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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 SB 111

Dear Ms. Stone:

Senate Bill 111 amends/creates sections of Arkansas Code, namely § 24-4-521 and § 24-4-753. Our analysis of the proposed changes to these sections follows.

The legislation appears to be narrowly constructed to affect a small class of elected public officials who participated in a "state-authorized, local retirement benefit system or plan for elected public officials of a city or town, established before July 3, 1989" and "was in office on January 1, 2001 and July 1, 2010". The individuals will be covered in APERS and receive service credit in APERS for this prior service in exchange for contributions, expressed as a percent of pay made at various levels for previous periods.

We do not have data to perform a detailed analysis of the financial effect of the proposed legislation. Because it appears to be legislation that will affect very few people, we believe that no material increases in projected APERS employer contributions will result. However, we believe that the legislation provides a significant benefit to affected individuals. Our reasoning is as follows:

- The contribution to provide one (1) year of service is approximately 10% and 12% of member payroll for non-contributory and contributory service respectively. However, this includes payroll for APERS participants that will never receive a benefit as a result of APERS covered employment. It also reflects one for one crediting of service, not the two for one crediting of service proposed.
- The 10% and 12% employer rates are level over a member's career. The pattern of actual accruals for an individual are such that the percent of payroll value of a year of service is worth less than these rates early in a member's career and worth more than these rates later in a member's career.
- It is likely that the affected elected public officials are far along in their careers, and considering the points above, the actual value of each year of the proposed service could be worth 25%-35% of pay. This is much higher than the combined 8% to 12% service purchase rates specified in Senate Bill 111.

Consideration of special interest bills such as this should be based upon whether or not they represent 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

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Mita Drazilov

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NLJ:MDD:lr

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