



March 22, 2023

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

Re: Actuarial Analysis of House Bill (HB) 1260 as Engrossed 3-13-2023

Dear Mr. Clark:

As requested, enclosed is our Actuarial Analysis of House Bill 1260 for members in the Arkansas Local Police and Fire Retirement System (LOPFI).

Please call if you have any questions or comments.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

A handwritten signature in black ink that reads "Heidi G. Barry". The signature is written in a cursive style with a small triangle symbol above the letter 'i' in "Barry".

Heidi G. Barry, ASA, FCA, MAAA

A handwritten signature in black ink that reads "Casey T. Ahlbrandt-Rains". The signature is written in a cursive style.

Casey T. Ahlbrandt-Rains, ASA, MAAA

HGB/CTA:dj
Enclosure

Arkansas Local Police and Fire Retirement System Actuarial Valuation of Proposals Under Consideration as of December 31, 2021 House Bill 1260 as Engrossed 3-13-2023

Requested By Mr. David B. Clark, Executive Director
Arkansas Local Police and Fire Retirement System

Date: March 22, 2023

Submitted By: Heidi G. Barry, ASA, FCA, MAAA and
Casey T. Ahlbrandt-Rains, ASA, MAAA
Gabriel, Roeder, Smith & Company

Submitted in this report are results of an actuarial valuation proposed benefit changes that would result from HB 1260 for members covered in the Arkansas Local Police and Fire Retirement System. The analysis was requested by the Executive Director.

The analysis shows the effect of increasing the benefit multiplier for Benefit Program 1 paid service members from 2.94% to 3.0% (1.94% to 2.0% for members covered by Social Security) and for Benefit Program 2 members from 3.28% to 3.34% (2.94% to 3.00% for members covered by Social Security).

The results shown in this report are based on an investment return assumption of 6.15% and a wage inflation assumption of 3.00%. A baseline valuation was performed using these assumptions to measure the effects of the proposed benefit changes. These economic assumptions were prescribed by the System's Executive Director to be used for this study. We believe these assumptions to be reasonable for the purposes of this analysis. See the 2017-2022 Experience Study dated September 7, 2021 for further discussion regarding reasonable economic assumptions. Note that these economic assumptions differ from those used in the most recent annual valuation. All other actuarial methods and assumptions were the same as those used in the annual actuarial valuation as of December 31, 2021.

The date of the study was as of December 31, 2021. This supplemental valuation does not predict the result of the December 31, 2022 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. GRS is not responsible for unauthorized use of this report.

Heidi G. Barry and Casey T. Ahlbrandt-Rains are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries required to render the actuarial opinions contained herein.

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These 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.

This report was prepared using our proprietary valuation model and related software which, in our professional judgment, has the capability to provide results that are consistent with the purposes of the valuation, and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

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.

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**Summary of Actuarial Valuation Data
for Active Paid Service Members
as of December 31, 2021**

A brief summary of the data used for purposes of the study as of December 31, 2021 is presented below:

<u>Paid Active Members*</u>				
<u>Number</u>	<u>Covered Payroll</u>	<u>Average in Years</u>		
		<u>Age</u>	<u>Service</u>	
6,834	\$ 383,278,946	38.7	12.2	

** Includes 367 DROP records attributable to 280 DROP participants with a payroll of \$23,122,628.*

It is our understanding that benefits for current retired and deferred vested members would not be affected by the proposed benefit change. They were excluded from this study.

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Proposed Benefit Provision Changes

The proposed provision changes would amend annuity amounts, as set forth in Sections 24-10-602 and 24-10-404 of Arkansas Code of 1987, as described below:

Baseline – Current Normal Retirement Benefit Level

Benefit Multiplier: 2.94% of final average pay for each year of Benefit Program 1 service (1.94% if covered by Social Security)

3.28% of final average pay for each year of Benefit Program 2 service (2.94% if covered by Social Security)

Member Contributions: Each member contributes 8.5% of the member's covered pay if the member's 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 the member's covered pay.

Proposed Provision – Change to Benefit Level

Benefit Multiplier: 3.00% of final average pay for each year of Benefit Program 1 service (2.00% if covered by Social Security)

3.34% of final average pay for each year of Benefit Program 2 service (3.00% if covered by Social Security)

Member Contributions: Each member contributes 9.5% of the member's covered pay if the member's covered employment is resulting in Paid Service credit and is not covered by Social Security. For other covered employment conditions, each member contributes 3.5% of the member's covered pay.

For Benefit Program 1 members covered by Social Security, an additional temporary annuity is payable to normal Social Security retirement age and equal to 1% of final average pay for each year of service.

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Results of Actuarial Analysis

The impact to the employer contribution rates for paid service members resulting from the proposed benefit provisions is shown below:

Increase in Employer Contribution Rate	As a % of Active Member Payroll [#]	
	Benefit Program 1	Benefit Program 2
Normal Cost ⁺	-0.46%	-0.48%
UAAL [*]	0.46%	0.48%
Total	0.00%	0.00%

As a percent of active member payroll, including DROP participant payroll.

+ The total normal cost (employer and employee) increased by 0.54% and 0.52% for BP1 and BP2 employers respectively. Members pay an additional 1% in employee contributions as a result of the proposed legislation, resulting in a decrease in the employer normal cost.

** Increase in UAAL resulting from the proposed provisions is amortized over a separate 20-year period.*

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Comments

Comment 1

At the request of the Executive Director, to reduce the investment risk to the System, the results shown in this report are based on an actuarial analysis which assumes an investment return assumption of 6.15% (with a corresponding wage inflation assumption of 3.00%) for all the baseline and impact scenarios.

Comment 2

This report is intended to describe the financial effect of the proposed plan change. No statement in this report is intended to be interpreted as a recommendation in favor of the change, or in opposition to it.

Comment 3

The underlying demographic and economic assumptions used for this analysis, except where otherwise noted, are based on an actuarial experience study covering the period from January 1, 2017 through December 31, 2020. This analysis is based on valuation data and demographic assumptions as of December 31, 2021 in addition to the economic assumptions discussed in Comment 1. We cannot predict what impact the proposed provisions will have under a different set of assumptions.

Comment 4

This report is intended to describe the financial effect of the proposed plan change on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 5

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.