

## **Title 24. Retirement and Pensions**

### **Chapter V. Arkansas Fire and Police Pension Review Board**

#### **Subchapter A. Generally**

#### **Part 20. Arkansas Fire and Police Pension Review Board Rules**

##### **Subpart 1. General Provisions**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #1 Adopted: April 17, 1985

Amended: May 30, 1985

Amended: September 4, 1986

Amended: May 21, 1987

Amended: December 14, 1990

Amended: June 29, 1999

Amended: March 21, 2007

Amended: September 7, 2011"

#### **24 CAR § 20-101. Description of the board — Method of operation — Methods for public access to the information — Election of chair.**

(a)(1) The Arkansas Fire and Police Pension Review Board was established by Acts 1983, No. 381.

(2) Its legal charge is to enforce:

(A) Arkansas laws which govern funding of local police and fire pension funds (local plans) which were established by Acts 1937, No. 250, and Acts 1921, No. 491, respectively; and

(B) The proper legal level of benefit payments from these local plans.

(3) The law also charges the board with approving the decisions of staff, who certify the proper action to be taken on benefit increase requests for local plans.

(b)(1) The board has nine (9) voting members.

(2) Employers have three (3) representatives, each employee group has two (2) representatives, the public has one (1) representative, and the Secretary of the Department of Finance and Administration sits ex officio.

(3) The board members are appointed by the Governor and hold terms which are set by law.

(4) The board:

(A) Must meet once a year; and

(B) May call other regular and special meetings at its discretion.

(c)(1) In or after July of each odd-numbered year, the voting members of the board shall elect from among their number a chair of the board and a vice chair to move up to chair of the board.

(2) The vice chair will serve in the absence of the chair and/or in the event the member holding the position of chair leaves the board prior to the expiration of his or her term.

(3) However, the period a member may serve as vice chair will not apply towards the stated term limitation in the event that member is elected to the position of chair.

(4) Beginning with the July 2007 election cycle, a member will be limited to one (1) term as chair.

(5) The rotation of the chair position shall begin with the Arkansas Municipal League representatives, followed by the police representatives, followed by the public representative, and then the firefighter representatives.

(6) In the event a representative group does not wish to serve as chair, then the rotation shall move to the next representative group.

(d) The law designates the Executive Director of the Arkansas Fire and Police Pension Review Board and staff of the Arkansas Local Police and Fire Retirement System to serve as director and staff for the board.

(e) The board is authorized to make rules necessary to enforce the laws governing funding and benefit levels, and to withhold premium tax turnback from the local plans and their sponsoring locations when noncompliance with such laws is determined.

(f)(1) The press is notified of each board meeting, which is open to the public.

(2) The public may review the records of the board at its offices located at 620 W. 3rd Street, Suite 200, Little Rock, Arkansas, 72201-2223.

(3) Office hours are Monday through Friday from 8:30 a.m. – 4:30 p.m.

(g)(1) Public records may be copied in the office, but charges not to exceed fifty cents (50¢) per page may be charged to defray the cost of copying large volumes of pages.

(2) Any interested party will be afforded access to the public files, but such persons are asked to contact the executive director first at (501) 682-1745 so that a mutually convenient time may be arranged and office operations will not be disrupted.

**Authority.** Arkansas Code § 24-11-203.

#### **24 CAR § 20-102. Actuarial cost studies for legislative proposals.**

The Executive Director of the Arkansas Fire and Police Pension Review Board will not pay for actuarial costing of proposed legislation without prior approval of the Arkansas Fire and Police Pension Review Board.

**Authority.** Arkansas Code § 24-11-203.

#### **24 CAR § 20-103. Actuarial cost studies for depository insurance recoveries.**

Local plans will be responsible for charges incurred for actuarial services required to recover pension fund assets from depository insurance corporations.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 2. Procedure for Increasing Benefits from Local Plans**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of

Arkansas Rules provided as follows:

"PRB RULE #2 Adopted: April 17, 1985

Amended: May 21, 1987

Amended: December 7, 1994

Amended: December 3, 1997

Amended: September 10, 2004

Amended: September 7, 2011"

**24 CAR § 20-201. Procedure for increasing benefits from local plans generally.**

(a)(1) There are two (2) methods by which a local plan may increase benefits to its members.

(2) The first is by legislation which mandates an increase.

(3) The second is by securing an actuarial valuation which demonstrates that a pension fund can support the cost of the increased benefit over a defined period of years.

(b) Local plans are required by law to process all benefit increase requests through the Arkansas Fire and Police Pension Review Board.

(c) If a local board of trustees wishes to process a benefit increase through the Arkansas Fire and Police Pension Review Board, the following procedure must be used:

(1)(A) The local board of trustees must adopt a resolution to raise benefits to the new amount.

(B) The resolution must be signed by three-quarters (3/4) of the membership of the local board (at least six (6) of seven (7) trustees must sign).

(C)(i) A certified copy of the minutes of the local board meeting at which the resolution was adopted must accompany the resolution.

(ii) The minutes must reflect who voted for the benefit increase resolution and who voted against it.

(iii) The certification shall be by the Executive Director of the

Arkansas Fire and Police Pension Review Board;

(2)(A) The resolution must state how much the increase would be and to whom it would apply:

- (i) Current retirants only;
- (ii) Future retirants only;
- (iii) Current and future retirants;
- (iv) Current surviving spouses and/or children;
- (v) Future surviving spouses and/or children; or
- (vi) Current and future surviving spouses.

(B) Police pension funds may include dependent parents;

(3) The completed resolution should be mailed to:

Arkansas Fire and Police Pension Review Board  
620 W. 3rd Street, Suite 200  
Little Rock, AR 72201-2223

(4)(A) A determination will be made by Arkansas Fire and Police Pension Review Board staff that, based on all available financial information on the fund, the benefit increase request should be processed.

(B) The pension fund will be invoiced for the actuarial valuation and the pension fund should return a check promptly for that amount to the above address.

(C) No actuarial work will be processed until payment is received;

(5) Once the check has been received, it will be submitted to the actuary who will begin work on the benefit increase valuation;

(6)(A) When the valuation results are received, the executive director shall certify to the local board whether or not the increased benefit can be given.

(B)(i) If denied, the local board may appeal the findings of the staff to the Arkansas Fire and Police Pension Review Board, upon a written request to do so.

(ii) Benefit increases which are approved must also be accepted by the Arkansas Fire and Police Pension Review Board.

(C) The executive director may make benefit increases retroactive to the date of the local board resolution requesting the increase, or to a later date, depending on the circumstances of the increase; and

(7) When an increase is granted, a copy of the resolution, actuarial valuation, and executive director's certification must be filed by the local board of trustees with the circuit and city clerks of the county and city in which the local plan is located.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 3. Annual Disclosures of the Financial Activities of Local Plans**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #3 Adopted: April 17, 1985

Amended: September 28, 1999

Amended: December 12, 2000

Amended: September 7, 2011"

#### **24 CAR § 20-301. Annual disclosures of the financial activities of local plans generally.**

(a) Pursuant to Acts 1979, No. 700, as amended, each local plan is required annually to compile a financial report of the local plan.

(b) These annual financial reports must be filed with the Arkansas Fire and Police Pension Review Board.

(c)(1) Financial reports, including the required personnel data, shall be filed with the Arkansas Fire and Police Pension Review Board no later than March 31 of each year for the previous calendar year.

(2) The Executive Director of the Arkansas Fire and Police Pension Review Board may extend this date in writing, but in no case will this date be extended beyond

May 15.

(3) The failure of a local plan to submit this information by this date may result in the loss of premium tax allocations to the local plan and the location sponsoring the local plan as described in 24 CAR § 20-1201 et seq.

(d) Financial reports will be made in the manner and format supplied by the Arkansas Fire and Police Pension Review Board.

(e) Each financial report shall include at least the following:

(1)(A) The local plan's revenues and expenditures during the year.

(B) The revenues exhibit shall allow at least the annual total for each of the following items:

(i) Employee contributions;

(ii) Employer contributions from state;

(iii) Employer contributions, other;

(iv) Investment income:

(a) Interest and dividends;

(b) Gain or loss on sales;

(c) Other (specify); and

(d) The total of subdivisions (e)(1)(B)(iv)(a) – (c) of this section;

(v) Other (specify); and

(vi) The total of subdivisions (e)(1)(B)(i) – (v) of this section.

(C) The expenditures exhibit shall show at least the annual total for each of the following items:

(i) Refunds of employee contributions;

(ii) Benefits paid;

(iii) Administrative expenses;

(iv) Other (specify); and

(v) The total of subdivisions (e)(1)(C)(i) – (iv) of this section.

