

May 22, 2018

City, County & Local Affairs Committee - House
500 Woodlane Street
State Capitol Building
Little Rock, AR 72201

RE: Interim Study Proposal 2017-001
Update on Findings

Ladies and Gentlemen:

Representative Jeff Williams has written Interim Study Proposal (ISP) 2017-001 that was adopted by the House Committee on City, County & Local Affairs (Committee). Osborn, Carreiro & Associates is contracted to provide actuarial services in support of the Bureau of Legislative Research (BLR), primarily serving the Joint Committee on Retirement. We are providing support service in connection with this ISP since it is concerning retirement issues. This letter is an update of our findings.

Purpose

The purpose of the ISP is to compile and provide information showing the types of municipal retirement benefits offered to local employees across the state. The ISP seeks to collect the participation levels, benefits offered, governance structures, and financial health information for all retirement plans offered by municipalities. The analysis for this update focuses on the 106 Cities of the First Class, that is, cities with a population of 2,500 or more.

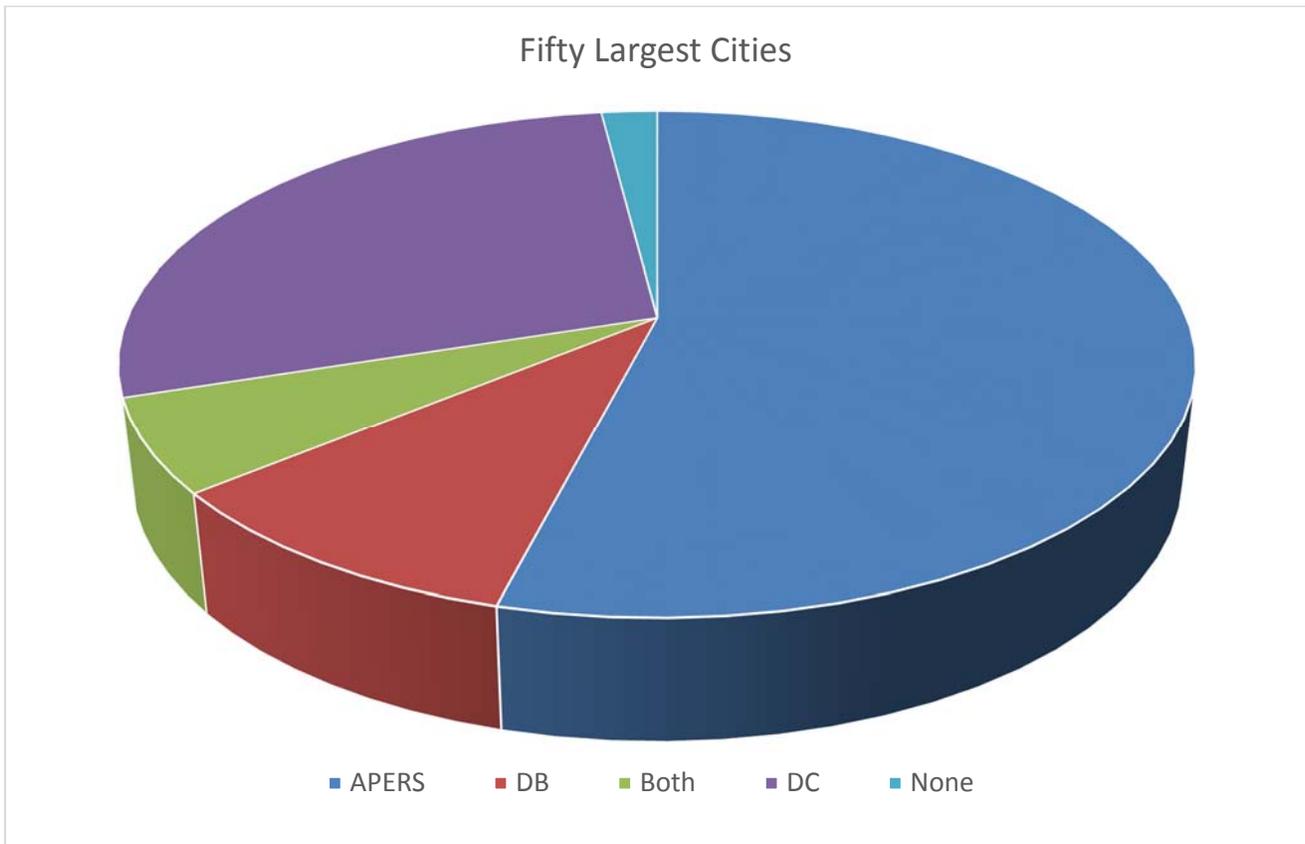
Uniformed Employees

The uniformed fire and police service employees are generally covered by the Local Police and Fire Retirement System (LOPFI). In fact, state law provides that all uniformed employees hired after January 1, 1983 that have coverage must