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Senate Bill 135

(As Engrossed March 16, 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

Senate Bill 135 affects the benefits of the Local Police and Fire Retirement System (LOPFI). The LOPFI system like most all of the statewide systems provide a Deferred Retirement Option Plan (DROP) to its members once they are eligible for one of the regular (not early) retirement eligibility requirements. The duration of participation in the DROP program is currently 7 years. At that time, the member must retire from active service. Senate Bill 135 increases the DROP participation period from 7 years to 10 years. Please note the DROP only applies to paid members covered by LOPFI, that is, there is not a volunteer DROP.

Fiscal Impact

The assumption in the actuarial valuation of LOPFI is that members who elect the DROP will participate for five years, not the full seven years. This is borne out by recent experience which is that the participation is a little less than five years. The assumption also is that beginning at the first retirement eligibility members begin to elect DROP or retire based on which is economically better for them. Therefore, it is our opinion that the election of DROP will not move earlier than it is now and that the duration of DROP will likely increase some but not exceed the current assumption of five years of duration. Therefore, it is our opinion that Senate Bill 135 will not increase the actuarial cost of the system.

Please note also that employer and member contributions continue during the DROP participation period. These do not increase the DROP account but go to fund the plan as a whole.

Sincerely,

Jody Carreiro

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Actuary