

Senate Bill 181

(with Amendment No. 1)

Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 88th General Assembly

Provisions of the Bill

Current law provides a formula to distribute a portion of certain lines of insurance premium tax to be used to help fund the Arkansas Local Police and Fire Retirement System (LOPFI) and the local, closed plans (Local Plans). Senate Bill 181 makes significant changes to the premium tax formula.

Section 1 adds subsection (j) to §24-10-405, which allows the LOPFI board to determine how to set the rate for paid employers beginning January 1, 2012. This will accomplish the creation of a single employer paid rate for LOPFI, similar to the current single volunteer rate.

Section 2 ends prior service for NEW LOPFI employers. Previously, for paid plans, an employer could bring in all the prior service it wanted to pay for; volunteer plans could bring in up to four years of prior service.

Section 3 amends the current Guarantee Fund defined in §24-11-209. The Guarantee Fund will be replaced with an additional allocation defined in §24-11-217 (Section 7 of this bill). This language also sets the minimum allocation for the new additional allocation. This is to be the amount a plan would have received under the current Guarantee Fund. This also ends the Guarantee Fund as defined in this section beginning with the 2016 allocation.

Section 4 amends §24-11-213, which defines the amount to be distributed and the amount for the general revenue distributions so that the amount would be the greater of the population split (the current method) and a new amount. The new amount will be the sum of (a) 40% of the paid LOPFI only cost, plus (b) 100% of the volunteer LOPFI only cost, which reflects the required employer contribution, plus (c) 30% of the Local Plan and consolidated local plan costs.

Section 5 makes two major amendments to §24-11-214. First, there is a split of the paid LOPFI cost into LOPFI only cost and consolidation costs. It also defines Local Plan costs to be base plan (50% of pay, \$100 per month volunteer) costs. The resulting formula will not consider benefit increases in LOPFI or Local Plan beyond the base defined by law. The second major change is the new allocation formula, which is a percentage multiplied by the defined actuarial cost. This also describes the phase-in, which extends through 2015 and gives the PRB the ability to further define any items by rule.

Section 6 amends §24-11-215 to define what happens when the formula produces an allocation larger than the total money available to the formula. First, a minimum amount of general revenue of \$4 million is established. Then, the additional allocation in §24-11-217 is reduced. Last, if there is still not enough money, the percentages for the premium tax allocation are reduced.

Osborn, Carreiro & Associates, Inc.

ACTUARIES • CONSULTANTS • ANALYSTS

Section 7 of the bill adds a new section of code, §24-11-217, which will replace the Guarantee Fund in 2016. This additional allocation is the greater of the defined amount and the current Guarantee Fund. The defined amount provides an additional 10% of the calculated cost. The condition for receiving the funds is that 80% of that calculated cost is contributed by the city. The method of payment (e.g. millage) is no longer a requirement. There is not a prohibition regarding benefit increases, but the cost is based on base benefits, and does not include benefit increases.

Fiscal Impact

There is not a fiscal impact on the LOPFI system. All locations that participate in LOPFI must pay the rate determined by LOPFI through their actuary. Senate Bill 181 will change how much of that cost is covered by premium tax and will change the amount the cities will pay. After transition, all locations will pay the same rate and will receive 40% of that value from the premium tax formula.

The Local Plans which are not consolidated are only required to pay the amounts defined in law. This is not the amount needed to fully fund the plan. After transition, the premium tax allocation will pay an equal percentage of the cost needed to approach being fully funded. The additional allocation of 10% of that cost will be tied to whether the location is also paying a substantial portion (80%) of that cost. These two items should lead to generally better funded Local Plans.


Related Legislation

Senate Bill 183 does not amend any of the same sections of code as SB181. However, it will eventually reduce the need to use part of the general revenue for State Police Retirement, which will, in turn, help the allocation stay within the limits described in Section 6 of the bill.

Senate Bill 117 takes the current language about minimum benefits out of the Guarantee Fund section, §24-11-209. This bill conflicts with Senate Bill 181 and does not have any limit on how much money would be used in total by the Guarantee Fund.

Senate Bill 158 increases the police supplement defined in §24-11-215 from the current \$50 per month to \$100 per month. Although this bill does not directly conflict with Senate Bill 181, it seems counterproductive to allocate more money to a supplement while trying to improve the base funding of the plans.

