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February 16, 2011

Mr. David B. Clark
Executive Director
Arkansas Local Police and Fire Retirement System
620 W. 3rd, Suite 200
Little Rock, Arkansas 72201-2212

Re: Actuarial Analysis of Senate Bill 167

Dear Mr. Clark:

As requested, enclosed is our Actuarial Analysis of SB 167 for the Arkansas Local Police and Fire Retirement System.

Please call if you have any questions or comments.

Respectfully submitted,

David L. Hoffman

Mita D. Drazilov, ASA, MAAA

DLH:MDD:mrb

ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF SB 167
AS OF DECEMBER 31, 2009

Requested By:	Mr. David B. Clark, Executive Director Arkansas Local Police and Fire Retirement System
Date:	February 16, 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 Local Police and Fire Retirement System. This supplemental report was requested by the Executive Director.

The date of the study was December 31, 2009. This supplemental valuation does not predict the result of the December 31, 2010 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 of the proposed changes 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.

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The actuarial methods and assumptions were the same as those used in the regular valuation as of December 31, 2009. 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 summary of active member data as of December 31, 2009 for all current **Benefit Program 1** employers follows:

Paid Service Members	Number Active	Payroll	Average Age	Average Service
Paid Service - Benefit Program 1	5,163	$223,887,692	38.0 years	10.5 years

A summary of active member data as of December 31, 2009 for current **Benefit Program 2** employers follows:

Paid Service Members	Number Active	Payroll	Average Age	Average Service
Paid Service - Benefit Program 2	744	$37,838,751	38.5 years	11.9 years

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PRESENT PROVISIONS:

24-10-704. Benefits – Rate of Return.

(a) The member's monthly retirement benefit shall not change unless the retirement annuity as defined in § 24-10-602 is increased.

(b) (1) A member who participates in this plan shall be credited interest at a rate of six percent (6%) per annum. (2) The interest shall be credited to the individual account balance of the member on an annual basis.

PROPOSED PROVISIONS:

24-10-704. Benefits – Rate of Return.

(a) The member's monthly retirement benefit shall not change unless the retirement annuity as defined in § 24-10-602 is increased.

(b) (1) A member who participates in this plan shall be credited interest at a rate of six percent (6%) per annum. (2) The interest shall be credited to the individual account balance of the member on an annual basis. **(3) The redetermination of benefits as defined in § 24-10-612 shall apply (i.e., members participating in the DROP receive 3% COLA adjustments while in the DROP period).**

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Actuarial Information: The following shows the computed increase in the average paid service employer contribution rate that is expected to result from this proposed benefit change:

Benefit Program 1

Contributions for	Increase in Computed Employer Contributions As Percent of Payroll*
Normal Cost	0.18%
Unfunded Accrued Liabilities	0.21
Total	0.39%

** Payroll for Employers with Benefit Program 1 Coverage.*

Benefit Program 2

Contributions for	Increase in Computed Employer Contributions As Percent of Payroll*
Normal Cost	0.32%
Unfunded Accrued Liabilities	0.42
Total	0.74%

** Payroll for Employers with Benefit Program 2 Coverage.*

Comments

Comment 1 — The figures shown on the prior page are based on the December 31, 2009 actuarial valuation. Please remember that this change, if adopted, would likely impact the December 31, 2010 valuation. That valuation is completed in the spring of 2011 and is based on member data and financial results as of December 31, 2010, neither of which is available to us at this time.

Comment 2 — The proposed benefit legislation applies to current and future active members and current DROP participants.

Comment 3 — The increase in paid service unfunded actuarial accrued liabilities resulting from this proposed benefit change is $8,500,000 for Benefit Program 1 and $3,000,000 for Benefit Program 2.

Comment 4 — Retroactive increases were not considered for current DROP Participants.

Comment 5 — The contribution rate increase specific to each employer may vary substantially, depending on actual service for current and future benefit recipients as well as the relationship of the overall benefit increase to covered payroll.

Comment 6 — It was assumed the proposed change in benefits would not (by itself) change the number of members who elect to DROP or the length of time members participate in the DROP plan (after electing to DROP).