

## Senate Bill 4

### Actuarial Cost Study prepared for Joint Committee on Public Retirement and Social Security Programs of the Arkansas 93<sup>rd</sup> General Assembly

#### Provisions of the Bill

Senate Bill 4 affects the Arkansas Local Police and Fire Retirement System (LOPFI). The bill will create three categories of Duty disability without change to the definition of Non-Duty related disabilities. The table below briefly lays out the differences:

<u>Current Provisions</u>			<u>Non-Duty</u>
<u>Duty</u>			<u>Not related to duty</u>
Total and permanent incapacity to perform any suitable duty of uniformed member.			Actual Service credited
Actual Service credited			No minimum
Min. 65% of avg salary			
<u>Proposed Provisions</u>			<u>Non-Duty (no change)</u>
<u>Catastrophic Duty</u>	<u>Hazardous Duty</u>	<u>Ordinary Duty</u>	No Change
Anticipated Board rule: Total and permanent loss of mobility, or hearing, or sight, or two limbs, or injuries requiring full time care.	Anticipated Board rule: Traumatic injury requiring care from date of injury such as loss of a limb, majority loss of sight or hearing, burns, presumptive disability of certain cancers.	Anticipated Board rule: Other injury or illness including injury while performing physical training, psychological matters, slips and falls, cumulative injuries.	
28 years of Service credit Min. Actual Service credit	Actual Service credited Min. 65% of avg salary	Actual Service credited Min. 15% of avg salary	
			Actual Service credited No minimum

Two other important provisions that are changed by Senate Bill 4 will help improve the administration of disability benefit. First, it will expressly stipulate that any disability retiree shall not resume employment that matches or closely aligns with their previous LOPFI-covered duties. Next, it allows LOPFI to create a surcharge for locations that have a high incidence of disabilities.

#### Fiscal Impact

Senate Bill 4 is intended to bring reduce the cost of disability retirement and the associated administrative burden. This will reduce the Unfunded Actuarial Accrued Liability, but mostly a reduction in normal cost. Disability in LOPFI is work intensive since the definition includes “to perform any suitable duty of a uniformed member.”

Almost 15% of the current LOPFI retirees are disability retirees. About 10% of the retirees the past three years have been disability. The increased number of filings due to the presumptive disability for certain types of cancers creates a lot of filings and clarity of requirements should help in administering these benefits.

The table below shows the effect of Senate Bill 4 in reducing the Unfunded Actuarial Accrued Liability (in \$millions) for the LOPFI only Paid Service.

	<u>Current Provisions</u>	<u>After SB 4</u>	<u>Impact</u>
Actuarial Accrued Liabilities	\$2,688.7	\$2,686.1	\$(2.6)
Actuarial Value of Assets	<u>2,047.0</u>	<u>2,047.0</u>	
Unfunded Actuarial Accrued Liability	\$ 641.7	\$ 639.1	\$(2.6)
Amortization Period	16.5	16.5	(0.0)
Funded Ratio	76.1%	76.2%	0.1%
Employer Contribution Rate			
Employer Normal Cost	15.51 %	15.22 %	(0.29)%
Payoff of UAL	14.26 %	14.21 %	(0.05)%
Expected Employee Contribution	<u>(6.60)%</u>	<u>(6.60)%</u>	0.00 %
Total Employer Rate	23.17 %	22.83 %	(0.34)%

LOPFI staff reports recent experience had these guidelines been in play is about 40% hazardous and 60% ordinary with only 1 catastrophic claim in the past 10 years. These calculations were made based on a mix of duty disabilities of 10% catastrophic, 35% hazardous, and 55% ordinary. The ultimate savings will be based on the experience as it develops and could be more or less than shown here. We did not include any reduction from the clear prohibition of reemployment and the surcharge for certain locations described above. These would serve to increase the savings to the system.

**Other**

The Arkansas Local Police and Fire Retirement System (LOPFI) have other bills being considered. As of the date of this writing, there are no other bills with overlapping effects or costs on the system.

Sincerely,



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 Actuary