History of the FORT SMITH FIRE DEPT. Pension System

EST. 1899

Fort Smith Fire Department

Duty, Honor

Courage, Brotherhood

by Fire Chief Mike Richards

Executive Summary

The purpose of this document is to provide ***only a very basic understanding*** of the Fort Smith Fire and Police Department's retirement system administered by the Arkansas Local Police and Fire Retirement system (LOPFI). Most of the information in this report will be specifically related to the fire department's members. However, many of the benefits and rules apply to both the fire department members and police department members. There will be many subject areas and details not addressed due to the depth of the information and material. For more detailed information, please refer to LOPFI's annual Comprehensive Annual Financial Reports (CAFR), Annual Actuarial Valuation Reports, the LOPFI Handbook, LOPFI Board Rules, Fort Smith Paid Fire Valuations, and the Fort Smith Paid Police Valuations. Information was also used from various years in Fort Smith's annual CAFRs and Operating Budget documents. Other information was compiled from years of research and reading along with one hundred and one million questions – mostly to David Clark, Executive Director for LOPFI (Thank you, David).

The electronic copy of this historical document is produced in a searchable format. The searchable format provides the reader a link to review the supporting documents to the information presented in this report. The supporting documents may be reviewed by clicking on any word that is **Blue** in color.

LOPFI is a statewide defined benefit retirement system for police officers and firefighters of political subdivisions in the State of Arkansas. A defined benefit plan means: A monthly benefit based on a formula provided by law for the Member's lifetime. A Member's retirement benefit is normally the result of these service factors; age at retirement, retirement benefit multiplier, amount of credited service (years and months), and Final Average Pay (FAP). A member will receive a monthly retirement benefit for their lifetime once they have met the eligibility requirements and retires.

The current Fort Smith Fire and Police Department retirement plans are a combination of three (3) separate retirement plans that were merged together in 1990. It is critical to understand the differences along with how the cause and effect each of the plans had, and continues to have, on the funding of the current fire and police retirement system. Therefore, Section 1 of this report will provide information on the Local Police and Fire Pension and Relief Funds (otherwise known as the "Local" or "Old Plans"). Section 2 will provide information on the Arkansas Local Police and Fire Retirement System (LOPFI) (or otherwise known as the "New Plan"). Section 3 will provide information on the consolidation of the "old" and "new" police and fire retirement plans (otherwise known as the "consolidated" or "combined" plans).

All firefighters and police officers ***hired prior to*** January 1, 1983, are covered by Local Fire and Police Pension and Relief Funds regulated by the state or Consolidated Plans (LOPFI and Local Plans combined) under the administration of LOPFI. The City of Fort Smith Fire and Police Department's Pension System is a Consolidated Plan under LOPFI's administration. The Local Plans were consolidated into LOPFI in September, 1990.

All firefighters and police officers ***hired on or after*** January 1, 1983 are under the pension system administered by the Arkansas Local Police and Fire Retirement System (LOPFI). LOPFI is a qualified trust established under the authority of Act 364 of 1981, and bears a fiduciary obligation to the political subdivisions and their employees, who are its participants.

Local Plans are sometimes referred to as the "Old Plans" and LOPFI is sometimes referred to as the "New Plan". It is unclear exactly when Fort Smith began a Local Fire and Police Pension and Relief Fund for firefighter and police retirement. However, we do know that a municipal election was held in the City of Fort Smith on April 1, 1941. On the ballot was a question to allow a two (2) mill property tax for "policemen's and firemen's" pension funds. The initiative passed by a vote of 2,277 for and 1,476 against.

It became apparent prior to the late 1970's that the Fort Smith Fireman's and Policeman's Relief and Pension Funds (Local Plans) were underfunded. According to a report from Baird, Kurtz, and Dobson, Certified Public Accountants, dated April 30, 1980, the Fort Smith Firemen's Relief and Pension Fund was underfunded by approximately $4,900,000 on July 1, 1975, and the Fort Smith Policemen's Relief and Pension Fund was underfunded by approximately $3,800,000 as of July 1, 1975. The latest valuation report by LOPFI as of December 31, 2013, now states that the unfunded liabilities of the Fort Smith Paid Fire Local Pension and Relief Fund is $20,335,715 and the unfunded liabilities of the Fort Smith Paid Police Local Pension and Relief fund is $16,868,859. One of the primary reasons for the funding shortfall was the fact that the City did not provide any employer matching pension contributions until mandated by state law beginning in the mid 1980's.