(D) The difference between revenues and expenditures is the change in plan reserve assets for the year;

(2)(A) The plan reserve assets exhibit at year-end shall show at least the total

for each of the following items:

- (i) Cash and bank checking account (noninterest bearing);
- (ii) Bank deposits, interest earning;
- (iii) Savings and loan deposits, interest earning;
- (iv) Other cash equivalents, maturing one (1) year or less;
- (v) United States Government securities;
- (vi) Mortgages;
- (vii) Corporate bonds;
- (viii) Corporate common stock;
- (ix) Other (specify); and
- (x) The total of subdivisions (e)(2)(A)(i) – (ix) of this section.

(B) The asset values shall be cost values or amortized cost values.

(C) If corporate common stock is held, there shall also be shown separately the year-end market value of such stock;

(3) The accumulated employee contributions at year end of all nonretired covered employees;

(4)(A) The chair of the local board of trustees shall certify that all information contained in the report is an accurate reflection of the financial activities of the local plan.

(B) The Arkansas Fire and Police Pension Review Board may add additional certifications as part of the annual financial report; and

(5)(A) The staff of the Arkansas Fire and Police Pension Review Board may:

(i) Refuse to accept financial reports in which the reported balances do not reconcile or which are incomplete; and

(ii) Require the local plan to submit corrected or new reports.

(B) A local plan will not be shown as having reported for the year until an adequate report has been accepted by Arkansas Fire and Police Pension Review Board staff.

(C) Staff refusal to accept inadequate or incorrect reports will be subject to review by the Arkansas Fire and Police Pension Review Board if requested in writing

by the local plan.

**Authority.** Arkansas Code § 24-11-203.

#### **Subpart 4. Definition of Actuarial Soundness**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #4 Adopted: May 30, 1985

Amended: July 18, 1995

Amended: September 10, 1997

Amended: September 10, 2004

Amended: June 12, 2007

Amended: September 7, 2011"

#### **24 CAR § 20-401. Definition of actuarial soundness generally.**

(a) Under law, the financial objectives of the local plans shall be to establish and receive contributions which:

- (1) Will remain approximately level from year to year; and
- (2) Will not have to be increased for future generations of citizens.

(b) The law specifies that this objective is achieved when contributions received each year by a local plan are sufficient both:

- (1) To fully cover the costs of benefit commitments being made to employees for their service being rendered in such year; and
- (2) To 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.

(c) The financial objectives discussed above must be met in order for a local plan to be considered actuarially sound.

(d) All computations of actuarial condition shall be based upon assumptions of future financial experiences and funding methods which are either established by or approved by the Arkansas Fire and Police Pension Review Board.

(e) From the date of the adoption of this part, the tests described below shall be used to evaluate benefit increase requests from the local plans and to determine if pension recipients are eligible for benefits mandated by law for local plans which are actuarially sound.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-402. Conditions to become actuarially sound.**

A local plan that is designated as actuarially sound must meet one (1) of the following conditions:

- (1) The contribution test and the short condition test;
- (2) The contribution test and the funded percentage test;
- (3) Cash flow projection valuation; or
- (4) Alternate cash flow projection valuation.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-403. Contribution test.**

(a) The contributions made to the local plan must be equal to or more than the actuarially computed contributions to pay for the local plan's proposed total benefits.

(b) Such computed contributions shall consist of the following items:

- (1) Normal cost; and
- (2) An amortization of unfunded accrued liabilities over a period of future years as defined in the table below.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-404. Short condition test.**

The local plan’s current assets (cash and investments) must be sufficient to cover:

- (1) Active member contributions on deposit;
- (2) The proposed total liabilities for future benefits to present retired lives and inactive members; and
- (3)(A) A portion of the proposed total liabilities for service already rendered by active members.
- (B) The portion is defined in the table below.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-405. Funded percentage test.**

- (a) The local plan’s current assets (cash and investments) must be sufficient to cover a portion of the proposed total liabilities of all participants of the local plan.
- (b) The portion is defined in the table below.

<u>Testing Dates as of December 31</u>	<u>Amortization of Unfunded Active Liabilities</u>	<u>Amortization of Unfunded Retiree Liabilities</u>	<u>Active Liability-Short Condition Test</u>	<u>Funded Percent age Test</u>
1994	18	9	55%	82%
1995	16	8	60%	84%
1996	14	7	65%	86%
1997	12	6	70%	88%
1998	10	5	75%	90%
1999	9	5	80%	92%
2000	8	5	85%	94%
2001	7	5	90%	95%
2002	6	5	95%	96%

2003 & 5 5 100% 97%  
after

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-406. Cash flow projection valuation.**

(a) If the local plan has fifty (50) or more participants, the local plan may show actuarial soundness using a cash flow projection valuation.

(b) This valuation will project the assets, future income, and future benefit obligations of the local plan.

(c) The assumptions used in this valuation shall be based upon the same assumptions used by the Arkansas Fire and Police Pension Review Board for regularly scheduled valuations.

(d) The cash flow projection valuation must show that the current assets projected with future income will always be sufficient to cover all benefit obligations.

(e) A cash flow projection valuation is not required to be done on a regular basis, but will only be completed when requested by the local plan and at the expense of the local plan.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-407. Alternate cash flow projection valuation.**

(a)(1) If a local plan has less than fifty (50) participants, the local plan may show actuarial soundness using an alternate cash flow projection valuation as defined in this section.

(2) This valuation will project the assets, future income, and future benefit obligations of the local plan.

(3) The assumptions used for an alternate cash flow projection valuation will not necessarily be the same assumptions used by the Arkansas Fire and Police Pension

Review Board for regularly scheduled valuations because of the small number of fund participants.

(4) The alternate cash flow projection valuation must show that the current assets projected with future income will always be sufficient to cover all benefit obligations.

(5) An alternate cash flow projection valuation is not required to be done on a regular basis, but will be completed when requested by the local plan and at the expense of the local plan.

(b) For a local plan to be able to use the alternate cash flow projection valuation, it must also meet the following conditions:

(1) The local plan uses an Arkansas Fire and Police Pension Review Board-recognized investment management and trust arrangement; and

(2) The local pension board, as well as the local city council, must certify to the Arkansas Fire and Police Pension Review Board that they understand the risks involved in using a cash flow model for a small group.

(c) An investment management and trust arrangement will be a recognized investment management and trust arrangement by the Arkansas Fire and Police Pension Review Board if it contains the following independent and separately accountable components:

(1) Investment advisory and reporting including, but not limited to:  
(A) Pension plan prudent asset allocation advice;  
(B) Choosing independent investment managers or funds; and  
(C) Reporting the results of the investment managers versus their benchmark at least quarterly;

(2) Investment management including, but not limited to:  
(A) Investing plan assets on a plan-specific basis which pertains to the stated asset allocation designated by the local pension board with the assistance of the investment advisor; and

(B) Regular reporting of results through the recognized investment management and trust arrangement; and

- (3) Trust, custodial, and administrative services including, but not limited to:
- (A) Trust and/or custodian agreement with an independent trustee and/or custodian; and
  - (B) Year-end plan financial reporting to the Arkansas Fire and Police Pension Review Board.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 5. Benefit Levels and Annual Financial Disclosure**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #5 Adopted: April 17, 1985

Amended: June 9, 2009

Amended: September 7, 2011"

#### **24 CAR § 20-501. Benefit levels and annual financial disclosure generally.**

Pursuant to law, the Arkansas Fire and Police Pension Review Board is required to withhold premium tax turnback to local plans and their sponsoring locations, as described in 24 CAR § 20-1201 et seq., that are found to be in noncompliance with laws governing benefit levels and annual financial disclosures.

**Authority.** Arkansas Code § 24-11-203.

#### **24 CAR § 20-502. For benefit payments that are too low.**

(a)(1) Arkansas Fire and Police Pension Review Board staff shall notify the local plan in writing of its noncompliance and shall inform the local board of the proper benefit levels to be paid.

(2) Staff will ask the local board to increase payments to underpaid recipients

or, if applicable, to file a proper written notice of prorating with the Arkansas Fire and Police Pension Review Board.

(b)(1) The local board shall submit a copy of the minutes of the board meeting at which the increase was made or the decision to prorate benefits was adopted.

(2) The local board shall take this action within six (6) weeks of notification of noncompliance or request in writing a review by the Arkansas Fire and Police Pension Review Board of staff findings.

(3) This notice must be filed within the same six-week timeframe.

(c) Back payments for underpaid benefits shall be left to the discretion of the local board and its legal counsel.

