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February 5, 2013

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 72

Dear Mr. Clark:

As requested, enclosed is our Actuarial Analysis of SB 72 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 72
AS OF DECEMBER 31, 2011

Requested By:	Mr. David B. Clark, Executive Director Arkansas Local Police and Fire Retirement System
Date:	February 5, 2013
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) 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:

	Number		Average	
Paid Service Members	**Active**	**Payroll**	**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:

	Number		Average	
Paid Service Members	**Active**	**Payroll**	**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	Average	
Active	**Age**	**Service**
7,034	40.8 years	9.5 years

PRESENT PROVISIONS:

Member Contributions. Sections 24-10-404 and 24-10-613. Each member contributes 8.5% of their covered pay if their covered employment is resulting in Paid Service credit and is not covered by Social Security. For other covered employment conditions, each member contributes 2.5% of their covered pay. The Member Deposit Account is awarded interest credit of 3% annually. If a member leaves LOPFI-covered employment before an annuity is payable on their behalf, the member may choose to have the accumulated contributions refunded to them **with interest**. If the member dies, their accumulated contributions are refunded to the designated beneficiary.

PROPOSED PROVISIONS:

Member Contributions. Sections 24-10-404 and 24-10-613. Each member contributes 8.5% of their covered pay if their covered employment is resulting in Paid Service credit and is not covered by Social Security. For other covered employment conditions, each member contributes 2.5% of their covered pay. If a member leaves LOPFI-covered employment before an annuity is payable on their behalf, the member may choose to have the accumulated contributions refunded to them **without interest**. If the member dies, their accumulated contributions are refunded to the designated beneficiary.

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

Contributions for	Increase in Computed Employer Contributions as Percent of Payroll
Normal Cost	(0.02)%
Unfunded Accrued Liabilities	0.00
Total	(0.02)%

Comment A: The results above consider both current and future active members. However, the application of this change to only future members would yield essentially the same result.

Comment B: 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.