be covered by LOPFI. The only exception to this are locations that already had their police participants covered by APERS before the LOPFI system went into effect. With the exception of two cities with fire coverage provided by separate fire protection districts, all of this group have LOPFI coverage. Eighty seven of the one hundred and six cities reviewed have LOPFI coverage for their police officers. Four cities meet the APERS exception mentioned above and one had other coverage before LOPFI was established. This means that fourteen cities have not disclosed their coverage, do not have retirement coverage, or have agreements with their counties for police coverage.

Non-Uniformed Employees (Fifty Largest Cities)

About one-half (27) of the fifty largest cities have elected to provide retirement coverage through APERS. Eight of the ten largest cities have their own plan to provide retirement. This means that 63% of the next forty cities by size provide benefits through APERS. There are five of the fifty largest (10%) that provide defined benefit plans (DB) for their employees. There are fourteen of this fifty (28%) that provide a defined contribution (DC) type plan for their employees. And three of the fifty, or 6%, have both a DB and DC plan. Only one of this group did not disclose or does not have retirement coverage for their employees.

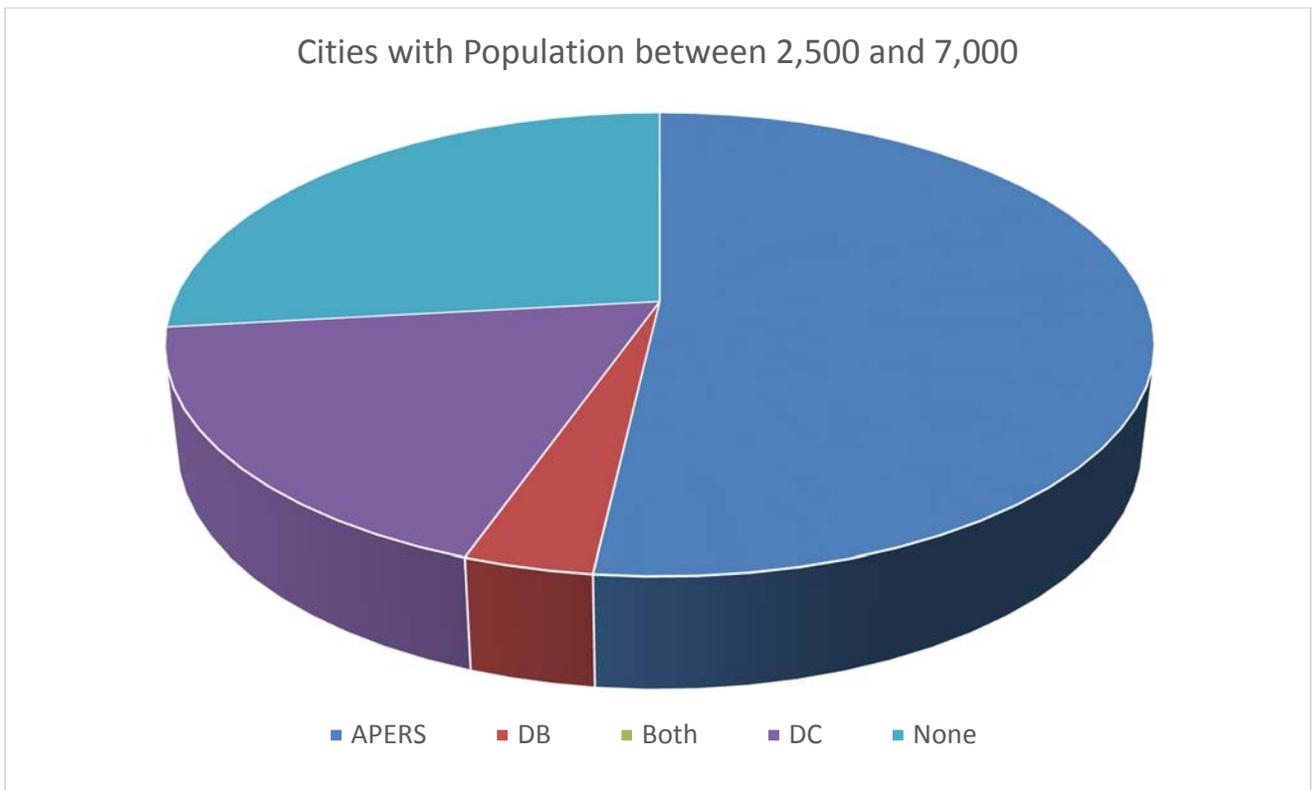
Below is a graphic representation of the types of coverage.