In contrast, LOPFI has performed very well since its inception. Prior to the stock market downturn in 2008, the Fort Smith Paid Fire LOPFI account was funded up to a high of 151% in 1993. The funded percentage averaged well over 100% until 2009. In 2010, the funded percentage dropped to 57%. In 2011, LOPFI went to a pooled statewide uniform rate. The overall funded percentage for the LOPFI only valuation is 74% as of December 31, 2013.

LOPFI has an actuarial valuation completed each year to determine the funding status of the LOPFI program as a whole and each employer group. The valuation is done by a qualified Actuary and reported as of December 31 of each year. The valuation determines the rate each employer pays for the second year after the December 31 date. For example, a valuation dated December 31, 2013, would set the employer contribution rates for the calendar year 2015. In a Consolidated Plan such as Fort Smith's, the Actuaries determine the contribution rate for both the underfunded liability of the Local Plans and the uniform rate of the LOPFI plan. Those rates are added together for one total rate to be applied to the overall reported fire and police payroll reported to LOPFI for one calendar year.

The City of Fort Smith has an Arkansas LOPFI Contribution Fund set up to specifically administer all revenues and expenditures related to the fire and police retirement system. This account program covers both the "Local" and the "LOPFI" retirement funds. The fund is set up to account for the different revenues that contribute to the pension fund and expenditures to LOPFI for the City's actuarial contribution.

The fund balance in the LOPFI Contribution Fund continued to grow each year until reaching a maximum end-of-year (EOY) fund balance of $13,511,580 in 2007. The EOY fund balance then began to decline in 2008 and is projected to have a negative fund balance in 2019 if no corrective action is taken. There are several reasons for this that include, but are not limited to, the stock market and economic downturn in 2008, the fact that the Local Police and Fire Relief and Pension Funds (Old Plans) were never fully funded by the City, benefit increases approved for both the Local and LOPFI plans, and LOPFI closing the open financing period of funding the Local Plans. There will be more information on the details of the funding shortfall of the LOPFI Contribution Fund in the following sections of this report.

There were several benefit increases approved for the Local Plan members by the Fort Smith Board of Directors between 1993 and 2005. All but two (2) of these benefit increases came with an increase in the employer contribution rate. These increases were allowed by state law upon approval of the local governing authority. There was one (1) benefit increase approved locally for LOPFI members in 2003. And there were some benefit increases in the statewide LOPFI plan since its inception that were approved by the Arkansas General Assembly after an actuarial study deemed the increases were actuarially sound.

There has been some concern from both retired and active firefighters that their pension might be in jeopardy due to the upcoming shortfall in the LOPFI Contribution Fund. Under the current pension system any member, or their qualified beneficiary, of the Local or LOPFI system will receive their earned benefit for the rest of their lives. The problem that exists is how the city will fund their required pension contribution if additional funding sources are not secured, pension costs are not reduced, or a combination of both, before (or after) the contribution fund goes into a negative balance. That is the major issue that needs to be addressed immediately. It is also important to keep in mind that when the unfunded liability of the Local Plans are paid off, the funding sources currently used appear to be sufficient to fund the LOPFI plan for the future. The unfunded liability of the Local Plan is scheduled to be paid off in 22 years from December 31, 2014.

This report is structured according to plan groups to keep all subjects in perspective. It has been reviewed and authenticated by many of those who have knowledge or administration over LOPFI or the LOPFI Contribution Fund. Many details not addressed in this executive summary will be discussed in each section. The desired end result is to provide an accurate history of the Fort Smith Fire and Police Department Retirement System so that good decisions can be made long into the future.

Section 1 ***<u>HISTORY OF ARKANSAS LOCAL POLICE PENSION AND RELIEF FUNDS (OLD PLANS)</u>***

1.1 Act 491 of 1921

1.1.1 Beginning of Arkansas Pension Plans for Firefighters: Local Fire Pensions began in the 1920's with the passage of Act 491 of 1921. State law regulated how local "Firemen's Relief and Pension Funds" were to be established and administered. The Local Fire Pension and Relief Funds are regulated under Title 24 Chapter 11 Subchapter 8 of the Arkansas Code. Local "Policemen's Pension and Relief Funds" were established with the passage of Act 250 of 1937. The Local Police Pension and Relief Funds are regulated under Title 24 Chapter 11 Subchapter 4 of the Arkansas Code.

