

February 15, 2013

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

Re: Actuarial Analysis of House Bill 1239

Dear Mr. Clark:

As requested, enclosed is our Actuarial Analysis of HB 1239 for the Arkansas Local Police and Fire Retirement System.

Please call if you have any questions or comments.

Respectfully submitted,



David L. Hoffman



Heidi G. Barry, ASA, MAAA

DLH:HGB:bd

ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF HB 1239
AS OF DECEMBER 31, 2011

Requested By: Mr. David B. Clark, Executive Director
Arkansas Local Police and Fire Retirement System

Date: February 15, 2013

Submitted By: David L. Hoffman and Heidi G. Barry, ASA, MAAA
Gabriel, Roeder, Smith & Company

As requested, we have determined the expected increase in employer contribution rates that would result from certain proposed benefit changes for members covered in the Arkansas Local Police and Fire Retirement System. This supplemental report was requested by the Executive Director.

The date of the study was December 31, 2011. This supplemental valuation does not predict the result of the December 31, 2012 valuation or of any other future actuarial valuation. (Future activities can affect future valuation results in an unpredictable manner.) Rather, the supplemental valuation gives an indication of the probable effect of the proposed changes on future valuations without comment on the complete end result of the future valuations.

This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

The actuary submitting this statement is a Member of the American Academy of Actuaries (MAAA) as indicated, and meets the Qualification Standards of the American Academy of Actuaries required to render the actuarial opinion contained herein.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. 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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The actuarial methods were the same as those used in the regular valuation as of December 31, 2011. The assumptions used were those adopted by the Board at their December 6, 2012 meeting.

A summary of active member data as of December 31, 2011 for current **Volunteer** employers follows:

Number Active	Average	
	Age	Service
7,034	40.8 years	9.5 years

PRESENT PROVISIONS:

VOLUNTEER SERVICE:

Benefit Program 3 – For each year of Volunteer Service, \$5.00 monthly, to a maximum of \$200 monthly. Beginning in 2003, each July 1 these amounts are indexed for inflation, for members retiring in the next 12 months.

Benefit Program 4 – None.

PROPOSED PROVISIONS:

VOLUNTEER SERVICE:

Benefit Program 3 – For each year of Volunteer Service, \$5.00 monthly, to a maximum of \$200 monthly. Beginning in 2003, each July 1 these amounts are indexed for inflation, for members retiring in the next 12 months.

Benefit Program 4 – Effective July 1, 2013 – For each year of Volunteer Service rendered on or after the election of BP4, \$10.00 monthly. The maximum benefit shall not exceed \$400 monthly. Beginning in 2013, each July 1 these amounts are indexed for inflation, for members retiring in the next 12 months.

ACTUARIAL STATEMENT: Adoption of BP4 is a local option. We have estimated a contribution rate for a new employer electing BP4 coverage to be about \$40.00 per member per month. We used the characteristics of the current active member population to make this estimate. This estimate does not account for any prior service.

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Comment A: Our understanding is that BP4 election means the employer will pay the entire contribution with no sharing of premium tax revenues.

Comment B: It is important that the LOPFI Board retain the ability to establish appropriate policies and procedures to maintain equity between employers.