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March 11, 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: House Bill 1259

Dear Ms. Stone:

House Bill 1259 amends one section of Arkansas Code (ACA), namely § 24-4-303. Our analysis of the proposed changes to this section follows.

The legislation applies to municipalities with a population of 100,000 or more that also operate a retirement plan under ACA § 24-12-101. The legislation requires the enrollment of employees and elected officials hired on or after January 1, 2012, who would normally be covered in the municipalities' plans, in the Arkansas Public Employees Retirement System (APERS) instead. In addition, employees and elected officials of these municipalities that participate in a 401(a) or 401(k) plan may elect to participate in APERS and purchase service credit in APERS. We have reviewed the recent census announcement of Arkansas city populations and believe that only one municipality would be subject to this provision and so reference will be to the singular municipality.

Regarding the post-2011 hires, we have no data to make a precise measurement but expect that the population characteristics of the employees of this municipality will be similar on average to the population characteristics of APERS as a whole. Given this and the fact that there would be no past service costs, the employer contribution that would be required of the municipality would be about twice the cost of the service being earned, at least in the near term. (This is because the employer contribution rate to finance the unfunded actuarial accrued liabilities of APERS is currently roughly the same as the employer normal cost.) Therefore, this municipality would assist in the financing of the current unfunded actuarial accrued liabilities of APERS unless a separate experience rated division was established.

With regard to current employees of this municipality, we have no data to make a precise measurement of how APERS would be affected by the transfer of prior service credit (or even partial service credit). If members are required to pay the full actuarial cost of the purchased service credit, then employer contributions in APERS would not be expected to increase as a result of this provision. However, if members pay less than the full actuarial cost of the purchased service credit, then there would be upward pressure on the computed employer contribution rate of APERS.

There is some likelihood that other Arkansas municipalities may eventually meet the population trigger. Without information on these municipalities the longer term implications of the proposed legislation are unknown.

One or more of the undersigned are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Please feel free to contact us with additional questions or comments.

Respectfully submitted,

Mita Drazilov

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David L. Hoffman

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MDD:DLH:dlh