1.2 Act 486 of 1981 – Increase in Contributions for Municipalities

1.2.1 Prior Contributions did not meet Actuarial Requirements: Prior to the passage of Act 486 of 1981, Firefighters and Police Officers contributed 3% of normal pay to their respective pension fund. The City's contribution was funded by 1 mill property tax each for the Fire and Police Relief and Pension Funds along with a state insurance turnback tax. It was well known during that time the levels of contributions by both the firefighters and police officers along with the City did not meet actuarial requirements resulting in the retirement plans being underfunded.

1.2.2 Cities Matching Requirements for Firefighters: Some of the provisions of Act 486 mandated that the municipalities that had Fire Relief and Pension Funds to begin deducting from firemen's salary or compensation an amount not less the 6% for retirement. Act 486 also mandated that municipalities begin to match the 6% contribution starting with 3% beginning on January 1, 1982 and increasing by 1% each year until reaching a 6% matching contribution beginning on January 1, 1985.

1.2.3 Cities Matching Requirements for Police Officers: Act 486 also mandated that the municipalities that had Police Relief and Pension Funds begin deducting from Policemen's salary or compensation an amount not less the 6% for retirement. Act 486 mandated that municipalities begin to match the policemen's 6% contribution starting with 3% beginning on January 1, 1982 and increasing by 1% each year until reaching a 6% matching contribution beginning on January 1, 1985.

1.2.4 Normal Retirement Provisions: These plans provided for a normal retirement benefit after 20 years of service equal to one-half of the participants highest annual salary.

1.2.5 Cities Not Required to Meet Actuarial Funding Requirements: However, state law still ***<u>did not require</u>*** that Local Fire and Police Relief and Pension Funds be funded with an actuarial amount to fully fund the retirement plans and the ***<u>City of Fort Smith did not fully fund the Local Fire and Police retirement plans</u>***. Therefore the unfunded liabilities of both pension funds would continue to grow to this day even though the "Local" Fire and Police Relief and Pension Funds were consolidated with LOPFI in 1990. There will be more information on the consolidated plans later in this report.

1.3 HISTORY ON UNDERFUNDED LOCAL PENSION FUND BAIRD KURTZ & DOBSON REPORT (April 30, 1980)

1.3.1 **Pension Underfunding Report:** As stated in the Executive Summary, the knowledge of the underfunded condition of the fire and police pension funds was well known since at least the 1970's. The first documented report that I could locate was a Baird Kurtz & Dobson (BK&D) City of Fort Smith Firemen's Relief and Pension Fund Accountant's Report dated April 30, 1980. The report was for the period ending December 31, 1979. Within the report under NOTE 2 on page 5 stated "At July 1, 1975, the date of the latest actuarial report, the present value of the vested benefits exceeded the Plan assets by approximately $4,900,000." Also, on page 7 of the same report, the actual employer contribution is reported at 19.9% but the Actuary's computed contribution was 44.7%.

1.3.2 In a separate BK&D report, the Fort Smith Policemen's Relief and Pension Fund reported that the vested benefits exceeded the Plan assets by approximately $3,800,000 as of July 1, 1975. Also, on page 7 of the same report, the actual employer contribution is reported at 14.8% but the Actuary's computed contribution was 41.9%.

1.4 SWTR ARTICLE JUNE 1987

1.4.1 **Fire and Police Pension Underfunded Article:** A Southwest Times Record article dated June 17, 1987, reported on the condition of the Fort Smith Fire and Police Pension Funds. The report claimed that the police and fire pension funds were underfunded by a total of about $14 million. Some of the reasons for the underfunded liability were the ability to retire after 20 years (at any age) and how the city was not required by state law to contribute to the pension plans prior to the adoption of Act 486 of 1981.

The report also stated that the underfunding issue was known 15 years before the release of this article.

