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March 10, 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 Senate Bill 6

Dear Ms. Stone:

As requested, enclosed is our Actuarial Analysis of SB 6 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:mrb

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF SB 6
AS OF JUNE 30, 2010

Requested By:	Ms. Gail H. Stone, Executive Director Arkansas Public Employees Retirement System
Date:	March 10, 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 (APERS). 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.

One or more of the actuaries 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 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.

A brief summary of the data as of June 30, 2010 for members in the District Judges Division of APERS is presented below:

	Number of	Annuities Being Paid July 1, 2010	
Plan	**Retired Members**	**Monthly**	**Annualized**
New Plan	10	$ 3,739	$ 44,862
Old Plan Paid Off	29	26,665	319,974
Still Paying Old Plan	100	80,628	967,537
Totals	**139**	**$111,032**	**$1,332,373**

	Number of	Estimated Deferred Annuities	
Plan	**Inactive Members**	**Monthly**	**Annualized**
New Plan	2	$ 882	$ 10,587
Old Plan Paid Off	45	37,208	446,491
Still Paying Old Plan	96	55,957	671,481
Totals	**143**	**$94,047**	**$1,128,559**

New Plan	
Number Active	59
Total Payroll	$3,554,044
Average Age:	58.2 years
Average Benefit Service:	5.3 years
Average Eligibility Service:	13.4 years
Average Annual Pay:	$60,238

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AS OF JUNE 30, 2010

Current Benefit Provisions

Post-retirement benefit increases

Old Plan – **None.**

New Plan - 3.0% annual compounded increase on benefits for service after January 1, 2005.

Proposed Benefit Provisions

Post-retirement benefit increases

Old Plan - **3.0% annual compounded increase on benefits beginning July 1, 2011.**

New Plan - 3.0% annual compounded increase on benefits for service after January 1, 2005.

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.

	Contributions Expressed as % of New Plan Active Payroll and Old Plan $	
Contributions for	**New Plan and Paid-Off Old Plan**	**Still Paying Old Plan**
Normal Cost	0.00%	$ 0
UAAL	4.50	365,868
Total	**4.50%**	**$ 365,868**

Note: Unfunded Actuarial Accrued Liabilities (UAAL) are amortized as a level dollar amount over 27 years for the New Plan and the Paid Off Old Plan and as a level dollar amount over 25 years for the still paying Old Plan.

Comments

Comment 1 — The increase in unfunded actuarial accrued liabilities resulting from this proposed benefit change is $5.95 million.

Comment 2 — Since some employers have "paid off" their Old Plan Unfunded Actuarial Accrued Liabilities (UAAL), they would be treated differently with respect to financing this proposed legislation than those employers who have not "paid off" their Old Plan UAAL. That is, given the method in which District Judges are financed, increases in the UAAL for the retirees of "paid off" employers would be the responsibility of **all** participating employers. Increases in the UAAL for the retirees of employers who have not paid off their Old Plan UAAL would be the responsibility of **each** of those employers.

Comment 3 — 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.

Comment 4 — 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.

Comment 5 — This report is intended to describe the financial effect of the proposed plan change. No statement in this report is intended to be interpreted as a recommendation in favor of the change, or in opposition to it.