

House Bill 1239

(As Engrossed February 18, 2013)

Actuarial Cost Study prepared for

Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 89th General Assembly

Provisions of the Bill

House Bill 1239 affects the Local Police and Fire Retirement System (LOPFI).

House Bill 1239 would create a new annuity benefit program for volunteer service members, Benefit Program 4. Benefit Program 4 would create a larger benefit for volunteer service retirees — \$10 per month per year of volunteer service, linked to inflation, but not to exceed \$400 per month. A location would have to elect coverage of Benefit Program 4 and commit to pay the higher cost without assistance from premium tax revenues.

Benefit Program 3, the current benefit structure for volunteer service, provides just over half of this benefit—currently \$6.17 per month per year of service, also linked to inflation. Benefit Program 3 would not be eliminated by House Bill 1239 and participation in Program 4 would be by local election only.

The Bill also contains language allowing members to purchase the increased value of volunteer service (of Benefit Program 4 over Benefit Program 3) after July 1, 2013 at actuarial equivalent cost for those who served in locations which subsequently elected participation in Benefit Program 4.

Fiscal Impact

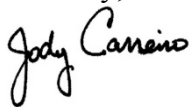
As locations would commit to pay the calculated actuarial cost of the increased benefit, there would be no fiscal impact on LOPFI. LOPFI staff estimates that as few as five locations would be interested in election of coverage of Benefit Program 4. We estimate that employers would be charged approximately \$40 per member, per month absent a charge for unfunded accrued liabilities. If employers were charged the same amount as under Benefit Program 3 for payoff of unfunded liabilities, we would estimate charges of approximately \$66.50 per month. Currently, employers pay approximately 10% of the charged rate for Program 3 (\$51.56 in 2013), with the remainder being paid by the premium tax allocation.

Other

As currently worded, we believe that House Bill 1239 may slightly affect the allocation of premium tax revenues, as locations electing coverage would forfeit future premium tax revenues they would otherwise receive to fund Benefit Program 3—although we estimate this would be a relatively insignificant impact due to the small size of volunteer departments.

We believe the intent of this bill is to have employers pay the *excess* cost of Benefit Program 4 versus the current program without the aid of premium tax revenue. As mentioned earlier, we believe the current bill would preclude a location from receiving *any* premium tax revenue associated with volunteer service in Benefit Program 4. We have suggested language to the primary bill sponsor to help clarify this issue.

Sincerely,



Jody Carreiro, A.S.A., M.A.A.A.
Actuary