

February 25, 2015

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: House Bill 1209**

Dear Ms. Stone:

House Bill (HB) 1209 amends one section of Arkansas Code (ACA), namely § 24-4-521. Our analysis of the proposed amendments to this section as they pertain to the Arkansas Public Employees Retirement System (APERS) follows.

Based upon our understanding of the proposed bill, two areas related to the crediting of service are addressed: 1) the crediting of service for the Governor and elected state constitutional officers, and 2) the crediting of service for elected officials of county and municipal governments covered by the County or Municipal Divisions in APERS.

The proposed bill eliminates the language that provided for the crediting of service at three times the regular rate for the Governor covered by certain situations. The proposed bill also eliminates the language that provided for the crediting of service at two-and-one-half times the regular rate for elected state constitutional officers covered by certain situations. The proposed language indicates that in both circumstances, service will be credited at the regular one-for-one rate. The proposed bill does not appear to include any language indicating that service prior to the effective date of the bill would be covered under the current provisions. Therefore, we believe there may be a diminishment of benefits issue for any member that was covered by the stricken language.

The remainder of the proposed bill changes the crediting of service for elected officials of county and municipal governments covered by the County or Municipal Divisions in APERS. The bill provides for two-for-one service credit as a local option as opposed to the two-for-one service credit automatically provided under current law. It also requires that the additional employer and member contributions required for the two-for-one service crediting be made for all members covered by the provision (i.e., even those first elected prior to July 1, 2011).

By requiring the county or municipal government to make the additional contributions on those members that were first elected prior to July 1, 2011, this will offset the contributions that the other employers in cost-sharing APERS were making for these members. This appears to be a more equitable arrangement. In addition, to the extent that employers do not continue the two-for-one arrangement, savings would probably result to the other employers in cost-sharing APERS, as the current additional employer and member contributions required from the county or municipal

government likely does not fully cover the cost of the two-for-one service crediting. However, sufficient data does not exist to quantify these cost savings. The proposed bill does not appear to include any language indicating that service prior to the effective date of the bill would be covered under the current provisions. Therefore, we believe there may be a diminishment of benefits issue for any member that was covered by the stricken language.

Of further note, we are not certain that a benefit that can be changed each year at the option of the employer is a definitely determinable benefit as required under Internal Revenue Code (IRC) rules for qualified plans. It is likely that the adoption of HB 1209 as written could impair the qualified status of APERS.

Please review this letter carefully to ensure that we have understood the bill properly. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill. Our analysis relates only to the plan changes described in this correspondence. In the event that other plan changes are being considered, it is very important to remember that the results of separate actuarial analyses cannot generally be added together to produce a total. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

We did not review this bill for compliance with Federal, State, or local laws or regulations, and IRC provisions, unless otherwise noted. Such a review was not within the scope of our assignment.

Mita Drazilov is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

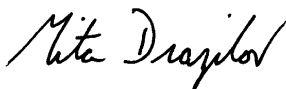
Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

Respectfully submitted,



David L. Hoffman



Mita D. Drazilov, ASA, MAAA

DLH:MDD:mdd