Non-Uniformed Employees (Population between 2,500 and 7,000)

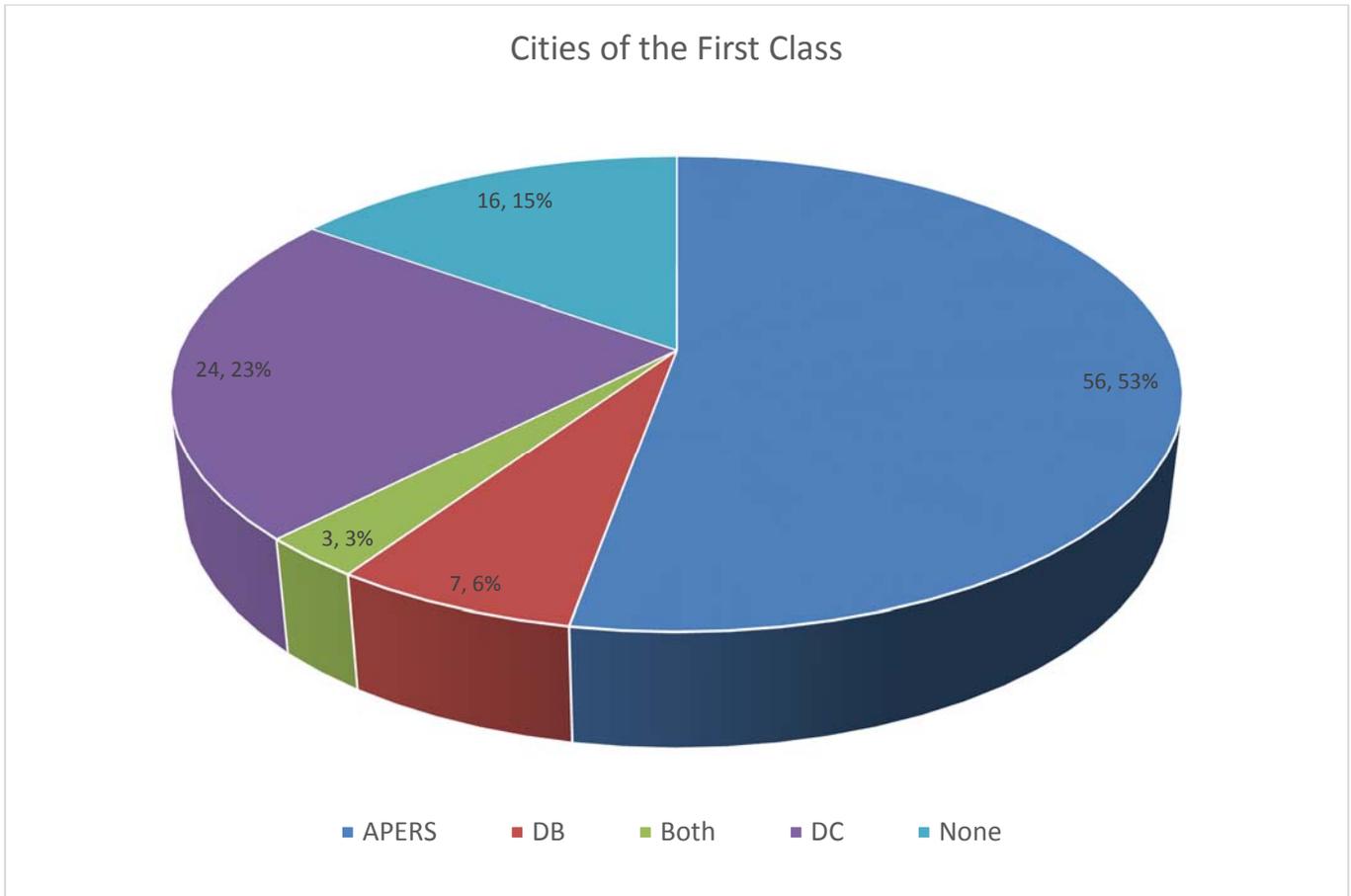
The remaining cities of the first class have a population (as of 2010) of between 2,500 and 7,000. We again find that about one-half, 29 of the 56 or 52%, of this group chooses to use APERS as their retirement benefit vehicle. Only 2 of these cities, about 4%, uses DB plans to provide retirement benefits. While the use of DC plans is similar to the fifty largest cities, 10 out of the 56 or 18%. The difference in this group is that about one-fourth, 15 of the 56 cities, either did not report retirement coverage in their audit or does not provide retirement coverage for their non-uniformed employees. Please note, the majority of this group have a regulatory audit performed by Legislative Audit.

