)
- Accountant II (3) - Grade 19 (\$26,824 for FY06, \$27,628 for FY07)
- Accountant - Grade 18 (\$25,142 for FY06, \$25,896 for FY07)
- Administrative Assistant II - Grade 17 (\$23,428 for FY06, \$24,130 for FY07)

Base Level for this program includes graduated salary increases of 3% to 1.5% each year over FY05 salary levels, along with related Personal Services Matching costs for 65 Base Level positions. This includes a \$600 minimum increase for employees earning \$20,000 or below. Included in Personal Services Matching is a \$40 increase in the monthly contribution for State employee's health insurance for a total State match of \$320 per month.

The Agency's Change Level requests reflect a reduction of \$1,650,006 for FY06 and \$2,038,118 for FY07 and are as follows:

- Salary and associated matching of \$27,289 for FY06 and \$28,082 for FY07 for the reclassification of nine (9) positions
- Salary and associated matching of \$17,912 for FY06 and \$25,529 for FY07 for an Extraordinary Salary Increase
- Salary and associated matching of \$936,871 for FY06 and \$960,985 for FY07 for an additional 15 positions
- Professional Fees/Services net decreases of (\$3,121,360) for FY06 and (\$3,322,206) for FY07.

This includes Technology related changes of \$1,273,544 for FY06 and \$991,948 for FY07 to contract with technical professionals to keep the ATRS member system up to date. To offset that, the Agency is making changes of (\$4,394,904) for FY07 and (\$4,314,154) for FY07 due to the savings from the early completion of the contract for the building of the new membership system

- Capital Outlay increases of \$492,282 for FY06 and \$269,492 for FY07 to reconfigure current office space to accommodate new employees, to replace outdated equipment, to aide with the new membership system, and to replace 4 vehicles in the current auto pool

The Executive Recommendation provides for Base Level with the following exceptions:

- Upgrade of the ATRS Personnel Manager from Grade 20 to Grade 22
- Reclassification of the ATRS Retirement Manager Benefits & Counsel (Grade 23) to ATRS Manager/Member Services (Grade 25)
- Reclassification of the ATRS Personnel Program Manager/Administrative Services (Grade 23) to Agency Controller - Large/Complex Agency (Grade 25)
- Reclassification of the ATRS Retirement Investment Administrator (Grade 23) to ATRS Supervisor/Real Estate (Grade 23)
- Reclassification of an Accountant II (Grade 19) to Investment Manager (Grade 25)
- Decrease of Travel/Conference Fees by \$12,000 for FY06 and \$12,000 for FY07
- Decrease of Professional Fees/Services by \$3,121,360 for FY06 and \$3,322,206 for FY07

Appropriation / Program Summary

Appropriation / Program: 0375P01

Agency Operations Administration

Funding Sources: TER-Trust

Program Description	Program Goals
To provide high quality member services, including education, and counseling to customers (i.e. members, retirees, employers) about the benefit program and other available services; To effectively manage the investment of the assets of the Arkansas Teacher Retirement System (ATRS); To provide administrative and support services for ATRS.	1 To provide our members and retirees with the highest level of benefits, customer service, and timely accurate information.

Objective Code	Name	Description
00EG	Objective 1	To maximize benefit levels and customer satisfaction of members and retirees by providing a high quality benefit through the efficient administration of retirement legislation and the effective allocation and management of fund assets of the Arkansas Teacher Retirement System.
EG00	Objective 1	To maximize benefit levels and customer satisfaction of members and retirees by providing a high quality benefit through the efficient administration of retirement legislation and the effective allocation and management of fund assets of the Arkansas Teacher Retirement System.

Performance Measures

Objective	Key Measures		Type	Description	2004 Target Authorized / Actual	2006 Target	2007 Target
	Exec	Leg					
1			Efficiency	Ensure all participants reported by employers are members of the system and status is correct	95.50%/96%	96.5%	97.0%
1			Output	Number of newsletters per year provided to members	2 newsletters per year/1	4 newsletters per year	4 newsletters per year
1			Effort	Number of Agency proprietary systems administered	3/3	3	3
1	X	X	Efficiency	Administrative cost per active and retired member	\$100/-	100	105
1	X	X	Effort	Percentage of Performance Measures achieved	75%/-	85%	90%
1	X	X	Outcome	Number of prior year findings repeated in subsequent audit.	3/-	3	3
1			Outcome	Number of security and privacy policies promulgated by the State Executive Chief Information Officer implemented in required timeframe.		4	4
1			Outcome	Percentage of investment transactions by external traditional money managers reviewed/reconciled by Agency staff.		100%	100%