(d)(1) Any local board which disagrees with the findings of staff regarding the correct level of benefit payments may request, in writing, a hearing before the Arkansas Fire and Police Pension Review Board.

(2) The Arkansas Fire and Police Pension Review Board shall schedule the hearing during its next regular meeting but may delay the hearing to a later meeting if requested in writing by the local board.

(e) Premium tax turnback to the local plan and the sponsoring location, as described in 24 CAR § 20-1201 et seq., shall be withheld until:

(1) Staff findings are overturned;

(2) Compliance is achieved through an increase in benefit payments to their correct level; or

(3) If applicable, filing a proper written notice of prorating.

(f) A proper written notice of prorating shall describe the method and amount of proration and shall comply with Arkansas Code § 24-11-416 for police pension funds or Arkansas Code § 24-11-807 for fire pension funds.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-503. For benefit payments that are too high.**

(a)(1) Arkansas Fire and Police Pension Review Board staff shall:

- (A) Notify the local plan in writing of its noncompliance; and
  - (B) Inform the local board of the proper benefit levels to be paid.
- (2) Staff will ask the local board to:
- (A) Decrease payments to overpaid recipients to the correct levels; or
  - (B) File a written request with the Arkansas Fire and Police Pension Review Board for a review of staff findings.
- (b)(1) The local board shall submit a copy of the minutes of the board meeting at which the rollback was made or the request for a review by the Arkansas Fire and Police Pension Review Board of staff findings was approved.
- (2) The local board shall take this action within six (6) weeks of notification of noncompliance.
- (c) Recovery of overpaid benefits shall be left to the discretion of the local board and its legal counsel.
- (d)(1) Any local board which disagrees with the findings of staff regarding the correct level of benefit payments may request in writing a hearing before the Arkansas Fire and Police Pension Review Board.
- (2) The Arkansas Fire and Police Pension Review Board shall schedule the hearing during its next regular meeting but may delay the hearing to a later meeting if requested in writing by the local board.
- (e) Premium tax turnback to the local plan and the sponsoring location, as described in 24 CAR § 20-1201 et seq., shall be withheld until:
- (1) Staff findings are overturned; or
  - (2) Compliance is achieved through a rollback in benefit payments to their correct level.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-504. Annual financial disclosure.**

(a) All local plans that have not consolidated with the Arkansas Local Police and Fire Retirement System are required to file an annual financial report with the Arkansas

Fire and Police Pension Review Board.

(b) The requirements for the annual filing are described in 24 CAR § 20-301 et seq.

(c) A local plan and the sponsoring location, as described in 24 CAR § 20-1201 et seq., shall have their premium tax turnback withheld and risk forfeiture if the local plan fails to comply with the reporting requirements.

**Authority.** Arkansas Code § 24-11-203.

## **Subpart 6. Enforcement of Funding Standards**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #6 Adopted: April 17, 1985

Amended: September 7, 2011"

### **24 CAR § 20-601. Employee contributions.**

#### **(a) Fire.**

(1) Under current law, employees who wish to be covered by local fire pension funds are required to contribute six percent (6%) of their gross pay to the local plan or, in the case of volunteers, twelve dollars (\$12.00) annually.

(2) Arkansas Code § 24-11-816 provides that any firefighter who fails or refuses to pay the required contribution shall forfeit the right to receive benefits from the local plan.

(3) The contribution requirement does not apply to retired members or any active member with twenty (20) years of service.

(4)(A) If staff determines that an employee or employees of a local plan are not making the required contributions, staff shall notify the chief executive of the employing group by certified mail that the:

(i) Contributions are required; and

(ii) Employees are no longer eligible for pension benefits unless the current and past due contributions are made.

(B) The employer shall respond in writing within eight (8) weeks to notify the Arkansas Fire and Police Pension Review Board as to which employees have:

(i) Made their contributions; and

(ii) Chosen to forfeit their rights to coverage.

(5) In such cases in which no active employees have made or are making the required contributions, the board may:

(A) Make a determination after eight (8) weeks from notification of the participating employer that the local plan fund is inactive; and

(B) Remove the local plan from the annual certification list for premium tax turnback.

(6) Staff determinations regarding employee contributions shall be made from the annual financial disclosure reports submitted by the local plans.

(7)(A) If an employee or employees disagree with staff findings regarding employee contributions, the affected party may request in writing a hearing before the board.

(B) The board shall schedule the hearing for its next regular meeting but may schedule the hearing for a future meeting if requested by the affected party.

(8) Premium tax turnback will be withheld from the local plan and the sponsoring location, as described in 24 CAR § 20-1201 et seq., until:

(A) Staff findings are overturned;

(B) The required employee contributions are made; or

(C) The ineligible employees are removed from the pension rolls.

**(b) Police.**

(1)(A) Under current law, all employees who are eligible to be covered by a local police pension plan are required to accept coverage.

(B) Employees who are not covered by Social Security are required to contribute six percent (6%) of their gross pay to the local plan.

(C) Employees who are covered by Social Security are required to

contribute four percent (4%) of their gross pay to the local plan unless a majority of the contributing members vote to contribute more than four percent (4%), but the contribution shall not exceed six percent (6%).

(2) If staff determines that an employee or employees of a local plan are not making the required contributions, staff shall notify the chief executive of the employing group by certified mail that the contributions are required.

(3) The employer shall respond in writing within eight (8) weeks to notify the board that the required contributions are being made.

(4) Staff determinations regarding employee contributions shall be made from the annual financial disclosure reports submitted by the local plans.

(5)(A) If an employee or employees disagree with staff findings regarding employee contributions, the affected party may request in writing a hearing before the board.

(B) The board shall schedule the hearing for its next regular meeting but may schedule the hearing for a future meeting if requested by the affected party.

(6) Premium tax turnback will be withheld from the local plan and the sponsoring location, as described in 24 CAR § 20-1201 et seq., until either staff findings are overturned or the required employee contributions are made.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-602. Employer contributions.**

(a) From 1985 forward, employers are required to match all employee contributions.

(b) If staff determines that an employer is not making the required contributions, staff shall notify the chief executive of the employer group by certified mail that the contributions are required.

(c) The employer shall respond in writing within eight (8) weeks to notify the Arkansas Fire and Police Pension Review Board that the required contributions are being made.

(d) If the employer does not respond or refuses to make the required contributions, the board shall:

- (1) Notify the Arkansas Legislative Audit of the noncompliance; and
- (2) Request an audit exception in the next regular audit of the employer's accounts.

(e) Staff determinations regarding employer contributions shall be made from the annual financial disclosure reports submitted by the local plan.

(f)(1) If an employer disagrees with staff findings regarding employer contributions, the employer may request in writing a hearing before the board.

(2) The board shall schedule the hearing at their next regular meeting, but may schedule the hearing for a future meeting if so requested by the affected party.

**Authority.** Arkansas Code § 24-11-203.

## **Subpart 7. Police Pension Funds — Definition of Salary and Compensation**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #7 Adopted: May 30, 1985

Amended: June 29, 1999

Amended: September 28, 1999

Amended: September 7, 2011"

### **24 CAR § 20-701. Contributions.**

(a)(1) Arkansas law provides that police officers covered by a local plan shall contribute six percent (6%) of monthly salary to the local plan.

(2) However, if the officers are also contributing to Social Security, the law sets the monthly deduction at four percent (4%) of monthly salary, which can be increased to no more than six percent (6%) by a majority vote of the contributing

members.

(b) Beginning January 1, 1985, each city and town with a local police pension fund shall contribute six percent (6%) of each officer's monthly salary to the local plan, except in those departments covered by Social Security, in which case the employer shall contribute the same percentage of salary which is contributed by the officers (no less than four percent (4%) or more than six percent (6%)).

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-702. Computation of benefits.**

(a)(1) Under Acts 1985, No. 899, benefits to members retiring on or after June 28, 1985, shall be based on one-half (1/2) of the actual salary of the member based upon the member's highest salary year during his or her time of service.

(2) Such salary shall not include:

(A) Overtime pay;

(B) Payments for unused accrued sick leave or annual leave; or

(C) The cash value of any nonrecurring or unusual remuneration.

(b)(1) For benefits computed on a salary year prior to June 28, 1985, the overtime exclusion does not apply.

(2) Beginning March 18, 1985, the minimum monthly pension of a police officer is two hundred fifty dollars (\$250) per month (Acts 1985, No. 391), unless the plan is Acts 1993, No. 1197, eligible, at which time it will be a minimum of three hundred fifty dollars (\$350) per month.

(3) On and after June 28, 1985, the term "salary", as used for purposes of pension deductions and computation of benefits, means:

(A) Line-item salary;

(B) Education or certificate pay;

(C) Annual and holiday pay; and

(D) Longevity pay.