Sincerely,



Jody Carreiro, A.S.A., M.A.A.A.
Actuary

ARKANSAS FIRE AND POLICE PENSION PREMIUM TAX ALLOCATION

**COLLECTED ON INSURANCE POLICIES IN CALENDAR YEAR 2010-2015
DISTRIBUTED TO LOCATIONS AND GENERAL REVENUE IN JUNE 2011-2016**

PROJECTED EFFECT OF SENATE BILL 181 *WITHOUT* PASSAGE OF SENATE BILL 183

	Projected <u>June, 2011</u>	SB 181 effect <u>June, 2011</u>	<u>June, New 2012</u>	<u>June, New 2013</u>	<u>June, New 2014</u>	<u>June, New 2015</u>	<u>June, New 2016</u>
Covered Salary LOPFI Fire	116,975,522.00	116,975,522.00	121,654,542.88	126,520,724.60	131,581,553.58	136,844,815.72	142,318,608.35
Covered Salary LOPFI Police	151,714,046.00	151,714,046.00	157,782,607.84	164,093,912.15	170,657,668.64	177,483,975.39	184,583,334.41
Average LOPFI only Cont. Rate	16.89%	16.89%	17.89%	18.89%	19.00%	19.00%	19.00%
LOPFI only Volunteer	3,709,802.00	3,709,802.00	3,932,390.12	4,168,333.53	4,293,383.54	4,422,185.05	4,554,850.60
LOPFI Consolidation Cost		13,757,051.00	14,582,474.06	15,457,422.50	15,457,422.50	15,457,422.50	15,457,422.50
Old Plan Dollar Cost		16,395,388.00	17,379,111.28	18,421,857.96	18,421,857.96	18,421,857.96	18,421,857.96
Premium Taxes Received for Fire Plan Distribution	22,515,949.94	22,515,949.94	23,416,587.94	24,353,251.46	25,327,381.52	26,340,476.78	27,394,095.85
for Police Plan Distribution	26,643,937.94	26,643,937.94	27,043,597.01	27,449,250.97	27,860,989.73	28,278,904.58	28,703,088.15
Total Received for Allocation	49,159,887.88	49,159,887.88	50,460,184.95	51,802,502.43	53,188,371.25	54,619,381.36	56,097,184.00
Treasury Fee	1,474,796.64	1,474,796.64	1,513,805.55	1,554,075.07	1,595,651.14	1,638,581.44	1,682,915.52
PRB Administrative Expenses	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00
PRB P Tax Allocation Expenses	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00
<u>Distributed to Cities</u>							
LOPFI only Fire	40% 8,838,697.00	7,902,866.27	8,705,599.09	9,559,905.95	10,000,198.07	10,400,205.99	10,816,214.23
LOPFI only Police	40% 12,265,583.00	10,249,800.95	11,290,923.42	12,398,936.00	12,969,982.82	13,488,782.13	14,028,333.42
LOPFI only Volunteer	90% 3,380,000.00	3,380,000.00	3,539,151.11	3,751,500.18	3,864,045.19	3,979,966.55	4,099,365.54
LOPFI Consolidation	30% 4,127,115.30	4,127,115.30	4,374,742.22	4,637,226.75	4,637,226.75	4,637,226.75	4,637,226.75
All Local Plans	30% 6,935,777.78	4,918,616.40	5,213,733.38	5,526,557.39	5,526,557.39	5,526,557.39	5,526,557.39
	31,420,057.78	30,578,398.92	33,124,149.22	35,874,126.27	36,998,010.22	38,032,738.81	39,107,697.33
Future Supplement-Mortality portion	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00
Initial General Revenue Portion	14,215,033.46	15,056,692.32	13,772,230.18	12,324,301.09	12,544,709.89	12,898,061.11	13,256,571.15
Fire Protection Fund - Act 833	639,345.85	659,438.20	628,775.10	594,209.68	599,471.34	607,906.66	616,465.13
Arkansas State Police Pension Fund	4,200,000.00	4,200,446.89	4,424,282.85	4,658,188.61	4,902,589.29	5,157,927.46	5,424,663.85
Guarantee Fund	10% 1,500,000.00	2,261,432.93	2,397,118.90	2,540,946.03	2,540,946.03	2,540,946.03	2,540,946.03
Police Supplement	795,000.00	795,000.00	780,000.00	765,000.00	750,000.00	735,000.00	720,000.00
Future Supplement Fund	750,000.00	750,000.00	602,687.59	0.00	0.00	165,603.06	344,858.08
Adjustment to meet GR minimum	4,000,000 0.00	0.00	0.00	-234,043.23	-248,296.77	-309,322.10	-390,361.94
Final General Revenue Portion	6,330,687.61	6,390,374.30	4,939,365.74	4,000,000.00	4,000,000.00	4,000,000.00	4,000,000.00

