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Senate Bill 72

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 92nd General Assembly

Provisions of the Bill

Senate Bill 72 affects the Arkansas Local Police and Fire Retirement System (LOPFI). This bill contains a group of changes that have been recommended by the LOPFI board.

Sections 1 and 2 of Senate Bill 72 deal with certain additional service that can be granted to members. Section 1 changes current law so that an employer cannot add periods of employment to a member's record for service before the adoption of LOPFI coverage. Section 2 would limit the amount of simultaneous service credit. Current law has no limit on this type of credit. This credit is earned when a member, for example, is a paid police officer in one city and simultaneously a volunteer firefighter in a neighboring community. There is no limit in current law - the member in the example could have unreduced retirement with 28 years of service credit after 14 years in the stated situation. Senate Bill 72 will limit this credit to five years and only after vesting.

Section 3 of Senate Bill 72 deals with other recognized service. Current law allows a member to have recognized service for time as a police officer or firefighter at a department not covered by LOPFI or one of the reciprocal systems. This recognized service is not capped or funded by member or employer contributions. This change will remove this recognized service after April 1, 2019. All existing recognized service will remain in place.

Sections 4 through 7 deals with the administration of duty and non-duty disability retirement. Disability must occur during active service. Current law allows application of benefits to occur up to one year after leaving active employment. Senate Bill 72 requires that the initial application to be made within 30 days after leaving active employment and adjusts the disability start date language accordingly.

Section 8 deals with deferred vested benefits after termination. Current law provides that the benefit that is deferred is based on the Final Average Pay at the time of termination increased by one-half of the CPI for the period from termination until benefit commencement. Senate Bill 72 would base the benefit on the Final Average Pay at termination without adjustment. This would be consistent with the other Arkansas public systems.

Fiscal Impact

The primary cost effects on the current LOPFI valuation is in Section 8. The other sections will be discussed below. The change in this section to the vested terminated benefits will reduce the Unfunded Actuarial Accrued Liability (UAL) and the Normal Cost going forward for active members. The fiscal impact is detailed in this table:

	Current Provisions	Results of SB 72	Impact
Actuarial Accrued Liabilities	$2,317.3	$2,294.9	$(22.4)
Paid LOPFI members only (in millions)			
Actuarial Value of Assets	1,774.2	1,774.2	
Unfunded Actuarial Accrued Liability	$ 543.1	$ 520.7	$(22.4)
Amortization Period	17	17	0
Funded Ratio	76.6%	77.3%	0.7%
Employer Contribution Rate			
Employer Normal Cost	9.64%	9.01%	(0.63)%
Payoff of UAL	12.80%	12.27%	(0.53)%
Total Employer Rate	22.44%	21.28%	(1.16)%

The various service issues of Sections 1, 2 and 3 are not directly valued in the valuation, but they give rise to actuarial losses when members use these provision to begin benefits early. There is not as much cost when they use the credit to increase their benefit but retire in a normal pattern. For each year that benefits begin early due to this credit, the value of the benefits increase by just over 10%. Based on information from LOPFI, 989 of the 6,651 active paid members (14.8%) have some simultaneous service credit. The number of members with simultaneous service has increased from 735 to 989 in the past five years.

In addition, there are 521 members that have other recognized service as described in Section 3. This has two cost factors; First, the member or employer do not directly pay for this credit; Second, early retirement as described in the previous paragraph.

Because of the nature of these credits as described, the reduction in cost will develop over several years. We estimate that the savings could be as much as 0.50% of payroll reduction in employer contribution when this is fully developed. The changes in disability provisions appear to be administrative and should not increase or decrease the number of disability claims.

Sincerely,

Jody Carreiro

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Actuary