Osborn, Carreiro & Associates, Inc.

ACTUARIES ● CONSULTANTS ● ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501)376-8043 fax (501)376-7847

House Bill 1211

(As Engrossed February 25, 2015)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 90th General Assembly

Provisions of the Bill

House Bill 1211 affects the Local Police and Fire Retirement System ("LOPFI").

LOPFI's Deferred Retirement Option Plan (DROP) allows for members currently in paid service to elect deferred retirement when certain conditions are met. Under current law, a member must have 28 years of covered, paid service with LOPFI or be at least age 55 with 20 years of covered, paid service.

House Bill 1211 would amend §24-10-702 so that members currently in a paid service position could use up to three years of prior volunteer service to become eligible for participation in the LOPFI DROP.

Fiscal Impact

The fiscal impact of House Bill 1211 must be determined by reviewing the demographics of the persons that could benefit from the bill. There were 6,245 total active, paid participants in LOPFI as of December 31, 2013. Based on information provided by the system, 1,072 of these have some volunteer service. These members have different amounts of volunteer service as follows:

One year or less	248
Between one and two years	181
Between two and three years	137
Three years or more	506
Total Paid members with volunteer service	1,072

We measured the potential effect of House Bill 1211 by examining various examples of entering the DROP at an earlier time. The examples which reveal significant impact to the system are those members entering at youngest ages and staying the full seven years in the LOPFI DROP. This is to be expected since this is the way the system works before this bill.

We also reviewed the effect of changes on the two retirement eligibilities and whether the members were covered by social security. (Most of the larger fire and police departments in the state have never been covered by social security.) The 1,072 members with volunteer service were distributed as follows:

	Covered by Social Security	Not Covered Social Security	Total
First Eligibility 28 & Out	194	635	829
First Eligibility, age 55, 20 years	132	111	243
Total Paid members With volunteer service	326	746	1,072

Therefore, we reviewed several examples with special attention paid to the group not covered by Social Security who are projected to have first eligibility at 28 years of service.

The primary item that would affect cost would be a change in retirement assumptions. House Bill 1211 does provide more ways that a participant can craft their retirement planning. This means that it gives more opportunity for the members to make selections adverse to the system. Therefore, the ultimate cost effect is if members retire (with our without DROP) earlier than currently assumed. For example, if all paid members with volunteer service retired on average one year earlier than previously assumed, the average paid contribution rate of 19.39% of payroll would increase by an estimated 0.21% of payroll.

It appears that House Bill 1211 would continue to affect future employees, that is, more employees could get volunteer service then transition to paid service. The effect of House Bill 1211 is not a one-time event, but an ongoing change.

It is our opinion that the ultimate annual contribution cost of House Bill 1211 will be between 0.00% and 0.21% of payroll.

<u>Other</u>

The regular retirement provisions of LOPFI allow the use of volunteer service to determine retirement eligibility. House Bill 1211 would bring some consistency to the application of volunteer service. Members are allowed to receive paid and volunteer service simultaneously as long as a member is not entitled to receive both service credits for the same work. We do not have sufficient data to know how many member are currently receiving simultaneous service credit.

House Bill 1204 would also affect the LOPFI DROP code by allowing funds to be left on account at the end of the DROP period. This could have a combined effect of encouraging earlier entrance to DROP and possibly earlier ultimate retirement.

Sincerely,

Jody Carreiro

Jody Carreiro, EA, ASA, MAAA
Actuary

Additional Disclosures on file with BLR