

February 23, 2011

Ms. Gail H. Stone
Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: Actuarial Analysis of HB 1234

Dear Ms. Stone:

House Bill 1234 amends a section of the Arkansas Code, namely § 24-4-101(2). Our analysis of the proposed change to the section follows.

The legislation allows a member to receive service credit with two APERS participating employers if employed concurrently.

We do not have data to perform a detailed analysis of the financial effect of the proposed legislation. We expect that very few members would be affected by the proposed legislation at this time. However, it is likely that concurrent employment would be much more prevalent in the future if the legislation is enacted. It is possible that only marginal near term increases in projected APERS employer contributions would result. However, we believe that the legislation would provide a significant benefit to affected individuals and their employers. Our reasoning is as follows:

- The long term employer contribution to provide one (1) year of service is about 10% and 7% of member payroll for non-contributory and contributory service respectively (this ignores the portion of the employer contribution currently made for past service cost).
- These contribution rates are developed with an expectation regarding the length of a member's employment. Crediting service concurrently would shorten the period a member would need to become eligible to retire and so reduce the expected period of employment; the extreme case being a member with 14 years of concurrent employment qualifying for twenty-eight year retirement regardless of age.
- Therefore, the rate charged to employers who employ members with concurrent service would be less than the actual value of the service rendered.

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As participants and employers become aware of this provision (if enacted) it is possible that, without a method to account for the cost of the additional benefit, the system will be selected against and the costs will be shared inappropriately among all participating APERS employers.

Measured against the most commonly accepted public policy argument for the retirement system, to provide adequate post-retirement benefits commensurate with service rendered, we do not believe that the proposed legislation represents sound public policy.

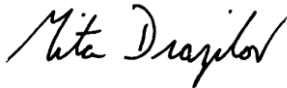
The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please feel free to contact us with additional questions or comments.

Respectfully submitted,



Norman L. Jones, FSA, MAAA



Mita D. Drazilov, ASA, MAAA

NLJ/MDD:lr

cc: David Hoffman (GRS)
Shannon Walsh (GRS)