

## **Senate Bill 241**

(As Engrossed February 18, 2019)

Actuarial Cost Study prepared for

Joint Committee on Public Retirement and Social Security Programs  
of the Arkansas 92nd General Assembly

### **Provisions of the Bill**

Senate Bill 241 affects the allocation of premium taxes that are used to fund a portion of the Local Fire and Police Pension Funds (Local Plans) and the employer contributions for the Arkansas Local Police and Fire Retirement System (LOPFI). The Local Plans are for firefighters and police officers hired before 12/31/1982; About two thirds of these plans are now administered by LOPFI. There is a portion of the premium tax collected on certain lines of insurance in Arkansas that is allocated out to fund part of the employer costs of the Local Plans and employer contributions to LOPFI. There were significant overhauls of this formula in 2003 and 2011 legislation. A significant portion of Senate Bill 241 is to clarify and consolidate the language now that the transition from these changes is complete.

The second purpose of Senate Bill 241 is to change the way the amount allocated to the Future Supplement Fund is calculated. The Future Supplement Fund is the part of the formula that provides an annual amount paid through the Local Plans to participants. The stated purpose for these payments is to provide some cost of living assistance since the Local Plans do not have a COLA provision. The current formula for the Future Supplement allocation is such that this amount will be growing faster than the total premium tax amount will grow. Senate Bill 241 will control that growth by setting the amount to be paid out and letting it increase by 2.5% per year. The amounts that would have been paid out to the Future Supplement Fund would help support the Additional Allocation part of the formula.

The Additional Allocation is the amount that goes to help the financially weakest Local Plans. In general, this amount is an additional 10% of the Base Benefit Actuarial Cost (the amount upon which the Local Plan allocation is based) if the Local Plan is meeting local funding criteria. This is the portion that is capped if the general revenue allocation is less than \$4 million. Senate Bill 241 increases this additional amount to 15% of Base Benefit Actuarial Cost. If the total premium tax allocation grows fast enough to fill the combination of Future Supplement and Additional Allocation the remainder would continue as the formula currently operates and be added back to state general revenue. The state general revenue piece is set in the statute to be no less than \$4 million per year and this remains unchanged.

**Fiscal Impact**

As described above, Senate Bill 241 will slow the growth of one part of the allocation formula, Future Supplement, and speed the growth of another part of the allocation, Additional Allocation. The general revenue portion of the allocation will remain the same and should continue to be about the minimum allocation of \$4 million per year. Based on current projections, the current allocation formula will not increase the \$4 million for the foreseeable future. After Senate Bill 241, there could be an increase in the future. Therefore, in our opinion, Senate Bill 241 will not be a fiscal impact to the state and the allocation will be better spread to the financially weakest Local Plans.

**Other**

We understand that Senate Bill 241 is based on a recommendation of the Arkansas Fire and Police Pension Review Board, which governs the Local Plans and is in charge of the premium tax allocation.

We have attached to this letter a history of the past several years of the results of the premium tax allocation.

