

March 2, 2011

Ms. Gail H. Stone  
Executive Director  
Arkansas Public Employees Retirement System  
One Union National Plaza  
124 West Capitol, 4th Floor  
Little Rock, Arkansas 72201

**Re: Actuarial Analysis of House Bill 1019**

Dear Ms. Stone:

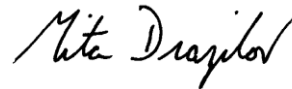
As requested, enclosed is our Actuarial Analysis of HB 1019 for the Arkansas Public Employees Retirement System.

Please call if you have any questions or comments.

Respectfully submitted,



David L. Hoffman



Mita D. Drazilov, ASA, MAAA

DLH:MDD:mdd

**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**ACTUARIAL ANALYSIS OF HB 1019**  
**AS OF JUNE 30, 2010**

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**Requested By:** Ms. Gail H. Stone, Executive Director  
Arkansas Public Employees Retirement System  
**Date:** March 2, 2011  
**Submitted By:** Mita Drazilov, ASA, MAAA and David Hoffman  
Gabriel, Roeder, Smith & Company

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As requested, we have determined the expected increase in employer contribution rates that would result from certain proposed benefit changes for members covered in the Arkansas Public Employees Retirement System. This supplemental report was requested by the Executive Director.

The date of the study was June 30, 2010. This supplemental valuation does not predict the result of the June 30, 2011 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 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.

One or more of the actuaries submitting this statement is a Member of the American Academy of Actuaries (MAAA) as indicated, and meets the Qualification Standards of the American Academy of Actuaries required to render the actuarial opinion contained herein.

The 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.

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.

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.

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The actuarial methods and assumptions were the same as those used in the regular valuation as of June 30, 2010. In particular the economic assumptions used in the supplemental actuarial valuation were net investment return of 8.0% per year and wage inflation of 4.0% per year. Changes in actuarial accrued liabilities were amortized as a level-percent-of-payroll over a 30-year period.

A brief summary of the data (excluding General Assembly and District Judges members), as of June 30, 2010 is presented below:

Active Group	Number	Covered Payroll	Average in Years	
			Age	Service
New Contributory	19,056	\$ 524,832,410	38.7	2.3
Non-Contributory	23,494	897,037,748	49.5	14.8
New Contributory (Transfers)	<u>2,830</u>	<u>100,609,100</u>	47.5	11.8
Total	45,380	\$1,522,479,258	44.8	9.3

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**Current Benefit Provisions**

*Credited Service:*

Two (2) times regular rate for elected official members.

**Proposed Benefit Provisions**

*Credited Service:*

One (1) times regular rate for elected official members for service after July 1, 2011.

**Actuarial Information:** The following shows the computed change in the employer contribution rate that would be necessary to fund for the proposed benefit on a level cost basis.

<b>Increase in Employer Contribution Rate</b>	<b>% of Payroll</b>
Normal Cost	(0.08)%
UAAL* (30-year amortization)	0.00
<b>Total</b>	<b>(0.08)%</b>

\* *Unfunded Actuarial Accrued Liability.*

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**Comments**

**Comment 1** — The increase in unfunded actuarial accrued liabilities resulting from this proposed benefit change is \$0.0 million.

**Comment 2** — The result shown is based on a restatement of the results provided in our May 18, 2010 supplemental valuation which was a restatement of previous results based on June 30, 2009 participant data. It assumes that the relevant population statistics will change little from year to year. In particular data showed the 691 active members had elected official service. The payroll for these members totaled \$26.82 million, with an average age of 53.8 years, total average service of 20.2 years, and average elected official service of 13.7 years. Given the relatively small impact of the proposed change on the employer contribution rate we believe that a valuation of the proposed change on June 30, 2010 data would show a very similar result.

**Comment 3** — The 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.

**Comment 4** — 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.

**Comment 5** — 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.