1.5 SWTR ARTICLE OCTOBER 1987

1.5.1 **Fire and Police Pension Underfunding Follow-up Article:** The Southwest Times Record had a follow-up article on October 15, 1987 concerning ways to correct the police and fire pension shortfall. The pension shortfall was now $7.4 million for fire and $7.3 million for police for a total of $14.7 million. One of the primary changes to help the funding shortfall was a law passed in 1985 allowing local police and fire pension boards to be more aggressive with investing.

1.6 CITY OF FORT SMITH CAFR 1989

1.6.1 Fire and Police Underfunded Amount the Year before Consolidation: According to the City of Fort Smith 1989 CAFR, the unfunded liabilities of the Fire Relief and Pension Plan had increased to $8,237,921 and the unfunded liabilities of the Police Relief and Pension Plan increased to $7,642,679. This is important to note as this would be the last year the Fire and Police Relief and Pension Plans would operate independently before consolidation with LOPFI the next year.

This gives a good indication of the total amount of unfunded liability that the City and LOPFI accepted in the consolidation of the Local plan and LOPFI.

1.7 CONSOLIDATION OF LOCAL PLANS WITH LOPFI - 1990 CONSOLIDATION ORDINANCES

1.7.1 Local Plan and LOPFI Consolidation Agreement: In 1990, the City agreed with the Fort Smith Local Fire Relief and Pension Fund Board and the Fort Smith Local Police Relief and Pension Fund Board to consolidate both pension funds with LOPFI. The agreement to consolidate Local plans with LOPFI was pursuant to the authority of Act 364 of 1981, as amended, and including Act 609 of 1983. Consolidating the Fire and Police Relief and Pension Funds transferred the responsibility and liability for administration of a local fire or police pension fund to LOPFI.

Part of the agreement to consolidate the Local Plans with LOPFI included the transfer of all assets and liabilities from both pension funds to LOPFI. LOPFI then would require that the City would make an employer contribution based on an annual actuarial report. The initial amortization financing period was 40 years. The financing period would eventually change to 30 years open until 2007 when LOPFI closed the open financing structure. The financing period is now 22 years from December 31, 2014. This shortened amortization period increases the annual funding requirement.

1.7.2 **Ordinance 63-90** titled "AN ORDINANCE ELECTING COVERAGE FOR ELIGIBLE MEMBERS OF THE POLICE RELIEF AND PENSION FUND UNDER THE ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM AND AUTHORIZING THE MAYOR TO ENTER INTO AN AGREEMENT WITH LOPFI" was passed on September 18, 1990. Under the agreement, the City agreed to pay LOPFI an actuarial combined rate of 34.19% of total police payroll for retirement provisions. The 34.19% was calculated at 16.08% for the LOPFI members plus (+) 18.11% for the Local Plan members. Each subsequent year's rate would be determined by an annual LOPFI valuation.

1.7.3 **Ordinance 64-90** titled "AN ORDINANCE ELECTING COVERAGE FOR ELIGIBLE MEMBERS OF THE FIRE RELIEF AND PENSION FUND UNDER THE ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM AND AUTHORIZING THE MAYOR TO ENTER INTO AN AGREEMENT WITH LOPFI" was passed on September 18, 1990. Under the agreement, the City agreed to pay LOPFI an actuarial combined rate of 34.22% of total fire payroll for retirement provisions. The 34.22% was calculated at 15.43% for the LOPFI members plus (+) 18.79% for the Local Plan members. Each subsequent year's rate would be determined by an annual LOPFI valuation.

1.8 SUMMARY OF LOCAL PLAN PROVISIONS AFTER CONSOLIDATION

1.8.1 Local Plan (Old Plan) Benefit Structure: The Local Plan benefit structure was not changed as a result of the agreement. The Plan provisions were established by the Local Fire and Police Relief and Pension Boards and Arkansas law. The following sub sections will provide a summary[1] of Local Fire and Police Relief and Pension Funds under LOPFI administration as related to Fort Smith.

1.8.1.1 **Credited Service:** Credited service is the combination of an employee's years of covered employment in paid and/or volunteer service. For police members and paid fire members, only service credit that is accrued under one employer is counted.

