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March 9, 2011

Ms. Gail H. Stone
Executive Director
Arkansas Public Employees Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Re: Actuarial Analysis of House Bill 1219 Revised

Dear Ms. Stone:

As requested, enclosed is our revised Actuarial Analysis of HB 1219 for the Arkansas Public Employees Retirement System.

Please call if you have any questions or comments.

Respectfully submitted,

David L. Hoffman

Mita D. Drazilov, ASA, MAAA

DLH:MDD:lr
Enclosures

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF HB 1219
AS OF JUNE 30, 2010

Requested By:	Ms. Gail H. Stone, Executive Director Arkansas Public Employees Retirement System
Date:	March 9, 2011
Submitted By:	Mita Drazilov, ASA, MAAA and David Hoffman 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 Public Employees Retirement System. This supplemental report was requested by the Executive Director.

The date of the study was June 30, 2010. This supplemental valuation does not predict the result of the June 30, 2011 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 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.

Unless otherwise indicated, the actuarial methods and assumptions were the same as those used in the regular valuation as of June 30, 2010. In particular the economic assumptions used in the supplemental actuarial valuation were net investment return of 8.0% per year and wage inflation of 4.0% per year. Changes in actuarial accrued liabilities were amortized as a level-percent-of-payroll over a 30-year period.

A brief summary of the data (excluding General Assembly and District Judges members), as of June 30, 2010 is presented below:

			Average in Years	
Active Group	**Number**	**Covered Payroll**	**Age**	**Service**
New Contributory	19,056	$ 524,832,410	38.7	2.3
Non-Contributory	23,494	897,037,748	49.5	14.8
New Contributory (Transfers)	2,830	100,609,100	47.5	11.8
Total	45,380	$1,522,479,258	44.8	9.3

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF HB 1219
AS OF JUNE 30, 2010

PRESENT PROVISIONS:

24-4-508. Full Age and Service Eligibility.

28 years of credited service, regardless of age.

PROPOSED PROVISIONS:

24-4-508. Full Age and Service Eligibility.

28 years of credited service, regardless of age for **members vested before July 1, 2011**.

30 years of actual service, regardless of age, for future active members as well as members with less than five (5) years of service as of July 1, 2011.

Actuarial Information: The following shows the computed change in the employer contribution rate that would be necessary to fund for the proposed benefit on a level cost basis.

Increase in Employer Contribution Rate	% of Payroll
Normal Cost	(0.16%)
UAAL* (30-year amortization)	0.03%
Total	**(0.13%)**

** Unfunded Actuarial Accrued Liability.*

Comments

Comment 1: The increase in unfunded actuarial accrued liabilities resulting from this proposed benefit change is $8.3 million.

Comment 2: The cost of any proposal to change the period over which retirement benefits are accrued is dependent on the utilization of the proposal**.** No experience is available to determine what the actual rate of utilization would be for the proposed change in the voluntary retirement age. We believe that the utilization rates used to determine the cost of this proposed benefit change are reasonable. The table below shows the probability of retirement each year for a given age for both the current voluntary retirement conditions and the proposed voluntary retirement conditions.

Current Retirement Probabilities						Proposed Retirement Probabilities					
Service	Normal	DROP	Service	Normal	DROP	Service	Normal	DROP	Service	Normal	DROP
28	15.00%	25.00%	34	12.00%	15.00%	30	35.00%	35.00%	36	10.00%	
29	15.00%	20.00%	35	12.00%	15.00%	31	20.00%	30.00%	37	10.00%	
30	12.00%	20.00%	36	10.00%		32	20.00%	20.00%	38	100.00%	
31	12.00%	20.00%	37	10.00%		33	15.00%	15.00%	39	100.00%	
32	12.00%	15.00%	38	100.00%		34	12.00%	15.00%	40	100.00%	
33	12.00%	15.00%				35	12.00%	15.00%			

Comment 3: The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.