ARKANSAS FIRE AND POLICE PENSION PREMIUM TAX ALLOCATION

**COLLECTED ON INSURANCE POLICIES IN CALENDAR YEAR 2010-2015
DISTRIBUTED TO LOCATIONS AND GENERAL REVENUE IN JUNE 2011-2016**

PROJECTED EFFECT OF SENATE BILL 181 WITH PASSAGE OF SENATE BILL 183

	Projected <u>June, 2011</u>	SB 181 effect <u>June, 2011</u>	<u>June, New 2012</u>	<u>June, New 2013</u>	<u>June, New 2014</u>	<u>June, New 2015</u>	<u>June, New 2016</u>
Covered Salary LOPFI Fire	116,975,522.00	116,975,522.00	121,654,542.88	126,520,724.60	131,581,553.58	136,844,815.72	142,318,608.35
Covered Salary LOPFI Police	151,714,046.00	151,714,046.00	157,782,607.84	164,093,912.15	170,657,668.64	177,483,975.39	184,583,334.41
Average LOPFI only Cont. Rate	16.89%	16.89%	17.89%	18.89%	19.00%	19.00%	19.00%
LOPFI only Volunteer	3,709,802.00	3,709,802.00	3,932,390.12	4,168,333.53	4,293,383.54	4,422,185.05	4,554,850.60
LOPFI Consolidation Cost		13,757,051.00	14,582,474.06	15,457,422.50	15,457,422.50	15,457,422.50	15,457,422.50
Old Plan Dollar Cost		16,395,388.00	17,379,111.28	18,421,857.96	18,421,857.96	18,421,857.96	18,421,857.96
Premium Taxes Received for Fire Plan Distribution	22,515,949.94	22,515,949.94	23,416,587.94	24,353,251.46	25,327,381.52	26,340,476.78	27,394,095.85
for Police Plan Distribution	26,643,937.94	26,643,937.94	27,043,597.01	27,449,250.97	27,860,989.73	28,278,904.58	28,703,088.15
Total Received for Allocation	49,159,887.88	49,159,887.88	50,460,184.95	51,802,502.43	53,188,371.25	54,619,381.36	56,097,184.00
Treasury Fee	1,474,796.64	1,474,796.64	1,513,805.55	1,554,075.07	1,595,651.14	1,638,581.44	1,682,915.52
PRB Administrative Expenses	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00	340,000.00
PRB P Tax Allocation Expenses	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00	210,000.00
<u>Distributed to Cities</u>							
LOPFI only Fire	40% 8,838,697.00	7,902,866.27	8,705,599.09	9,559,905.95	10,000,198.07	10,400,205.99	10,816,214.23
LOPFI only Police	40% 12,265,583.00	10,249,800.95	11,290,923.42	12,398,936.00	12,969,982.82	13,488,782.13	14,028,333.42
LOPFI only Volunteer	90% 3,380,000.00	3,380,000.00	3,539,151.11	3,751,500.18	3,864,045.19	3,979,966.55	4,099,365.54
LOPFI Consolidation	30% 4,127,115.30	4,127,115.30	4,374,742.22	4,637,226.75	4,637,226.75	4,637,226.75	4,637,226.75
All Local Plans	30% 6,935,777.78	4,918,616.40	5,213,733.38	5,526,557.39	5,526,557.39	5,526,557.39	5,526,557.39
	31,420,057.78	30,578,398.92	33,124,149.22	35,874,126.27	36,998,010.22	38,032,738.81	39,107,697.33
Future Supplement-Mortality portion	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00
Initial General Revenue Portion	14,215,033.46	15,056,692.32	13,772,230.18	12,324,301.09	12,544,709.89	12,898,061.11	13,256,571.15
Fire Protection Fund - Act 833	639,345.85	659,438.20	628,775.10	594,209.68	599,471.34	607,906.66	616,465.13
Arkansas State Police Pension Fund	4,200,000.00	4,200,446.89	3,670,597.80	3,474,390.09	3,292,223.52	3,100,501.87	2,898,893.66
Guarantee Fund	10% 1,500,000.00	2,261,432.93	2,397,118.90	2,540,946.03	2,540,946.03	2,540,946.03	2,540,946.03
Police Supplement	795,000.00	795,000.00	780,000.00	765,000.00	750,000.00	735,000.00	720,000.00
Future Supplement Fund	750,000.00	750,000.00	602,687.59	0.00	0.00	165,603.06	344,858.08
Adjustment to meet GR minimum	4,000,000 0.00	0.00	0.00	0.00	0.00	0.00	0.00
Final General Revenue Portion	6,330,687.61	6,390,374.30	5,693,050.79	4,949,755.29	5,362,069.00	5,748,103.49	6,135,408.25

