

March 6, 2015

Mr. David B. Clark
Executive Director
Arkansas Local Police and Fire Retirement System
620 W. 3rd, Suite 200
Little Rock, Arkansas 72201-2212

Re: House Bill 1211

Dear Mr. Clark:

House Bill (HB) 1211 amends Sections § 24-10-701(a) and § 24-10-702 of Arkansas Code (ACA). Our analysis of the proposed amendments to these sections as they pertain to the Arkansas Local Police and Fire Retirement System (LOPFI) follows.

The proposed change to this Section deals with allowing a member to use up to 36 months of actual volunteer service credit with the System to attain eligibility to participate in the Local Police and Fire Deferred Retirement Option Plan (DROP). The benefit paid as a result of the volunteer service would be frozen at the time the member enters the DROP and payment of the volunteer benefit would not commence until the time the member terminated paid service employment.

We anticipate that no increase in employer contributions would result due to adoption of the proposed legislation. No explicit modeling of the proposed legislation was performed; the analysis instead considered the makeup of the current active population, the number of paid service active members with volunteer service credit, as reported in the valuation data, LOPFI DROP experience to date and current assumptions regarding DROP elections. If the actual incidence of DROP elections changes as a result of this proposal, results may vary. Additional analysis was outside the scope of this project.

It should be noted that there would be a class of active members who would see small increases in their benefits while participating in the DROP due to receiving 75% of their accrued benefit while participating in the DROP under the proposed legislation versus 72% as under current statute. These are members who enter the DROP at age 55 or later with less than 28 years of LOPFI paid service credit but 25 or more years of LOPFI paid service credit.

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.

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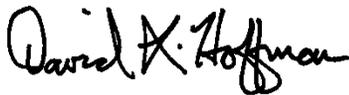
We did not review this bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

Heidi Barry 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.

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

Respectfully submitted,



David L. Hoffman



Heidi G. Barry, ASA, MAAA

DLH:HGB:bd