(4) For a pension computed on a salary year prior to June 28, 1985, the local

board of trustees shall determine by board regulation what shall constitute "compensation".

(5) On and after June 28, 1985, pension deductions shall not be withheld on overtime pay, or on any other type of pay, which will not be included as "salary" for pension contributions.

(6) Local boards of trustees shall not authorize refunds to active members of pension contributions made on overtime pay or other types of pay prior to June 28, 1985.

(c) Please note that these definitions and provisions do not apply to Arkansas Local Police and Fire Retirement System members.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 8. Expenses for Arkansas Fire and Police Pension Review Board Members**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #8 Adopted: May 30, 1985

Amended: December 5, 2007

Amended: September 7, 2011"

#### **24 CAR § 20-801. Expenses for board members generally.**

(a) Arkansas Fire and Police Pension Review Board members and staff shall be reimbursed for any necessary expenses incurred for performing duly authorized board business.

(b) Expense reimbursement shall be made on an agency-approved travel reimbursement form and in accordance with state travel limits.

(c) Receipts for hotel, meals (alcoholic beverages are excluded for reimbursement

purposes), and commercial transportation expenses must accompany the reimbursement form.

(d) In addition, when board members perform any proper business of the board, they may receive, per day, a stipend not to exceed the amount listed in Arkansas Code § 25-16-903, as amended.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 9. Administrative Services Committee**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #9 Adopted: July 14, 1993

Amended: March 10, 2004

Amended: September 7, 2011"

#### **24 CAR § 20-901. Administrative Services Committee generally.**

(a) An Administrative Services Committee (ASC) is hereby created to:

- (1) Deal with the annual establishment of staff pay;
- (2) Review appeals of grievances which may be submitted by staff members against their supervisors; and
- (3) Review complaints against the Executive Director of the Arkansas Fire and Police Pension Review Board.

(b)(1) The ASC shall be comprised of three (3) members of the Board of Trustees of the Arkansas Local Police and Fire Retirement System, and two (2) members of the Arkansas Fire and Police Pension Review Board, to be appointed by the chair of the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

(2) The members of the Arkansas Fire and Police Pension Review Board or the Board of Trustees of the Arkansas Local Police and Fire Retirement System or their

designated members may meet in executive session concerning the Executive Director of the Arkansas Fire and Police Pension Review Board, staff, or persons being considered for any of those positions.

(3) Such executive sessions must comply with the open public meetings requirements in Arkansas Code § 25-19-106, as amended.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-902. Procedure for establishing staff pay.**

(a)(1) The procedure for establishing annual staff pay shall follow the budget and expense allocation procedure approved annually by both the Arkansas Fire and Police Pension Review Board and the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

(2) The Executive Director of the Arkansas Fire and Police Pension Review Board drafts a proposed budget after consulting the approved salary range for each staff position, including the application of any applicable career service award.

(3) Any proposed cost of living adjustment by the executive director shall:

(A) Apply to all staff pay; and

(B) Be calculated in accordance with the budget and expense allocation procedure.

(4)(A) The ASC reviews the proposed budget including consulting with the executive director.

(B) Eventually, the ASC renders a decision and reports their position to the executive director.

(C) The executive director includes the ASC's approved amounts in the budget submitted to both the Arkansas Fire and Police Pension Review Board and the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

(b) **Executive director.**

(1)(A) The ASC reviews the executive director's performance and then arrives at a pay amount for the coming year.

(B) If it wishes, the ASC may discuss these matters with the executive director.

(2)(A) The ASC presents its findings to the executive director.

(B) This should be done at least one (1) month before the executive director's anniversary date of hire.

(3) The executive director includes the ASC's decision on the next meeting agenda for the Arkansas Fire and Police Pension Review Board and the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

(4) Both the Arkansas Fire and Police Pension Review Board and the Board of Trustees of the Arkansas Local Police and Fire Retirement System shall review the decision at their next meeting.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "ASC" means Administrative Services Committee.

**24 CAR § 20-903. Procedure for staff complaints.**

(a) The procedure to be used by staff to file complaints against their supervisors shall be as follows:

(1) The grievant shall inform the immediate supervisor of the person with whom she or he has a grievance; and

(2) The immediate supervisor shall meet with the parties and mediate the grievance.

(b)(1) If no satisfactory solution can be reached, then the immediate supervisor and the complaining parties will meet with the Executive Director of the Arkansas Fire and Police Pension Review Board.

(2) If the executive director is also unsuccessful in reaching a solution satisfactory to all parties, the matter shall be referred to the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-904. Complaints regarding the executive director.**

(a) If any person has a complaint against the Executive Director of the Arkansas Fire and Police Pension Review Board with respect to the executive director's discharge of his or her business responsibilities, such complaint must be expressed in writing.

(b) Copies of complaints received concerning the executive director shall immediately be forwarded to the chair of the Arkansas Fire and Police Pension Review Board for review by the Arkansas Fire and Police Pension Review Board, with recommendations, if any, to be referred to the Board of Trustees of the Arkansas Local Police and Fire Retirement System.

**Authority.** Arkansas Code § 24-11-203.

**Subpart 10. Administration of DROP Accounts**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #10 Adopted: August 11, 1993

Amended: September 28, 1999

Amended: June 11, 2003

Amended: September 7, 2011"

"SECTION 2. Authority

This rule is promulgated by the Arkansas Fire and Police Pension Review Board (PRB) by the authority of A.C.A. 24-11-203."

"SECTION 3. Effective Date and Applicability

This rule was effective on August 13, 1993 and is applicable to all Local Plans that elect

to implement the DROP."

**24 CAR § 20-1001. Purpose.**

(a) The purpose of this subpart is to describe the administration of the deferred retirement option plan (DROP) as it affects the benefit levels and funding of the pension funds.

(b) Acts 1993, No. 757, established the DROP for police officers.

(c) Acts 1993, No. 1004, established the DROP for paid firefighters.

(d) Both of these acts were effective on August 13, 1993.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1002. Local election of DROP program.**

(a) Acts 1993, No. 757, and Acts 1993, No. 1004, made the DROP a local option.

(b) If the local pension board wishes to make it available to its members, the local pension board must vote to do so.

(c) If a local pension board does elect to make the DROP an option, a copy of the board resolution to elect the DROP and a copy of the local pension board's rules to administer the DROP must be filed with the Arkansas Fire and Police Pension Review Board.

(d) The local pension board's rules must comply with this subpart.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1003. Accumulation of DROP account.**

Each individual member's DROP account is credited with the following items during the DROP period:

(1)(A) DROP payments.

(B) The DROP account is credited each month of the DROP period with the DROP payments.

(C) The amount of the DROP payment is equal to the amount of monthly benefit that would have been received by the member if they had elected service retirement on the first day of the individual's DROP period;

(2)(A) Employer contributions.

(B) For municipalities with a population over twenty thousand (20,000), one-half (1/2) of the employer matching contributions are credited to the DROP account.

(C) That is, for firefighter plans and police plans that do not participate in Social Security, three percent (3%) of current salary, two percent (2%) of current salary is added to the DROP account for police plans that participate in Social Security.

(D) Plans that have voluntarily agreed to a rate higher than six percent (6%) would contribute one-half (1/2) of that amount.

(E) Effective July 1, 1999, for municipalities with a population under twenty thousand (20,000), and those over twenty thousand (20,000) where the local pension board has agreed, all of the employer matching contributions are credited to the local plan, not to the DROP account;

(3)(A) Employee contributions.

(B) Effective July 1, 1999, for municipalities with a population under twenty thousand (20,000), and those over twenty thousand (20,000) where the local pension board has agreed, all of the employee contributions will be credited to the DROP account; and

(4)(A) Interest.

(B) Interest is to be credited to the DROP account.

(C) The interest rate to be used is defined in 24 CAR § 20-1005.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1004. Employee contributions.**

(a) The member continues to make employee contributions during the DROP period.

(b) These employee contributions are credited to the local plan and not to the individual's DROP account.

(c) Effective July 1, 1999, for municipalities with a population under twenty thousand (20,000), and those over twenty thousand (20,000) where the local pension board has agreed, employee contributions are credited to the DROP account and not to the local plan.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1005. Interest rate certification.**

(a)(1) The rate of interest that is to be credited to the DROP account is to be certified by the actuary for the Arkansas Fire and Police Pension Review Board.

(2) The board will communicate the necessary information from the annual financial reports that are submitted to it to the actuary for the board.

(3) The actuary will annually issue a list of local plans which have elected participation in the DROP and the certified interest rate for the DROP.

