

February 8, 2012

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 124

Dear Mr. Clark:

As requested, enclosed is our Actuarial Analysis of SB 124 for the Arkansas Local Police and Fire Retirement System.

Please call if you have any questions or comments.

Respectfully submitted,



David L. Hoffman



Heidi G. Barry, ASA, MAAA

DLH:HGB:bd

ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM
ACTUARIAL ANALYSIS OF SB 124
AS OF DECEMBER 31, 2011

Requested By: Mr. David B. Clark, Executive Director
Arkansas Local Police and Fire Retirement System

Date: February 6, 2012

Submitted By: David L. Hoffman and Heidi G. Barry, ASA, MAAA
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, 2011. This supplemental valuation does not predict the result of the December 31, 2012 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 were the same as those used in the regular valuation as of December 31, 2011. The assumptions used were those adopted by the Board at their December 6, 2012 meeting. 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, 2011 for all current **Benefit Program 1** employers follows:

Paid Service Members	Number Active	Payroll	Average	
			Age	Service
Paid Service - Benefit Program 1	5,197	\$231,207,198	38.6 years	11.4 years

A summary of active member data as of December 31, 2011 for current **Benefit Program 2** employers follows:

Paid Service Members	Number Active	Payroll	Average	
			Age	Service
Paid Service - Benefit Program 2	750	\$37,572,598	39.1 years	12.5 years

A summary of active member data as of December 31, 2011 for current **Volunteer** employers follows:

Number Active	Average	
	Age	Service
7,034	40.8 years	9.5 years

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PRESENT PROVISIONS:

Voluntary Retirement. Age 60 with at least **5** years of credited service, age 55 with at least 20 years credited service or any age with 28 or more years of credited service.

Vested Termination Annuity. **5** years of credited service

Non-Duty Disability Annuity. **5** or more years of credited service

Non-Duty Death-in-Service. Paid Member. **5** years of service

PROPOSED PROVISIONS:

For New Hires as of July 1, 2013

Voluntary Retirement. Age 60 with at least **10** years of credited service, age 55 with at least 20 years credited service or any age with 28 or more years of credited service.

Vested Termination Annuity. **10** years of credited service

Non-Duty Disability Annuity. **10** or more years of credited service

Non-Duty Death-in-Service. Paid Member. **10** years of service

Actuarial Statement: The proposed change affects the benefits of future members. The long-term costs of benefits (the normal cost) for members hired after July 1, 2013 will be reduced by 0.14% of payroll, 0.11% of payroll and \$4.98 per member per month for Benefit Program 1 Paid Service, Benefit Program 2 Paid Service and Volunteer Service employers, respectively if the proposal is implemented. The reduction is expected to emerge gradually over a 20 year period. Current active members as of December 31, 2011 were used to estimate the effect on future active members.

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Additional Comments

The figures shown in this report are based on the data, methods, and plan provisions used in the December 31, 2011 actuarial valuation. The assumptions used were those adopted by the Board at their December 6, 2012 meeting.