

## **Senate Bill 41**

### Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 89th General Assembly

#### **Provisions of the Bill**

Senate Bill 41 affects the allocation of premium taxes to certain local, closed plans (Local Plans). Current law provides a formula to distribute a portion of certain lines of insurance premium tax to be used to help fund a portion of the employer contribution costs under the Arkansas Local Police and Fire Retirement System (LOPFI) and the Local Plans. Act 979 of 2011 made significant changes to the premium tax formula. This included an Additional Allocation piece for the Local Plans (including Local Plans consolidated with LOPFI) which provides additional money for Local Plans which meet certain conditions involving local contribution amounts.

Senate Bill 41 adds another criterion that may be used to meet the contribution requirements necessary to receive an Additional Allocation. This new criterion is for the location to provide at least one dedicated mill for funding. This is the same standard that was used for the Guarantee Fund (formerly ACA §24-11-209) which was replaced by the Additional Allocation.

#### **Fiscal Impact**

We have found that 5 of the 150 Local Plans (some of these 150 have since consolidated) would have received Additional Allocation if this provision had been in place for the 2012 Premium Tax allocation. The estimated amounts of Additional Allocation to be paid to these five plans in 2013 would be about \$89,000. There are also 70 additional departments whose Local Plans consolidated with LOPFI that may receive a full mill and be qualified. We checked with 4 of the larger locations and estimate that at least \$663,000 and perhaps as much as \$883,000 of Additional Allocation would be needed for these plans. This amount would be allocated before the amount that ultimately flows back to state general revenues.

We have included a chart summarizing our findings. The first column details the 2012 Allocation totals. The second column summarizes the effects of the additional five plans discussed above as well as the four largest consolidated plans, whom we know would qualify as a result of SB41. The final column lists our estimate of the largest potential effect on consolidated Additional Allocation payments resulting from SB41 if each consolidated plan had a full mill. Information concerning which locations receive a full mill is not readily available for consolidated plans.

**Osborn, Carreiro & Associates, Inc.**  
ACTUARIES • CONSULTANTS • ANALYSTS

	2012 Allocation	SB 41 (known additions, estimated)	SB 41 (potential additions, estimated)
Total # of Local Plans	150	150	150
# Meeting Qualifications	95	100	100
# Receiving Add. Alloc.	31	36	36
Amount Received	\$ 1,236,496	\$ 1,325,500	\$ 1,325,500
Total # of Consolidated Plans	153	153	153
# Meeting Qualifications	83	87	153
# Receiving Add. Alloc.	66	70	140
Amount Received	\$ 1,264,259	\$ 1,927,400	\$ 2,097,200

The Premium Tax allocation formula has a condition that the amount produced to be allocated to state general revenues will not be less than \$4,000,000. The amount allocated in 2012 was \$4,118,699. The \$4,000,000 minimum takes precedence over the Additional Allocation, so the most that the state general revenue portion will be reduced based on the 2012 allocation would be \$119,000.

The total effect Senate Bill 41 would have had on the 2012 allocation (known additions) would be that the general revenue portion would be reduced to \$4,000,000 and the locations would receive a reduced portion (about 80%) of the amount of Additional Allocation they would otherwise have received.

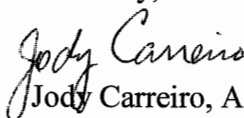
We have also included an excerpt from the 2012 Allocation Report detailing a comparison with previous years' allocations; this page is also reproduced in your committee materials packet.

**Related Legislation**

Senate Bill 51, which this Committee has recommended do pass, amended the same sections of code, making technical corrections. There are no conflicts between this bill and Senate Bill 51.

Senate Bill 152 which is also before the Committee would impact the Premium Tax formula. This bill would likely increase the total allocations so that the Additional Allocation portion would have to be reduced. All amounts in this study would be altered if Senate Bill 152 becomes law.

Sincerely,

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

Senate Bill 41  
February 13, 2013

## ARKANSAS FIRE AND POLICE PENSION PREMIUM TAX ALLOCATION

**COLLECTED ON INSURANCE POLICIES IN CALENDAR YEAR 2011  
DISTRIBUTED TO LOCATIONS AND GENERAL REVENUE IN JUNE 2012**

### COMPARISON WITH PREVIOUS YEAR

	<u>June, 2010</u>	<u>June, 2011</u>	<u>June, 2012</u>	<u>One Year Change</u>
Previous Year's Forfeitures	0.00	0.00	0.00	
Premium Taxes Received				
for Fire Plan Distribution	21,649,951.87	22,480,525.96	23,869,477.76	6.2%
for Police Plan Distribution	26,250,185.16	26,475,315.95	26,743,036.78	1.0%
<b>Total Received for Allocation</b>	<u>47,900,137.03</u>	<u>48,955,841.91</u>	<u>50,612,514.54</u>	3.4%
Treasury Fee	1,436,448.55	1,468,675.26	1,517,527.30	3.3%
Special Revenue Fee	0.00	0.00	151,752.73	
General Revenues	5,156,307.93	5,883,825.38	4,118,699.49	-30.0%
PRB Administrative Expenses	340,000.00	340,000.00	317,000.00	-6.8%
PRB P Tax Allocation Expenses	207,345.00	210,888.00	226,544.00	7.4%
<u>Distributed to Cities</u>				
Local Police Plans	1,808,879.17	1,888,394.53	1,840,467.13	-2.5%
Local Fire Plans	4,755,502.66	4,324,689.56	2,188,252.27	-49.4%
LOPFI Police Plans	12,355,194.35	11,681,587.10	10,272,719.60	5.5%
Police Consolidation			2,049,527.19	
LOPFI Fire Plans	8,245,380.18	8,715,886.23	8,365,826.93	28.6%
Fire Consolidation			2,842,739.16	
LOPFI Volunteer Locations	3,359,876.88	3,642,029.00	3,766,820.40	3.4%
Total Distribution to Cities	<u>30,524,833.24</u>	<u>30,252,586.42</u>	<u>31,326,352.68</u>	3.5%
Fire Protection Fund - Act 833	631,500.00	657,420.00	668,940.00	1.8%
Arkansas State Police Pension Fund	5,217,767.08	5,232,633.78	6,000,000.00	14.7%
Guarantee Fund	1,425,160.00	1,263,723.00	1,236,496.38	97.9%
now 2 Parts Additional Allocation			1,264,258.66	
Police Supplement	795,000.00	732,000.00	721,800.00	-1.4%
Future Supplement Fund	2,165,775.23	2,914,090.07	3,063,143.30	5.1%
Amounts withheld due to Compliance	0.00	0.00	0.00	
<b>Total Allocation</b>	<u>47,900,137.03</u>	<u>48,955,841.91</u>	<u>50,612,514.54</u>	