Appropriation / Program Summary

Appropriation / Program: 0375P01

Agency Operations Administration

Funding Sources: TER-Trust

Performance Measures

Objective	Key Measures		Type	Description	2004 Target Authorized / Actual	2006 Target	2007 Target
	Exec	Leg					
1			Outcome	Percentage of investments reviewed on a quarterly basis for compliance with asset allocation as set by the Board of Trustees.		100%	100%
1			Output	Site visit to provide counseling sessions for active members of the system	100%/100%	100%	100%
1			Output	Personally present, or videoconference, seminars on related topics	20 seminars per year/32	22 seminars per year	22 seminars per year
1			Efficiency	Applications are processed to make effective annuity payment date	97%/98%	NA	NA
1			Efficiency	Respond to members' request within 5 business days.	97%/-	NA	NA

Appropriation / Program Summary

Appropriation / Program: 0375P01 TERS-Operations/Admin Program

Authorized Program Amount **21,447,277**

Historical Data

Agency Request and Executive Recommendation

Commitment Item		Historical Data		2005-2006			2006-2007		
		2003-2004 Actual	2004-2005 Budget	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	2,020,179	2,287,314	2,353,860	3,111,980	2,365,389	2,422,174	3,209,654	2,434,039
#Positions		62	65	65	80	65	65	80	65
Extra Help	5010001	58,541	105,000	105,000	105,000	105,000	105,000	105,000	105,000
#Extra Help		14	14	14	14	14	14	14	14
Personal Services Matching	5010003	636,079	752,099	798,002	1,018,954	801,998	812,218	1,039,334	816,880
Overtime	5010006	50,600	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Operating Expenses	5020002	2,035,792	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889
Travel-Conference Fees	5050009	16,450	42,759	42,759	42,759	30,759	42,759	42,759	30,759
Professional Fees and Services	5060010	4,027,633	15,112,348	15,112,348	11,990,988	11,990,988	15,112,348	11,790,142	11,790,142
Capital Outlay	5120011	27,255	50,368	50,368	542,650	50,368	50,368	319,860	50,368
Total		8,872,529	21,434,777	21,547,226	19,897,220	18,429,391	21,629,756	19,591,638	18,312,077

Funding Sources									
Trust Fund	4000050	8,872,529	21,434,777	21,547,226	19,897,220	18,429,391	21,629,756	19,591,638	18,312,077
Total Funding		8,872,529	21,434,777	21,547,226	19,897,220	18,429,391	21,629,756	19,591,638	18,312,077
Excess Appro/(Funding)		0	0	0	0	0	0	0	0
Grand Total		8,872,529	21,434,777	21,547,226	19,897,220	18,429,391	21,629,756	19,591,638	18,312,077

No fund balances are reflected because funds are transferred to the State Treasury as needed to process payments.

Objective Summary

Objective: 00EG Administration Program-Objective 1

Description: To maximize benefit levels and customer satisfaction of members and retirees by providing a high quality benefit through the efficient administration of retirement legislation and the effective allocation and management of fund assets of the Arkansas Teacher Retirement System.

Commitment Item	Historical Data		Agency Request and Executive Recommendation					
	2003-2004 Actual	2004-2005 Budget	2005-2006			2006-2007		
			Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	2,020,179	2,287,314	2,353,860	3,111,980	2,365,389	2,422,174	3,209,654	2,434,039
#Positions	62	65	65	80	65	65	80	65
Extra Help 5010001	58,541	105,000	105,000	105,000	105,000	105,000	105,000	105,000
#Extra Help	14	14	14	14	14	14	14	14
Personal Services Matching 5010003	636,079	752,099	798,002	1,018,954	801,998	812,218	1,039,334	816,880
Overtime 5010006	50,600	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Operating Expenses 5020002	2,035,792	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889	2,934,889
Travel-Conference Fees 5050009	16,450	42,759	42,759	42,759	30,759	42,759	42,759	30,759
Professional Fees and Services 5060010	4,027,633	15,112,348	15,112,348	11,990,988	11,990,988	15,112,348	11,790,142	11,790,142
Capital Outlay 5120011	27,255	50,368	50,368	542,650	50,368	50,368	319,860	50,368
Objective Total	8,872,529	21,434,777	21,547,226	19,897,220	18,429,391	21,629,756	19,591,638	18,312,077

Analysis of Budget Request

Appropriation / Program: 0375P02 - TERS-Benefit Payments Program

Funding Sources: TER-Trust, Other Funds

The Benefit Payments Program of the Teacher Retirement System provides for the accurate, timely payment of benefits/payouts to retired members/eligible beneficiaries and refunds to active/inactive members and employers.

For the Fiscal Year ending June 30, 2004, the Agency was able to meet or come close to the two measures set forth in the 2003-07 Strategic Plan. The annual target for the percent of member earnings, service and contributions recorded correctly in the membership database is 95.5%. The Agency was able to obtain 96%. The annual target for the percent of final payments made to retirees, or beneficiaries, by requested date, or within 30 days of receipt of documentation is 98.5%. The Agency was able to obtain 98%.

Change level requests for the Benefit Payments program include:

- Benefits increase of \$5,100,000 for FY06 and \$97,000,000 for FY07. This is due to appropriation levels needed for the Teacher Deferred Retirement Option Plan (T-DROP)
- Refund increase of \$765,000 for FY06 and \$1,050,000 for FY07. This is due to appropriation levels needed for T-DROP employer matching and the withholding of federal taxes on active member refunds.

