

**Senate Bill 5**

(As Engrossed March 2, 2021)

Actuarial Cost Study prepared for  
Joint Committee on Public Retirement and Social Security Programs  
of the Arkansas 93<sup>rd</sup> General Assembly

**Provisions of the Bill**

Senate Bill 5 affects the Arkansas Local Police and Fire Retirement System (LOPFI). The bill has three sections. Section 1 addresses reciprocal service. The primary change in this section is that the final average pay used to determine reciprocal benefit paid by LOPFI will be the final average pay while the member was active in LOPFI. Members who establish reciprocity with another system by April 1, 2021 and have member contributions with LOPFI will continue to use the highest final average pay of the reciprocal system.

Section 2 rewords 24-10-616 for clarity and the only change is to provide that any appeal of an administrative decision of the LOPFI Board will be filed in Pulaski County Circuit Court.

The SECURE Act was enacted on December 20, 2019. This federal pension law contained many changes. The primary change affecting governmental plans is the change in Required Minimum Distribution date. The beginning age for the Required Minimum Distributions is moved from 70 ½ to 72. Section 3 of Senate Bill 5 updates LOPFI law to bring it into compliance with this federal law.

**Fiscal Impact**

The cost of reciprocal benefits is difficult to calculate directly. LOPFI tries to collect when a member leaves the system and goes to work for a reciprocal system. But they do not always have the salary information from the new employer. The cost is typically not known until after a member applies for a reciprocal benefit and the reciprocal system provides the needed information. The system provided all reciprocal benefits that were initiated in the past two years. This group was about 12% of the new benefits from previously terminated members. The reciprocal salary increased those benefits by about 70%. If this continues, the additional liability that is not captured in the contribution rate is about \$8 million. This would be equivalent to a 0.18% savings in contribution rate. The savings would also apply to current actives who leave LOPFI and go to a reciprocal system. It is our opinion that this change would not affect the current contribution rate, but would ultimately create a savings to the system that would ultimately be equivalent to about 0.16% of payroll.

Sections 2 and 3 of Senate Bill 5 would not have a fiscal impact on the system.

**Related Legislation**

The reciprocity provisions of Senate Bill 5 do not appear to be consistent with certain parts of A.C.A. §24-2-401 et seq. although it is not clear in the current language. House Bill 1325 is the result of a work group of system directors and others to simplify and clarify the language in those sections. Passage of House Bill 1325 would remove any apparent inconsistency.

Senate Bill 7 which affects the Local fire and police pension and relief funds (Local Plans) makes the same change as Section 3 of this bill.

Sincerely,



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Actuary