GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

One Towne Square
Suite 800
Southfield, MI 48076-3723

248.799.9000 phone
248.799.9020 fax
www.gabrielroeder.com

March 2, 2015

Mr. David B. Clark
Executive Director
Arkansas Local Police and Fire Retirement System
620 W. 3rd, Suite 200
Little Rock, Arkansas 72201-2212

Re: House Bill 1215

Dear Mr. Clark:

House Bill (HB) 1215 amends one section of Arkansas Code (ACA), namely § 24-1-102. Our analysis of the proposed amendments to this section as they pertain to the Arkansas Local Police and Fire Retirement System (LOPFI) follows.

The amendment that affects LOPFI is presented below:

> "(c)(1) In addition to the valuation of the system's unfunded accrued liability using the actuarial methods agreed upon under subsection (b) of this section, each Arkansas state-supported retirement system and all public employee retirement systems of any political subdivision of the state shall also publish the value of the system based on a calculation of unfunded accrued liability using the expected future rate of return on the investments of the system at four percent (4%).
>
> (2) The valuation required under subsection (b) and subdivision (c)(1) of this section shall be published in the same valuation report on the same page or following page of the system's annual valuation report."

It appears that the proposed language is intended to require the System to disclose an unfunded actuarial accrued liability (UAAL) based upon a market value of liability (MVL) measure in addition to the UAAL that is disclosed under traditional actuarial practice (which is the basis upon how the System is actually funded).

The disclosure of a UAAL under an MVL measure may be a reasonable disclosure (if properly calculated and properly communicated) if the System is trying to assess risk. However, we are concerned that the disclosure of this measurement could easily mislead interested stakeholders (members, employers and taxpayers) as to what is the "true" cost of the System. We do not believe this measure represents the "true" cost of the System.

If this calculation is to be performed, we would suggest not using an arbitrary 4% assumption, but an assumption more closely tied to some form of yield curve. In addition, we would recommend that the unit credit actuarial cost method be used for this purpose. If the additional calculation is required, the Bill would add an additional administrative cost to the retirement system because the System's actuary will be required to produce, check, and publish another set of actuarial liability calculations.

Please review this letter carefully to ensure that we have understood the bill properly. The analysis in this letter should not be relied upon if there is doubt about our understanding of the bill. Our analysis relates only to the plan changes described in this correspondence. In the event that other plan changes are being considered, it is very important to remember that the results of separate actuarial analyses cannot generally be added together to produce a total. 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.

We did not review this bill for compliance with Federal, State, or local laws or regulations, and internal revenue code provisions. Such a review was not within the scope of our assignment.

Heidi Barry is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

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This communication shall not be construed to provide tax advice, legal advice or investment advice.

Respectfully submitted,

David L. Hoffman

David L. Hoffman

Heidi G. Barry

Heidi G. Barry, ASA, MAAA

DLH/HGB:sc