(b)(1) The interest rate credited after the first five (5) years of DROP, when a participant has elected to defer receipt of the DROP account, and for continued employment after DROP, has a minimum rate of zero percent (0%).

(2) Therefore, there will be two (2) interest rates communicated each year.

(c)(1) The first rate will be for the first five (5) years of DROP participation.

(2) The second rate will be for:

(A) DROP participation after five (5) years;

(B) Deferred receipt of the DROP account; and

(C) Continued employment after DROP.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1006. Conclusion of DROP.**

(a)(1) The DROP period will conclude at the date of termination of employment but no later than five (5) years after the date that the individual member began participation in the DROP.

(2) Termination of employment means leaving the employment of the department for any reason.

(3) The DROP period may be extended to ten (10) years as defined in 24 CAR § 20-1011.

(b)(1) At the conclusion of the DROP period, the DROP account will be distributed.

(2) This distribution is described in 24 CAR § 20-1008.

(3) Acts 2003, No. 1371, allows a city to elect to allow participants to defer the receipt of their DROP account after the conclusion of the DROP period.

(c)(1) The monthly benefit that will be received by the member after the DROP period is the retirement benefit as calculated at the date the member began DROP.

(2) The monthly benefit does not change after the enrollment in DROP, except as described below.

(3) This same monthly amount is now paid to the individual member instead of into the DROP account.

(4) The retirement benefit at the end of the DROP period:

(A) Does not change with the increase in salary during the DROP period;

(B) Does not change with extra service during the DROP period; and

(C) Is the same amount as was being credited to the DROP account.

(5) There are two (2) exceptions:

(A) The age sixty (60) bonus, based on having over twenty-five (25) years

of service earned before the enrollment in DROP, starts at age sixty (60); and

(B) Any benefit increases granted to all retirees, or overall benefit increases, may also be given to persons on DROP.

(d) **Disability benefits.** The provisions of this subpart do not restrict a local board's authority to provide for disability retirement benefits of DROP participants pursuant to existing law.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1007. Death benefits.**

(a) If a member of a fire or police department dies during the period of participation in the DROP, a lump-sum payment equal to the balance of the DROP account will be paid pursuant to Acts 1993, No. 757, or Acts 1993, No. 1004.

(b) The widow's benefit will be paid pursuant to existing law.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1008. Distribution of DROP account.**

(a)(1) A member who has a DROP account must be allowed to choose to receive his or her DROP account as either a lump sum or a true annuity, as described below.

(2) At the option of the local pension board, other forms of distribution may also be offered.

(b) **Lump sum.** A lump sum amount equal to the accumulation of the DROP account as defined in 24 CAR § 20-1003, as of the date of the conclusion of the DROP period.

(c) **True annuity.**

(1) A true annuity is payable monthly during the lifetime of the member only.

(2)(A) If the true annuity is not purchased from an insurance company licensed to do business in the State of Arkansas, the monthly amount of the true annuity can be paid out of the local plan.

(B) In this case, the monthly amount is the actuarial equivalent of the lump sum, as explained in subsection (b) of this section.

(3) Actuarial equivalence is defined in 24 CAR § 20-1009.

**(d) Other forms.**

(1) The local pension board may choose to distribute the DROP account in other forms of payment.

(2) Any other forms that might be made available must meet the following rules:

(A) If the form of payment involves the life expectancy of any individual or individuals, then either:

(i) An appropriate annuity must be purchased from an insurance company licensed to do business in the State of Arkansas; or

(ii) The amount is paid out of the local plan, and the amount is the actuarial equivalent of the lump sum in subsection (b) of this section; and

(B)(i) For all other forms of payment, the amount of payment must be the interest equivalent of the lump sum, as explained in subsection (b) of this section.

(ii) Interest equivalence is defined in 24 CAR § 20-1009.

**(e) Deferred receipt.**

(1) The local pension board, with the consent of the sponsoring municipality, may allow a participant to defer receipt of their DROP account after the conclusion of the DROP period.

(2) This is a one-time deferral that should be made in writing to the local board.

(3) The DROP account must be paid out as a lump sum or converted to an annuity before the participant reaches age seventy and one-half (70 1/2).

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1009. Actuarial equivalence and interest equivalence —  
Definitions.**

As used in this subpart:

(1) "Actuarial equivalence" means that the amounts produce the same lump sum based on the 1983 Group Annuity Mortality Table with five percent (5%) interest; and

(2) "Interest equivalence" means that the amounts produce the same lump sum based on an interest rate or rates of not less than five percent (5%).

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1010. Reporting requirements.**

(a) The financial and member information required to be reported annually will be supplemented by a detailed listing of each member currently on DROP and the amount of their DROP account as of the end of the current reporting period.

(b) The Arkansas Fire and Police Pension Review Board has the right to request additional information concerning the calculation of the DROP account.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1011. Ten-year DROP.**

(a)(1) The duration of participation in the DROP may be extended to a maximum of ten (10) years.

(2) This extension must apply to all active members and be approved by the

local pension board.

(3) The extension must also be approved by a majority vote of the governing body of the sponsoring municipality.

(b) The following differences exist between the extended DROP period and the preceding sections:

(1)(A) Interest credited.

(B) The interest credited to the DROP account has a minimum of zero percent (0%) instead of the assumed actuarial rate;

(2)(A) Forfeiture of certain credits.

(B) The interest credited to the DROP account and the employer contributions credited to the DROP account after the first five (5) years of participation may be forfeited.

(C) The portion forfeited is eighty percent (80%) if terminated in the sixth year, sixty percent (60%) for the seventh year, forty percent (40%) for the eighth year, and twenty percent (20%) for the ninth year.

(D) There is no longer a forfeiture of credits for participants who leave the DROP after August 1, 2003; and

(3)(A) DROP payments for fire plans.

(B) The DROP payments during the second five (5) years for fire plans that elect the ten-year DROP is seventy-five percent (75%) of the DROP payment in the first five (5) years.

(C) This is described in Acts 2003, No. 1369.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1012. Continued employment after DROP.**

(a) Acts 2003, No. 1372, allows the sponsoring municipality and the local pension board to agree to allow participants to work after the conclusion of the DROP period,

whether it is five (5) years or ten (10) years.

(b) The participant would no longer be able to add to their DROP account during the period of continued employment, except for interest earned.

(c) After the period of continued employment, the participant would be able to begin drawing their normal retirement benefit and take a distribution of their DROP account as described in 24 CAR § 20-1008.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

### **Subpart 11. Asset Valuation Method**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #11 Adopted: September 28, 1999

Amended: September 7, 2011"

#### **24 CAR § 20-1101. Asset valuation method generally.**

(a)(1) Acts 1999, No. 1293, amended Arkansas Code § 24-11-207.

(2) This act states that the assets will be valued on the asset valuation method determined by the Arkansas Fire and Police Pension Review Board in consultation with their actuary.

(b) The asset valuation method is the method used to value the assets of a local plan.

(c) This value of assets will be used for all calculation purposes including:

- (1) The annual actuarial valuation;
- (2) Any benefit increase proposal; and
- (3) DROP interest rate calculations.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** “DROP” means deferred retirement option plan.

**24 CAR § 20-1102. Actuarial value of assets.**

The value of assets determined by the method defined by this subpart will be called the actuarial value of the assets.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1103. Book value of assets.**

(a) The book value of assets will be the cost value of the asset, that is, the amount paid for the asset.

(b) If the asset has an amortized cost basis, such as a bond, the book value of the asset will be the amortized cost basis.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1104. Local plans with over \$5,000,000 book value.**

(a) Local plans with a book value of assets equal to or greater than five million dollars (\$5,000,000) will use the method in this section to determine the actuarial value of assets.

(b) This method is a five-year smoothing method.

(c) The actuarial value of assets will be determined using the following steps:

(1) The total market return is calculated (including realized and unrealized appreciation);

(2) The assumed actuarial rate of return is credited to the previous year’s actuarial value of assets;

(3)(A) The difference between subdivisions (c)(1) and (2) is the portion that

will be added to the assets over five (5) years.

(B) Take subdivision (c)(1) minus subdivision (c)(2) and divide by five (5);

(4) Add the amount in subdivision (c)(3) of this section to the value of assets from subdivision (c)(2); and

(5) Add the subdivision (c)(3) amount from the previous four (4) years to the amount from subdivision (c)(4) of this section.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1105. Local plans with less than \$5,000,000 book value.**

The actuarial value of assets for local plans with less than five million dollars (\$5,000,000) of book value of assets will be the book value as defined in this subpart.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1106. Effective dates.**

(a) This asset valuation method will be used for all calculations made as of December 31, 1999, and later.