Sincerely,



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

## ARKANSAS FIRE AND POLICE PENSION PREMIUM TAX ALLOCATION

### COLLECTED ON INSURANCE POLICIES IN CALENDAR YEAR 2017 DISTRIBUTED TO LOCATIONS AND GENERAL REVENUE IN JUNE 2018

#### COMPARISON WITH PREVIOUS YEARS

	<u>June, 2010</u>	<u>June, 2011</u>	<u>June, 2012</u>	<u>June, 2013</u>	<u>June, 2014</u>	<u>June, 2015</u>	<u>June, 2016</u>	<u>June, 2017</u>	<u>June, 2018</u>	<u>One Year Change</u>
Previous Year's Forfeitures	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Premium Taxes Received										
for Fire Plan Distribution	21,649,951.87	22,480,525.96	23,869,477.76	25,345,948.84	26,756,343.88	27,506,620.83	27,775,620.81	27,875,948.55	28,625,614.12	2.7%
for Police Plan Distribution	26,250,185.16	26,475,315.95	26,743,036.78	27,661,360.17	28,792,463.83	29,865,788.56	31,280,393.71	33,084,203.89	36,083,607.78	9.1%
<b>Total Received for Allocation</b>	<b>47,900,137.03</b>	<b>48,955,841.91</b>	<b>50,612,514.54</b>	<b>53,007,309.01</b>	<b>55,548,807.71</b>	<b>57,372,409.39</b>	<b>59,056,014.52</b>	<b>60,960,152.44</b>	<b>64,709,221.90</b>	<b>6.2%</b>
Treasury Fee	1,436,448.55	1,468,675.26	1,517,527.30	1,589,017.50	1,666,464.23	1,721,172.28	1,771,680.43	1,828,804.58	1,941,276.65	6.2%
Special Revenue Fee	0.00	0.00	151,752.73	158,901.75	166,646.42	114,744.82	118,112.03	121,920.31	64,709.22	-46.9%
General Revenues	5,156,307.93	5,883,825.38	4,118,699.49	4,018,619.29	4,109,777.18	4,027,269.01	5,187,859.31	4,066,970.29	4,034,316.53	-0.8%
PRB Administrative Expenses	340,000.00	340,000.00	317,000.00	436,500.00	390,000.00	572,000.00	570,000.00	535,000.00	528,000.00	-1.3%
PRB P Tax Allocation Expenses	207,345.00	210,888.00	226,544.00	179,738.00	191,488.00	201,488.00	205,488.00	217,488.00	201,488.00	-7.4%
<u>Distributed to Cities</u>										
Local Police Plans	1,808,879.17	1,888,394.53	1,840,467.13	1,937,018.42	1,734,589.48	424,726.84	381,918.24	434,433.13	350,635.15	-19.3%
Local Fire Plans	4,755,502.66	4,324,689.56	2,188,252.27	2,186,096.89	2,059,310.34	1,576,848.12	1,624,334.56	1,821,414.75	1,711,174.28	-6.1%
LOPFI Police Plans	12,355,194.35	11,681,587.10	10,272,719.60	11,271,223.01	12,421,888.29	12,820,148.22	13,759,559.40	14,748,294.48	15,741,556.93	6.7%
Local Police Consolidated			2,049,527.19	1,936,288.59	2,166,126.27	3,165,300.54	2,842,914.67	3,290,973.76	3,136,366.74	-4.7%
LOPFI Fire Plans	8,245,380.18	8,715,886.23	8,365,826.93	9,154,158.17	10,290,203.12	10,799,171.39	11,769,116.20	12,677,137.20	13,657,141.12	7.7%
Local Fire Consolidated			2,842,739.16	2,938,526.95	2,555,343.99	2,642,316.20	2,669,249.93	3,260,873.50	3,216,935.32	-1.3%
LOPFI Volunteer Locations	3,359,876.88	3,642,029.00	3,766,820.40	3,916,261.44	4,143,788.40	4,151,326.08	4,128,162.72	4,306,552.20	4,409,963.28	2.4%
Total Distribution to Cities	30,524,833.24	30,252,586.42	31,326,352.68	33,339,573.47	35,371,249.89	35,579,837.39	37,175,255.72	40,539,679.02	42,223,772.82	4.2%
Fire Protection Fund - Act 833	631,500.00	657,420.00	668,940.00	657,600.00	662,280.00	693,420.00	685,680.00	638,400.00	676,800.00	6.0%
Arkansas State Police Pension Fund	5,217,767.08	5,232,633.78	6,000,000.00	6,697,199.63	6,809,411.86	6,574,375.88	6,233,768.53	6,693,914.82	7,109,702.55	6.2%
Additional Allocation-Local Admin	1,425,160.00	1,263,723.00	1,236,496.38	865,877.37	1,029,811.28	761,473.82	539,484.02	406,125.19	506,189.38	24.6%
LOPFI-administered			1,264,258.66	830,484.64	1,283,538.98	1,800,141.80	1,057,909.26	718,619.30	808,390.38	12.5%
Police Supplement	795,000.00	732,000.00	721,800.00	703,200.00	676,200.00	666,600.00	655,800.00	640,200.00	627,000.00	-2.1%
Future Supplement Fund	2,165,775.23	2,914,090.07	3,063,143.30	3,530,597.36	3,891,939.87	4,659,886.39	4,854,977.22	4,553,030.93	5,987,576.37	31.5%
Adjustment from Previous Years					-700,000.00	0.00	0.00	0.00	0.00	
Amounts withheld due to Compliance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>Total Allocation</b>	<b>47,900,137.03</b>	<b>48,955,841.91</b>	<b>50,612,514.54</b>	<b>53,007,309.01</b>	<b>55,548,807.71</b>	<b>57,372,409.39</b>	<b>59,056,014.52</b>	<b>60,960,152.44</b>	<b>64,709,221.90</b>	