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House Bill 1008

(As Engrossed January 26, 2021)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 93rd General Assembly

Provisions of the Bill

House Bill 1008 affects the premium tax allocation formula that provides funding for Arkansas Local Police and Fire Retirement System (LOPFI) and the local fire and police pension and relief funds (Local Plans). The 2011 amendments to the premium tax formula added the Additional Allocation which replaced a calculation that was called Guarantee Fund. A big component in the decision to change this calculation was that the smaller, less well funded local plans had trouble getting any help from the Guarantee Fund, which was not in line with the purpose of that funding. But, there was still the concept of making sure plans were "doing their part" in the new calculation with the 80% threshold. This condition states that to receive the Additional Allocation a sponsor must contribute at least 80% of the base benefit actuarial cost above the premium tax received.

House Bill 1008 would exempt certain plans from meeting the 80% threshold. Those plans would be volunteer plans that have consolidated with LOPFI that are less than 50% funded on the premium tax basis. This additional funding would be the first item to reduce if the formula does not produce enough to provide for all of the other required pieces.

Fiscal Impact

House Bill 1008 would provide Additional Allocation to about 60 plans who would receive about $113,000 from this funding source where they do not receive this funding source currently. The safeguard mentioned means that the state will continue to receive its portion from this formula as well as other entities listed in the premium tax law.

Other Information

The issue with the contribution threshold for small, poorly funded, volunteer plans is two-fold. First, after consolidation these plans must pay an amount calculated by LOPFI. The poorly funded plan does not see much improvement in a single year from making this payment and as that amortization period reduces, the required payment increases pretty rapidly. This brings us to the second problem which is that small volunteer only locations have little ability to raise additional funds. The result of these problems is that almost none of the poorly funded (in this case less than 50% of the base benefit liability) plans are eligible for Additional Allocation.

House Bill 1008 would not be a cure for the funding of these plans, but it would certainly provide some funding help for these most needy plans.

Sincerely,

Jody Carreiro

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Actuary