(b) The first actuarial valuation using this method will be the January 1, 2000, valuation.

(c) The DROP interest rate for 1999 based on December 31, 1999, assets will use this method.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**Subpart 12. Premium Tax Turnback Allocation**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of

Arkansas Rules provided as follows:

"PRB RULE #12 Adopted: December 12, 2000

Amended: December 12, 2001

Amended: June 11, 2003

Amended: September 7, 2011"

**24 CAR § 20-1201. Premium tax turnback allocation.**

(a) Arkansas Code § 24-11-101 et seq., as amended by Acts 2011, No. 979, affects the allocation of premium taxes that are to be turned back to qualified locations to defray a portion of the employer contributions to the local plans and to Arkansas Local Police and Fire Retirement System.

(b) The Arkansas Fire and Police Pension Review Board is authorized to determine the qualified locations and their eligibility to receive an allocation.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1202. Definitions.**

As used in this subpart:

(1)(A) "Actuarial cost for local plans" means the basis for the allocation of premium tax as provided in Arkansas Code § 24-11-214(b)(2).

(B) The actuarial cost for local plans is calculated using the base benefits of the local plan.

(C) The assumptions used in determining this actuarial cost are not necessarily the assumptions used in the actuarial valuations of the local plans.

(D) The actuarial assumptions and methods will be recommended by the actuary assigned to complete the premium tax allocation and approved by the Arkansas Fire and Police Pension Review Board;

(2)(A) "Additional allocation" is described in Arkansas Code § 24-11-217.

(B) Beginning in 2012, the additional allocation will be calculated and

allocated to certain qualified underfunded plans as provided in 24 CAR § 20-1210;

(3) "Base benefits" means, for local plans, the minimum benefits defined in the pertinent law:

(A)(i) For paid service benefits, fifty percent (50%) of final salary plus an additional twenty dollars (\$20.00) per month for years of service twenty-one (21) through twenty-five (25) (with a maximum of an additional one hundred dollars (\$100)), plus one and one-quarter percent (1.25%) of final salary for years of service over twenty-five (25) at age sixty (60).

(ii) For volunteer benefits, one hundred dollars (\$100) per month plus ten dollars (\$10.00) per month additional for years of service twenty-one (21) through twenty-five (25) (with a maximum of an additional fifty dollars (\$50.00));

(B)(i) For nonduty disability benefits, computed the same as a normal service retirement.

(ii) Duty disability benefits are computed at sixty-five percent (65%) of final salary; and

(C)(i) For death benefits, the surviving spouse paid same amount the member received at the time of his or her death, excluding the age sixty (60) bonus of one and one-quarter percent (1.25%).

(ii) For volunteer fire plans, each eligible child paid twenty-five dollars (\$25.00) per month.

(iii) For paid fire plans, each eligible child paid one hundred twenty-five dollars (\$125) per month.

(iv) For police plans, eligible children paid an aggregate three hundred fifty dollars (\$350) per month;

(4)(A) "Certified location" means a qualified location that will have its area established by the legal description of its metes and bounds.

(B) The legal description does not include areas covered by mutual aid agreements.

(C) This will be completed by the Census State Data Center at the University of Arkansas at Little Rock.

(D) The mayor or qualified representative (police locations) must certify the accuracy of the legal description information.

(E) The fire coordinator of the city, town, or fire protection district will make the certification for fire locations.

(F) The population information for each fire and police location must be certified by the Census State Data Center.

(G) After the Executive Director of the Arkansas Fire and Police Pension Review Board receives both of these certifications, a qualified location becomes a certified location;

(5)(A) "Eligible location (in compliance)" means a certified location that is in compliance with the laws governing local plans and the rules promulgated by the Arkansas Fire and Police Pension Review Board which will be eligible to receive an allocation.

(B) An eligible location is a certified location that is not a noncomplying location.

(C) A location that sponsors Arkansas Local Police and Fire Retirement System coverage is considered eligible if it is not delinquent according to Arkansas Local Police and Fire Retirement System rules;

(6) "Fire Allocation Fund" means the portion of the Firemen's and Police Officers' Pension and Relief Fund attributable to the percentages of the lines of insurance assigned to firefighter funds;

(7)(A) "Firemen's and Police Officers' Pension and Relief Fund" is defined in Arkansas Code §§ 24-11-301 and 24-11-809.

(B) This is the combination of the percentages of the assigned lines of insurance premium tax for both fire and police;

(8) "General Revenue Allocation Fund" means the portion of the Police Allocation Fund and the Fire Allocation Fund that will not be distributed to locations and will be returned to general revenues;

(9) **"Insurance tax revenues".**

(A) Arkansas Code §§ 24-11-203(k) and 24-11-214(k) allows up to one

percent (1%) to be taken from insurance tax revenues for Arkansas Fire and Police Pension Review Board administration and an additional one percent (1%) of insurance tax revenues for premium tax allocation expenses.

(B) The insurance tax revenues will be defined as the Firemen's and Police Officers' Pension and Relief Fund;

(10) "Local plan" means a plan authorized under Arkansas Code § 24-11-401 et seq., or Arkansas Code § 24-11-801 et seq., whether locally administered or consolidated with the Arkansas Local Police and Fire Retirement System;

(11)(A) "Noncomplying location" means a certified location that is not complying with the laws governing local plans and rules promulgated by the Arkansas Fire and Police Pension Review Board or the Arkansas Local Police and Fire Retirement System and which will be certified by the Executive Director of the Arkansas Fire and Police Pension Review Board to be a noncomplying location.

(B) The Arkansas Fire and Police Pension Review Board may find a location in noncompliance for any of the following reasons:

(i)(a) Failure to file a complete annual report of financial and participant information on the form provided by the Arkansas Fire and Police Pension Review Board by March 31 of each calendar year.

(b) This date may be extended by the Executive Director of the Arkansas Fire and Police Pension Review Board, but in no case will it be extended beyond May 15;

(ii) An annual report that does not balance or does not properly track participant information will not be considered a complete report and must be corrected by the compliance date;

(iii)(a) Failure to pay benefits at the rate provided by law, or paying a benefit increase that has not been approved by the Arkansas Fire and Police Pension Review Board.

(b) This includes administration of DROP accounts not in compliance with 24 CAR § 20-1001 et seq.;

(iv) Other failures to comply with Arkansas Code § 24-11-101 et seq.,

and the Arkansas Fire and Police Pension Review Board rules;

(v) A location that sponsors Arkansas Local Police and Fire Retirement System coverage that is delinquent according to Arkansas Local Police and Fire Retirement System rules; and

(vi)(a) A location that does not provide the certifications needed to be a certified location will be treated as a noncomplying location.

(b) These certifications must be provided to the Executive Director of the Arkansas Fire and Police Pension Review Board by March 31 of each calendar year, unless extended by the Executive Director of the Arkansas Fire and Police Pension Review Board;

(12) "Police Allocation Fund" means the portion of the Firemen's and Police Officers' Pension and Relief Fund attributable to the percentages of the lines of insurance assigned to police funds;

(13) **"Qualified location".**

(A) A city, town, or fire protection district that sponsors a local fire or police pension plan or is a member of Arkansas Local Police and Fire Retirement System is qualified.

(B) A location remains qualified as long as it continues its pension coverage.

(C) The Executive Director of the Arkansas Fire and Police Pension Review Board will update the list of qualified locations by December 15 of each year; and

(14)(A) "Underfunded plans" means, as described in Arkansas Code § 24-11-217, any local plan whose assets are less than its liabilities.

(B) The determination of the liabilities will be based on the same assumptions used to determine the actuarial cost for the plan.

(C) The assets used for this determination will be the actuarial (funding) value of assets reported in the respective actuarial valuation.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1203. Allocation report.**

(a) The actuary for the Arkansas Fire and Police Pension Review Board will present an allocation report to the board by June 15 of each year.

(b) This report will show the distribution of the entire Firemen's and Police Officers' Pension and Relief Fund.

(c) After approval by the board, the allocation report will be forwarded to the Department of Finance and Administration to request the distributions contained in it.