Below is a graphic representation of the types of coverage.



Non-Uniformed Employees (All Cities of the First Class)

The graph on this page shows the results for all 106 cities of the first class, cities with more than 2,500 in population. This graph shows the number and percentage for each category. The key points again are that about one-half of the locations use APERS for retirement coverage. About one-fourth use some type of defined contribution (DC) plan for their coverage. As you might expect, the smaller the location, the more likely that there is low or no retirement coverage.



Non-Uniformed Employees of Water and Sewer Systems (All Cities of the First Class)

As you know, there are a variety of ways the water and sewer services are provided by cities. We did find that almost all cities that have a water or sewer system that is a component of the city have the same coverage for those employees as they do for their other non-uniformed employees. One significant exception is Central Arkansas Water that serves several of the cities on this list in central Arkansas which covers their employees in APERS. The APERS benefits are typically a bit more valuable than what is offered by the cities in that group. We have compiled more information on this group of employees and will detail that in the final report.

The cities have used the flexibility in the laws of Arkansas to provide various types of retirement benefits for their employees. Some, not all, of the DC plan benefits are relatively weak, that is, an employee working a full career will not be able to replace a large portion of their income from the savings provided. Another item of note is that the Arkansas Diamond Plan (a DC plan under IRS code 457(b)) is used by most of these locations as a secondary retirement savings vehicle. Although it can be used by cities as the primary vehicle when they choose DC plans, very few cities do so.

I look forward to discussing the information we have found with the Committee.

Sincerely,

A handwritten signature in black ink that reads "Jody Carreiro". The signature is written in a cursive, flowing style.

Jody Carreiro, ASA, MAAA, EA, FCA
Vice President & Actuary