Osborn, Carreiro & Associates, Inc.

ACTUARIES ● CONSULTANTS ● ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 2.072201
(501)376-8043 fax (501)376-7847

House Bill 1260

(As Engrossed March 13, 2023)
Actuarial Cost Study prepared for
Joint Committee on Public Retirement and Social Security Programs
of the Arkansas 94th General Assembly

Provisions of the Bill

House Bill 1260 affects the benefits of the Local Police and Fire Retirement System (LOPFI). The bill would increase the multiplier for all paid members in the LOPFI system. All of the paid members would also begin to pay an increased contribution of 1% of pay. The LOPFI system covers both municipal police officers and firefighters. There are both full paid members as well as volunteer members. This bill would change the benefits of the paid members for both firefighters and police officers.

Among the paid firefighters and police officers there are members who are covered by social security and those who are not covered. The benefits and employee contributions are different for those two groups. Those covered by social security currently have an employee contribution of 2.5% of pay. House Bill 1260 would increase this to 3.5%. Those not in social security currently pay 8.5% of pay, which would be increased to 9.5%.

The normal retirement benefit for those covered by social security is currently 1.94% of average compensation times years of service with an additional 1.00% of average compensation times years of service paid from retirement to age 67 (social security normal retirement age). House Bill 1260 would increase the 1.94% multiplier to 2.00%. Those not covered by social security have a normal retirement formula of 2.94% of average compensation time years of service (there is no temporary portion). House Bill 1260 would increase that multiplier to 3.00%. The system also has the ability for a municipality to elect Benefit Program 2 which provides enhanced benefits. The multiplier for social security covered member would be increased from 2.94% to 3.00% and from 3.28% to 3.34% for those not covered by social security.

Fiscal Impact

House Bill 1260 will increase benefits, and so, increase costs to the system. But, it also increases the contributions. The question will be is the 1% of pay increased contribution from members be expected to fully cover the increased cost without further expected contributions from the employers. The answer explained in the following paragraphs is that the increased costs are paid for by the increased member contributions. Therefore, it is our opinion that House Bill 1260 will not increase the contribution rates of the employers participating in LOPFI.

The valuation results supporting this conclusion concerning the employer contributions rate is below. This is the current valuation results for the paid members only.

LOPFI – Paid Members Only	Current	After House		Cost
Excluding Local Plans	Provisions	Bill 1260		Impact
Actuarial Accrued Liabilities ($Million)	$3,193.3	$3,214.8	#	$ 21.5
Actuarial Value of Assets	2,515.7	2,515.7		0.0
Unfunded Actuarial Accrued Liability (UAAL)	$ 677.6	$ 699.1		$ 21.5
Amortization Period	15.9	15.9	*	0.0
Funded Ratio	78.8%	78.3%		0.5%
Employer Contribution Rate				
Employer Normal Cost	16.04%	16.48%		0.44%
Payoff of UAAL	14.27%	14.81%		0.54%
Expected Average Employee Contribution	-6.59%	-7.59%		-1.00%
Total Expected Employer	23.72%	23.70%		-0.02%

- This difference calculated using different assumptions, see below.

- The change is amortized over 20 years, this is a total average period, see below.

The final results will vary due to another year of experience and different assumptions used for this layer of unfunded. You will note that the recently published note from the system acutaries showed exactly 0% change in employer contribution rate. The difference is so small I do not consider this a difference of opinion.

Actuarial Assumptions

The assumptions used in making these calculations are the same as used in the most recent actuarial valuation with the exception discussed here. Since the last valuation was 12/31/2021 and knowing that 2022 was a bad investment year, we need to make some different approach to ensure this cost does not bleed over to employers. There are various ways, but the method chosen by the system was to value this portion of the accrued liabilities at a lower assumed discount rate of 6.15%. This provides a level of conservatism and a recognition of time needed to recover from 2022. The layer of new liability was amortized over 20 years.

Sincerely,

Jody Carreiro

Jody Carreiro, ASA, MAAA, EA, FCA
Actuary