(d) The allocation report will contain at least the following items:

(1) The amount of the Fire Allocation Fund and Police Allocation Fund;

(2) The amount of the Fire Allocation Fund and the Police Allocation Fund to be distributed to fire and police locations and the General Revenue Allocation Fund, reflecting applicable minimums;

(3) The amount allocated to each certified location and which certified locations are eligible to receive their allocations;

(4) The amount allocated to each certified location split between the local plan and the Arkansas Local Police and Fire Retirement System portion as defined in Arkansas Code § 24-10-409;

(5) Noncomplying locations and the amount each would receive upon making corrections per 24 CAR § 20-1204;

(6) The amount of the Arkansas Fire and Police Pension Review Board administrative costs and the premium tax allocation expenses;

(7) The amount of the Fire Protection Fund division; and

(8) The amount to be allocated to additional allocations, Police Supplement Fund, Fire and Police Future Supplement Funds, and State Police Retirement System.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1204. Noncomplying locations — Corrections.**

(a)(1) A noncomplying location will be able to correct any issues of noncompliance and be approved for an allocation of premium taxes after the date of the allocation

report.

(2) The process to effect this correction is as follows:

(A)(i) The Arkansas Fire and Police Pension Review Board will notify each noncomplying location by certified mail of the areas of noncompliance and the amount of premium tax allocation to be withheld from each fund associated with the noncomplying location.

(ii) This notification will be made on or about June 15;

(B)(i) The noncomplying location must correct the areas of noncompliance and submit a letter to the board stating the nature of the correction and asking to receive an allocation.

(ii) The corrections must be made by August 15 and the letter must be received by the Executive Director of the Arkansas Fire and Police Pension Review Board by August 15;

(C) If the noncompliance issue is resolved with the executive director, the noncomplying location will be recommended for an allocation at the board's September meeting;

(D) If the compliance issue cannot be resolved with the executive director, then a local board member or city representative must appear at the board's September meeting to demonstrate that it has fully resolved the areas of noncompliance.

(b)(1) If the noncomplying location does not demonstrate that it has fully resolved the areas of noncompliance on or before its appearance at the board's September meeting, then the premium tax allocated to every fund associated with that location, including police and fire local plans, police supplement, fire and police future supplement funds, additional allocation, and the Arkansas Local Police and Fire Retirement System, is forfeited for that year.

(2) The amount of that forfeited allocation will be added to the next year's Police Allocation Fund (for police locations) or Fire Allocation Fund (for fire locations).

(3) This would be added back at the point after the division to the General Revenue Allocation Fund and before the allocation to individual locations.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1205. Changes in location status.**

(a)(1) The Executive Director of the Arkansas Fire and Police Pension Review Board may add new qualified locations by December 15 of each year.

(2) A certified location continues in the allocation formula with the same area and population for the ten-year census period.

(3) The area of a certified location may change over the course of the ten-year census period.

(4) These changes may occur through annexation, deannexation, dissolution, or other possible area changes.

(5) Therefore, if these changes are reported and documented to the executive director by December 15 of a year, then a location can become certified using the changes in area and population in the next year's allocation report.

(b)(1) Only annexations certified by the Secretary of State's office will be accepted as changes to the boundaries of an incorporated city or town.

(2) The date of certification must be before December 15 for the city to be considered an eligible location for that allocation period.

(3) Proof of the certified annexation shall be submitted by the city to the Census State Data Center as soon as possible after certification by the Secretary of State to ensure that the map reflects the current and correct boundaries.

(4)(A) A copy of the same items required by the Secretary of State's office shall be provided to the Census State Data Center.

(B) These items include:

(i) Petition order from the county containing the legal description of the property and the names of the property owners;

(ii) A decree of annexation;

(iii) The city ordinance;

(iv) Plat map;

(v) Letter from the Secretary of State that these items have been

received, accepted, and certified by their office; and

(vi) Similar requirements would exist for other changes affecting an incorporated place (such as a new incorporation).

(c) If a location does not provide the documentation for an annexation or other change and the location has a previously certified map of the location, the previously certified map and area will be used in the allocation report.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1206. Overlapping locations.**

(a) There may be situations where locations certify maps where part of the area in those maps overlap.

(b) The locations and Arkansas Forestry Commission will be notified of the overlap.

(c) The locations are encouraged to work together with the commission to resolve these situations.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1207. Division of a location's premium tax between local plan and the system.**

(a)(1) The premium tax allocated to a location is to be used for the location's local fire or police pension and relief fund and Arkansas Local Police and Fire Retirement System.

(2) This division is defined in Arkansas Code § 24-10-409.

(3) This calculation will be done as part of the allocation report defined in 24 CAR § 20-1203 and using the following considerations:

(A) The number of participants used in making the calculation will be the number of participants on the December 31 preceding the year of the allocation;

(B) The number of participants will include active members, retirees and beneficiaries, and members on the DROP for both local plan and system-only;

(C) The number of participants will not include members of the system who are vested terminated participants;

(D) A paid participant will count as five (5) volunteer participants for this division; and

(E)(i) The amount of the division will not be more than one hundred percent (100%) of the cost used in the allocation as defined in Arkansas Code § 24-11-214.

(ii) For example, if a location is allocated with five thousand dollars (\$5,000) and the division is two thousand dollars (\$2,000) for the local plan and three thousand dollars (\$3,000) for the system, but the cost for allocation purposes of the system is only two thousand three hundred dollars (\$2,300), then the division is two thousand seven hundred dollars (\$2,700) for the local plan and two thousand three hundred dollars (\$2,300) for the system.

(b) The amount of the division for system locations and local fire and police plans administered by the system will be paid directly to the system.

**Authority.** Arkansas Code § 24-11-203.

**Codification Notes.** "DROP" means deferred retirement option plan.

**24 CAR § 20-1208. Transition period 2012 – 2015 allocations.**

(a) Acts 2011, No. 979, added Arkansas Code § 24-11-214(l) which defines the percentage of the Arkansas Local Police and Fire Retirement System-only cost that premium tax is allocated to cover.

(b) This section also states that during this transition period, the actuarial cost less the allocation amount may not increase in any one (1) year by more than one percent (1%) of payroll.

(c) The following steps will be used to accomplish this goal:

(1)(A) A location cost percentage will be determined for each location.

(B) This amount will be the 2011 actuarial cost less the 2011 allocation of

premium tax, all divided by the salary amount used in the 2011 allocation;

(2)(A) The location cost percentage will be based on the system-only paid service cost.

(B) That is, the additional cost of the consolidated local plan will not be included;

(3)(A) For 2012 – 2015, a location cost percentage will be determined based on that year.

(B) It will be compared to the 2011 location cost percentage;

(4)(A) If the location cost percentage for 2012 is more than one percent (1%) above the 2011 location cost percentage, the allocation will be increased until it is only one percent (1%) more.

(B) The percentage for 2013 is two percent (2%), 2014 is three percent (3%), and 2015 is four percent (4%);

(5) The increased allocation described in subdivision (c)(4) of this section will be funded by setting a minimum on the difference in the location cost percentage versus the previous year for all locations;

(6) If there is not sufficient premium tax to accomplish the reallocation described in subdivision (c)(5) of this section, then the percentage in subdivision (c)(4) of this section will be increased to balance; and

(7) Any location that adopts system coverage in 2011 or later is not subject to the transition period rules.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1209. Payment to local plan when an excess subsidy account exists.**

(a) The amount calculated for each subsidy account was determined using the 1997 – 2002 premium tax distributions and costs for each local plan and the Arkansas Local Police and Fire Retirement System.

(b) With the June 2012 premium tax distribution, all locations will have a calculated

balance of zero (0) for their subsidy account.

(c) If a location has an actual balance after June 2012, the location may transfer all or a portion of the balance to their local fire and/or police plan, but only after written approval of the Arkansas Fire and Police Pension Review Board.

(d) In all cases, moneys in a subsidy account can only be used for the retirement costs of that location's fire or police pension plan and/or the system.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1210. Additional allocation.**

(a)(1) As provided in Arkansas Code § 24-11-217, beginning with the 2012 allocation, local plans meeting eligibility requirements will receive an additional allocation.

(2) The additional allocation is calculated so that no local plan will receive less than it would have received under the Guarantee Fund during the transition period of 2012 – 2015.

(3) After the 2015 allocation, no Guarantee Fund calculation will exist.

(b) **Eligibility for additional allocation.** An underfunded plan will be considered eligible for an additional allocation if the local plan is in compliance with this section and the previous year's employer contributions (other than premium tax allocation) were at least eighty percent (80%) of the actuarial cost.

(c) **Amount of additional allocation.**

(1) An eligible underfunded plan will receive ten percent (10%) of the plan's actuarial cost.

(2) For allocation years 2012 through 2015, the additional allocation will be no less than the amount that previously would have been provided by the Guarantee Fund as described in Arkansas Code § 24-11-209.

(d) **Transition.**

(1) During the 2012 through 2015 allocations, the following transition rule will ensure that a local plan receives at least the amount that would have been allocated

before Acts 2011, No. 979.