The Executive Recommendation provides for Agency Request.

Appropriation / Program Summary

Appropriation / Program: 0375P02 Benefit Payments

Funding Sources: TER-Trust, Other Funds

Program Description	Program Goals	
To provide accurate and timely benefit payments to retired members or beneficiaries and refunds to active/inactive members or employers of the Arkansas Teacher Retirement System (ATRS).	1	To provide for the accurate, timely payment of benefits/payouts to retired members/eligible beneficiaries and refunds to active/inactive members and employers.

Objective Code	Name	Description
01EG	Objective 1	To produce accurate and timely benefit payments for retired members or beneficiaries via Automated Clearing House (ACH) payment methodologies and to produce accurate and timely benefit payments/payouts for retired or beneficiaries and refunds to active/inactive members and employers via the Arkansas State Treasury by administering and maintaining the integrity of the Arkansas Teacher Retirement System membership database.

Performance Measures

Objective	Key Measures		Type	Description	2004 Target Authorized / Actual	2006 Target	2007 Target
	Exec	Leg					
1	X	X	Outcome	Percent of member earnings, service and contributions recorded correctly in the membership database.	95.50%/96%	96.5%	97.0%
1	X	X	Outcome	Percent of initial payments made to retirees, or beneficiaries, by requested date, or within 30 days of receipt of required documentation.	98.50%/98%	80%	96%

Appropriation / Program Summary

Appropriation / Program: 0375P02 TERS-Benefit Payments Program

Authorized Program Amount **641,500,000**

Historical Data

Agency Request and Executive Recommendation

Commitment Item		2003-2004	2004-2005	2005-2006			2006-2007		
		Actual	Budget	Base Level	Agency	Executive	Base Level	Agency	Executive
Benefits-Non-Emp.	5100023	407,174,020	635,000,000	635,000,000	640,100,000	640,100,000	635,000,000	732,000,000	732,000,000
Refund/Reimbursements	5110014	3,355,862	6,500,000	6,500,000	7,265,000	7,265,000	6,500,000	7,550,000	7,550,000
Total		410,529,882	641,500,000	641,500,000	647,365,000	647,365,000	641,500,000	739,550,000	739,550,000

Funding Sources									
Cash Fund	4000045	324,420,478	510,000,000	510,000,000	515,825,000	515,825,000	510,000,000	583,000,000	583,000,000
Trust Fund	4000050	86,109,404	131,500,000	131,500,000	131,540,000	131,540,000	131,500,000	156,550,000	156,550,000
Total Funding		410,529,882	641,500,000	641,500,000	647,365,000	647,365,000	641,500,000	739,550,000	739,550,000
Excess Appro/(Funding)		0	0	0	0	0	0	0	0
Grand Total		410,529,882	641,500,000	641,500,000	647,365,000	647,365,000	641,500,000	739,550,000	739,550,000

No fund balances are reflected because funds are transferred to the State Treasury as needed to process payments.

Objective Summary

Objective: 01EG Benefit Program-Objective 1-Treasury

Description: To produce accurate and timely benefit payments for retired members or beneficiaries via Automated Clearing House (ACH) payment methodologies and to produce accurate and timely benefit payments/payouts for retired or beneficiaries and refunds to active/inactive members and employers via the Arkansas State Treasury by administering and maintaining the integrity of the Arkansas Teacher Retirement System membership database.

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2003-2004	2004-2005	2005-2006			2006-2007		
	Actual	Budget	Base Level	Agency	Executive	Base Level	Agency	Executive
Benefits-Non-Emp. 5100023	82,753,541	125,000,000	125,000,000	125,000,000	125,000,000	125,000,000	150,000,000	150,000,000
Refund/Reimbursements 5110014	3,355,862	6,500,000	6,500,000	6,540,000	6,540,000	6,500,000	6,550,000	6,550,000
Objective Total	86,109,403	131,500,000	131,500,000	131,540,000	131,540,000	131,500,000	156,550,000	156,550,000

Objective Summary

Objective: EG00 Benefit Program-Objective 1-Cash

Description: To maximize benefit levels and customer satisfaction of members and retirees by providing a high quality benefit through the efficient administration of retirement legislation and the effective allocation and management of fund assets of the Arkansas Teacher Retirement System.

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2003-2004	2004-2005	2005-2006			2006-2007		
	Actual	Budget	Base Level	Agency	Executive	Base Level	Agency	Executive
Benefits-Non-Emp. 5100023	324,420,479	510,000,000	510,000,000	515,100,000	515,100,000	510,000,000	582,000,000	582,000,000
Refund/Reimbursements 5110014	0	0	0	725,000	725,000	0	1,000,000	1,000,000
Objective Total	324,420,479	510,000,000	510,000,000	515,825,000	515,825,000	510,000,000	583,000,000	583,000,000