ARKANSAS FIRE AND POLICE PENSION PREMIUM TAX ALLOCATION

**COLLECTED ON INSURANCE POLICIES IN CALENDAR YEAR 2010-2015
DISTRIBUTED TO LOCATIONS AND GENERAL REVENUE IN JUNE 2011-2016**

PROJECTED PREMIUM TAX ALLOCATION - NO CHANGE IN CURRENT LAW

	<u>June, 2011 EST.</u>	<u>June, New 2011</u>	<u>June, New 2012</u>	<u>June, New 2013</u>	<u>June, New 2014</u>	<u>June, New 2015</u>	<u>June, New 2016</u>
Covered Salary LOPFI Fire	116,975,522.00	116,975,522.00	121,654,542.88	126,520,724.60	131,581,553.58	136,844,815.72	142,318,608.35
Covered Salary LOPFI Police	151,714,046.00	151,714,046.00	157,782,607.84	164,093,912.15	170,657,668.64	177,483,975.39	184,583,334.41
Average LOPFI only Cont. Rate	16.89%	16.89%	17.89%	18.89%	19.00%	19.00%	19.00%
LOPFI only Volunteer	3,709,802.00	3,709,802.00	3,932,390.12	4,168,333.53	4,293,383.54	4,422,185.05	4,554,850.60
LOPFI Consolidation Cost		13,757,051.00	14,582,474.06	15,457,422.50	15,457,422.50	15,457,422.50	15,457,422.50
Old Plan Dollar Cost		16,395,388.00	17,379,111.28	18,421,857.96	18,421,857.96	18,421,857.96	18,421,857.96
Premium Taxes Received							
for Fire Plan Distribution	22,515,949.94	22,515,949.94	23,416,587.94	24,353,251.46	25,327,381.52	26,340,476.78	27,394,095.85
for Police Plan Distribution	26,643,937.94	26,643,937.94	27,043,597.01	27,449,250.97	27,860,989.73	28,278,904.58	28,703,088.15
Total Received for Allocation	49,159,887.88	49,159,887.88	50,460,184.95	51,802,502.43	53,188,371.25	54,619,381.36	56,097,184.00
Treasury Fee	1,474,796.64		1,513,805.55	1,554,075.07	1,595,651.14	1,638,581.44	1,682,915.52
PRB Administrative Expenses	340,000.00		340,000.00	340,000.00	340,000.00	340,000.00	340,000.00
PRB P Tax Allocation Expenses	210,000.00		210,000.00	210,000.00	210,000.00	210,000.00	210,000.00
<u>Distributed to Cities</u>							
LOPFI only Fire	8,838,697.00						
LOPFI only Police	12,265,583.00						
LOPFI only Volunteer	3,380,000.00						
LOPFI Consolidation							
All Local Plans	<u>6,935,777.78</u>						
	31,420,057.78		32,251,129.84	33,109,058.83	33,994,823.23	34,909,439.24	35,853,962.23
Future Supplement-Mortality portion	1,500,000.00		1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00
Initial General Revenue Portion	14,215,033.46		14,645,249.56	15,089,368.53	15,547,896.88	16,021,360.68	16,510,306.25
Fire Protection Fund - Act 833	639,345.85		649,616.10	660,218.25	671,164.39	682,467.07	694,139.34
Arkansas State Police Pension Fund	4,200,000.00		4,424,282.85	4,658,188.61	4,902,589.29	5,157,927.46	5,424,663.85
Guarantee Fund	1,500,000.00		1,620,000.00	1,749,600.00	1,802,088.00	1,802,088.00	1,802,088.00
Police Supplement	795,000.00		780,000.00	765,000.00	750,000.00	735,000.00	720,000.00
Future Supplement Fund	750,000.00		1,039,197.28	1,261,256.77	1,490,520.94	1,727,252.84	1,971,725.63
Adjustment to meet GR minimum	0.00		0.00	0.00	0.00	0.00	0.00
Final General Revenue Portion	6,330,687.61		6,132,153.33	5,995,104.90	5,931,534.26	5,916,625.31	5,897,689.43