(2) If a local plan is not eligible for an additional allocation under subsection (b) of this section, but would have been eligible for the assistance described in Arkansas Code § 24-11-209, the local plan will receive an allocation in the amount that would have been calculated under Arkansas Code § 24-11-209.

(e) **Reduction of additional allocation.** The Fire Allocation Fund and the Police Allocation Fund must cover specific funding of the following items within the allocation formula before the additional allocation:

(1) Forty percent (40%) Arkansas Local Police and Fire Retirement System-only cost, thirty percent (30%) local plan (including consolidation) cost, and one hundred percent (100%) system-only volunteer cost after the required employer contribution;

(2) Premium tax allocation expenses;

(3) Police Supplement, Future Supplement Fire, and Future Supplement Police;  
and

(4) Fire Protection Fund, State Police Retirement System, and at least four million dollars (\$4,000,000) to state general revenue.

(f) If the amount returned to general revenue is not at least four million dollars (\$4,000,000), the additional allocation will be reduced proportionately.

**Authority.** Arkansas Code § 24-11-203.

### **Subpart 13. Minimum Asset Management Standards**

**Codification Notes.** This subpart as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"PRB RULE #13 Adopted: March 5, 2008

Amended: September 7, 2011"

**24 CAR § 20-1301. Minimum asset management standards generally.**

Acts 2007, No. 851, codified as Arkansas Code § 24-11-216, establishes minimum asset management standards for local plans subject to the jurisdiction of the Arkansas Fire and Police Pension Review Board and directs the board to promulgate rules as necessary to implement the statute.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1302. Definitions.**

As used in this subpart:

(1)(A) "Actuarially sound" is defined in 24 CAR § 20-401 et seq.

(2) If a local plan is considered actuarially sound by virtue of a cash flow projection valuation or alternate cash flow projection valuation as defined in that subpart, then they will be considered to remain actuarially sound until the next regular actuarial valuation, cash flow study, or alternate cash flow study is released;

(2)(A) "Compliance under Arkansas Code § 24-11-202" means the same as "eligible location (in compliance)" as defined in 24 CAR § 20-1201 et seq.

(B) The list compiled in accordance with 24 CAR § 20-1201 et seq., will therefore also serve to determine which local plans are not in compliance for purposes of this subpart;

**(3) One-year United States Treasury notes.**

(A) "Rate of return for one (1) year United States Treasury notes over the most recent three-year period" means the arithmetic mean of the thirty-six (36) months closing yield on "U.S. Treasury securities at 1-year constant maturity", as this term is commonly used by the Federal Reserve System and investment professionals.

(B) The thirty-six-month average will be calculated using the December 31 closing yield of the year of measurement and the thirty-five (35) preceding months.

(C) The Arkansas Fire and Police Pension Review Board will determine the thirty-six (36) months closing yield from Bloomberg or another similarly authoritative standard investment community source; and

**(4) Rate of return.**

(A) "Rate of return earned by the local pension and relief fund" means the market rate of return, which shall be calculated using the following formula and definitions:

$$\text{Market Rate of Return} = (2 \times \text{II}) / (\text{A} + \text{B} - \text{II})$$

A = Beginning of the year Market Value of Assets

B = End of the year Market Value of Assets

Income = Non-Investment Income of the plan (e.g., millage, premium tax, etc.)

Benefits = Benefits and administrative expenses of the plan

II = Market Investment Income

$$= \text{B} - \text{A} - \text{Income} + \text{Benefits}$$

(B) The rate of return will be determined by the Arkansas Fire and Police Pension Review Board and reported in the valuation reports; and

(5)(A) "Three-year average rate of return" and "over the most recent three-year period" mean the arithmetic mean of the rate of return as defined in subdivision (4) of this section.

(B) For example, if a local plan had rates of return of four and one-half percent (4.5%), six and two-tenths percent (6.2%), and five and two-tenths percent (5.2%) in 2004, 2005, and 2006, respectively, then the three-year average rate of return would be five and three-tenths percent (5.3%) (four and five-tenths plus six and two-tenths plus five and two-tenths divided by three (4.5 + 6.2 + 5.2)/3)).

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1303. Verification of legally constituted board and meetings.**

(a) Along with the annual financial report required to be filed with the Arkansas Fire and Police Pension Review Board, the local plan must include verification by the chairperson of the local board of trustees that the local plan has a legally constituted board of trustees that meets at least twice annually.

(b) The Arkansas Fire and Police Pension Review Board will make the final determination of compliance with this section.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1304. Written investment policy.**

(a)(1) If the Arkansas Fire and Police Pension Review Board determines that a local plan does not meet the minimum asset management standards as required by law, it will notify the local plan and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law.

(2) The board will also require the local plan to establish a written investment policy which must address the following areas:

- (A) Statement of fiduciary responsibility;
- (B) Liquidity;
- (C) Volatility;
- (D) Asset allocation guidelines;
- (E) Prohibited investments;
- (F) Performance goals;
- (G) Responsibilities of the investment consultant;
- (H) Responsibilities of the investment managers;
- (I) Selection process for investment managers;
- (J) Investment manager performance review; and
- (K) Annual review of investment policy.

(b) The board will provide a sample written investment policy for consideration.

(c) The local plan must file a copy of the written investment policy and any amendments or changes to that policy with the board within fourteen (14) days of their

adoption.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1305. Professional investment management.**

(a)(1) If the Arkansas Fire and Police Pension Review Board determines that a local plan does not meet the minimum asset management standards as required by law, it will notify the local plan and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law.

(2) The board will also require the local plan to obtain professional investment management which includes, at a minimum, the following services:

(A) Investment advising and reporting including, but not limited to:

(i) Pension plan prudent asset allocation advice;

(ii) Choosing independent investment managers or funds; and

(iii) Reporting the results of the investment managers versus their

benchmark at least quarterly;

(B) Investment management including, but not limited to:

(i) Investing plan assets on a plan-specific basis which pertains to the stated asset allocation designated by the local pension board with the assistance of the investment manager; and

(ii) Regular reporting of results through the recognized investment management and trust arrangement; and

(C) Clear statement of fee structure within the guidelines of Arkansas Code §§ 24-11-410 and 24-11-805.

(b) The local plan must file a copy of the professional investment management contract and any amendments or changes to that contract, including a description of the services to be provided, with the board within fourteen (14) days of its execution.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1306. Written plan of action.**

(a)(1) If a local plan does not meet the minimum asset management standards and then does not create a written investment policy and hire professional investment management within six (6) months of notification, then they must file a written plan of action.

(2) The written plan of action must be developed in conjunction with the Arkansas Fire and Police Pension Review Board and its staff.

(3) The written plan of action will at a minimum address the following items:

(A) A measurable plan to attain the four (4) defining points of the minimum asset management standards;

(B) A timeline for meeting the standards; and

(C) Methods for reviewing and updating the written plan of action.

(b) The board will provide a sample written plan of action for consideration.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1307. Noncompliance.**

(a)(1) If the local plan does not meet the minimum asset management standards, it must create a written investment policy and hire professional investment management.

(2) The Arkansas Fire and Police Pension Review Board will consider the local plan out of compliance if these are not provided to the board within six (6) months of notification.

(b) A local plan will continue to be considered out of compliance with this law until a written plan of action is implemented by the local plan and accepted by the board.

(c) A local plan that is out of compliance will risk the loss of all premium tax turnback for the local plan and the sponsoring location as provided by Arkansas law and 24 CAR § 20-1201 et seq.

**Authority.** Arkansas Code § 24-11-203.

**24 CAR § 20-1308. Appeal process.**

(a) A local plan that is out of compliance with this law may appeal the findings of staff used to reach that decision to the entire Arkansas Fire and Police Pension Review Board at its next regularly scheduled or specially called meeting.

(b) If a local plan and the sponsoring location's premium tax turnback is withheld because of noncompliance, the local plan may appeal that decision to the board under the steps found in 24 CAR § 20-1201 et seq.

**Authority.** Arkansas Code § 24-11-203.

**Appendix A. Attachment 1 - Resolution to Amend the Arkansas Police Officer's Deferred Retirement Option Plan (DROP) Pursuant to Act 1372 Of 2003**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/357/24CARpt.20Attachment1.pdf>

**Appendix B. Attachment 2 - Arkansas Fire and Police Local Plans Deferred Retirement Option Plan (DROP): Member Election Form**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/358/24CARpt.20Attachment2.pdf>

**Appendix C. Attachment 3 - Arkansas Fire and Police Local Plans Deferred Retirement Option Plan (DROP): Actuarial Equivalence Factors for Converting the DROP Account to a True Annuity**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/359/24CARpt.20Attachment3.pdf>