

ATRS Executive Director Update

August 17, 2010

As a new school year begins, the ATRS staff felt that an Executive Director Update on the trust fund and a few general issues might be helpful. ATRS staff wishes all ATRS employers a very successful new school year.

Fund Valuation Underway

ATRS continues to compile final financial results for the fiscal year that ended June 30, 2010. Some assets like real estate and private equity holdings take a while to value. The ATRS actuarial valuation will be based upon the value of the ATRS trust fund as of June 30, 2010. Remember, the ATRS trust fund belongs to the members of ATRS to pay current and future benefits that are earned by the members. The ATRS Board and ATRS staff work to obtain quality returns to ensure the financial strength and stability of the trust fund to pay the benefits earned by the members.

On June 30, 2009, the final valuation of the ATRS trust fund was just about \$8.8 billion dollars on an actual basis and \$10.6 billion on an actuarial basis. ATRS staff believes the final result for the actual value of the trust fund on June 30, 2010, will be approximately \$9.8 billion dollars. This means that ATRS likely grew in value by \$1 billion dollars in addition to having paid out close to \$200 million dollars from the trust fund to pay retirement benefits for 2009-2010. Therefore, the likely total return from the trust fund during the year was around \$1.2 billion dollars.

Based upon the expected value, it is expected that the amortization period to pay off all the unfunded liabilities of ATRS will increase from the 45-year period that existed as of June 30, 2009, to a longer amortization period. An amortization period over 60 years would not be a surprise. This is partly due to the smoothing of losses and gains over a 4-year period. Since two prior years had significant losses, those losses dampened the overall actuarial status of the fund this fiscal year.

ATRS is well positioned with its mix of global and domestic stocks, fixed income investments, real estate holdings, alternative assets, and private equity holdings to have a quality return from a well-diversified portfolio. ATRS remains focused upon finding the best managers and structuring investments to have quality returns with lower costs. The ATRS consultants have done an excellent job of assisting the ATRS Board in making quality choices to position ATRS to have greater opportunities at lower risk. ATRS, as a trust fund, remains strong and will

continue to take any required action to maintain the financial strength and stability of the fund.

Administrative Notes

Address Changes

If you have moved recently and not updated your new address with ATRS, please take a few minutes to contact ATRS for a form to provide your current address. The membership change of name form can also be found on the ATRS website at: www.artrs.gov. ATRS strives to keep addresses current. In large mailings, ATRS has a significant amount of returned mail that ATRS attempts to process to obtain correct addresses. You may fail to receive important information on a timely basis if you do not keep your mailing address current with ATRS. At the beginning of the school year, several of you may have moved over the summer. Please double check and update your address if it has changed.

Contributory Election

If you are currently non-contributory and would like to be contributory and have not received any income from your school district since July 1, 2010, you may still have time to make an irrevocable election to become contributory. Once you have received any pay in the current fiscal year as a noncontributory member, then your election will not become effective until the beginning of the next fiscal year (July 1, 2011). If you would like more information on whether you can still make the election to be contributory this fiscal year, you can contact ATRS for more information.

Failure to Terminate

Since the July 1, 2010, retirement season, several members have inquired about what the separation period for termination requires. Unfortunately some did not inquire and had a violation. ATRS had to cancel the retirements of some members who attempted to retire on July 1, 2010, but failed to complete the separation period before establishing a new employment relationship with an ATRS employer.

The reason for the 180-day separation period is to prevent an "in-service distribution" that is prohibited by the IRS. ATRS had adopted a longer separation period to comply with IRS guidelines that are being implemented for public pension plans. ATRS is required to comply with these guidelines for separation in order to maintain its tax-qualified status. The guidelines apply to any employment by an ATRS employer.

This means that a full time employee at a school district cannot retire and work part time for the school district during the termination period. The regulation also prohibits a retiree in the termination period from providing **any** compensable

services to the ATRS employer. If you have any questions about an action you are considering, please call ATRS for clarification before you act. ATRS would much rather provide guidance before a problem exists.

Potential New Options for T-DROP Participants

ATRS staff has presented the ATRS Board with some proposals for potential T-DROP changes for the next legislative session that begins in January. Such changes would typically become effective on July 1, 2011. Under current law, when a member exits T-DROP, the member has three options. The first option is to have the entire T-DROP balance paid over the member's life by ATRS as a supplement to their regular monthly annuity. This is called an "annuitized benefit." The second option is for the member to take the entire T-DROP balance in a check from ATRS, which makes the entire balance immediately taxable. The third option is for the member to have the entire balance transferred to another qualified retirement administrator.

The proposal being considered is to allow a mix of these options. In addition to the current options, a T-DROP member exiting the plan could divide the TDROP distribution between ATRS and another plan administrator. If adopted, a member may decide to annuitize 25%, 50% or 75% with ATRS and have the remaining balance transferred to another administrator or paid directly. This may provide the member more options to make the best retirement planning decision for their particular circumstance.

Post 10 Year T-DROP Interest Helps Members

Remember, many post 10-year T-DROP participants are now enjoying 6% on their T-DROP balance this fiscal year since they have decided to work another year without retiring. The ATRS Board, by regulation, established a post 10-year T-DROP interest plan for members who had completed ten years in T-DROP but were not ready to retire. This plan allows the member to continue working without retiring and obtain an interest rate between 4% and 6% on their T-DROP balance at the end of each fiscal year until they do retire. The interest rate in the current fiscal year is 6%.

ATRS Is Here To Serve You

As a new school year begins, ATRS staff stands ready to assist members in answering questions and providing assistance. If ATRS staff can be of service to you, please do not hesitate to call or come by. Remember, ATRS is open between 8:00 a.m. to 4:30 p.m. every week day and counselors are available at all times during these hours to provide assistance when a member either calls, schedules an appointment or drops in at ATRS for assistance. The contact numbers are, within the Little Rock area: 501-682-1517; and outside the Little Rock area: 800-666-2877. The general information email is: info@artrs.gov or

you can call me on my direct line at (501) 682-1820 or my cell (501) 318-5998, or email me at georgeh@artrs.gov. In addition, if you use Twitter, you can follow events by finding the Twitter ID of ATRS or find George Hopkins in the Twitter directory. On Twitter, you will have access to day-to-day updates on ATRS happenings.