1.8.1.2 **Member Contributions:** Paid members contribute 6% of salary if they do not participate in social security. Fort Smith Fire and Police Department members ***do not*** contribute to Social Security from their employment with the City of Fort Smith. It is also important to know that the City does not pay into the social security system for uniformed fire and police employees. However, the City does pay 1.45% for Medicare for police and fire uniformed employees hired after March 31, 1986.

1.8.1.3 **Normal Retirement:** A member may retire with 20 years of service regardless of age.

1.8.1.4 **Service Benefit:** Annual benefits equal 50% of final pay attached to rank for firefighters and 50% of the highest salary for police officers. The minimum benefit is $4,200 per year. If more than 20 years of service credit is accrued, $240 annually is granted for each additional year of service credit, up to $1,200 for 25 years of service. For retirants who accrue more than 25 years of service and are age 60, an additional benefit of 1.25% of final pay is payable for each year over 25 years of service to a maximum of 100% of final pay. The provision for an Old Plan member to theoretically retire at 100% has been greatly misunderstood. For example, an Old Plan member would have had to work for 63 years to retire at 100% of final pay. There was another benefit increase regarding this section granted locally with Ordinance 31-03 that will be discussed in Section 1.11.1.2 below.

1.8.1.5 **Disability Retirement:** Members with a total and permanent physical or mental disability resulting from a duty related injury are granted 65% of final pay attached to rank for firefighters and 65% of highest salary for police officers. Members found to be suffering with a non-duty disability are granted 50% of final pay or highest compensation.

[1] 2013 LOPFI Comprehensive Annual Financial Report page 17.

1.8.1.6 **Survivor Benefits:** A surviving spouse receives the same amount the member was receiving or eligible for, excluding the 1.25% additional formula for service over 25 years (This changed in **ORDINANCE 31-03**: This ordinance was approved by the Fort Smith Board of Directors on May 6, 2003. The ordinance approved two (2) benefit increases for Local Plan members. see below). Surviving children may receive $1,500 annually up to age 19 for fire, up to age 18 for police or until marriage if occurs before age limit. The age limit may be extended to age 23 if attending college.

1.9 1993 LOCAL PLAN BENEFIT INCREASES

1.9.1 **Act 1004 of 1993**: Act 1004 of 1993 was an Act to establish the Arkansas Fire Fighters Deferred Retirement Option Plan (DROP). Act 1004 was approved April 12, 1993.

1.9.2 **RESOLUTION R-148-93**: One of the provisions of Act 1004 to participate in the DROP was the approval of the local police and firefighter's pension and relief fund board of trustees. However, since the City of Fort Smith no longer had a local police and fire pension and relief fund board of trustees, the authority for approval transferred to the Fort Smith Board of Directors. The Fort Smith Board of Directors approved Resolution R-148-93 on October 19, 1993 thereby allowing any Local Plan member to participate in the DROP. The DROP plan was designed to be cost neutral to the City.

1.10 1996 LOCAL PLAN BENEFIT INCREASES

1.10.1 **RESOLUTION R-105-96**: This Resolution was approved by the Fort Smith Board of Directors on July 2, 1996 with an effective beginning date of July 1, 1996. The Resolution had two (2) benefit increases to the Local Plan members only.

1.10.1.1 **Section 1:** This section authorized an increase in the minimum monthly benefit payment for retirees and beneficiaries of the City of Fort Smith Police and Fire Relief and Pension Funds now administered by LOPFI. The minimum benefit increased from a minimum of $350 to $500 per month. The actuarial cost associated with the benefit increase for the Police members was 0.75% of total police department payroll (LOPFI and Local Plan members) per year. The actuarial cost associated with the benefit increase for the Fire members was 1.18% of total (LOPFI and Local Plan Members) fire department payroll per year.

1.10.1.2 **Section 2:** This section authorized a cost of living adjustment (COLA) equal to three (3%) percent every other year on a compounded basis. The actuarial cost associated with the benefit increase for the Police members was 3.29% of the total police department payroll per year. The actuarial cost associated with the benefit increase for the Fire members was 5.84% of the total fire department payroll per year.

1.11 May 6, 2003 LOCAL PLAN & LOPFI BENEFIT INCREASES

1.11.1 ORDINANCE 31-03: This ordinance was approved by the Fort Smith Board of Directors on May 6, 2003. The ordinance approved two (2) benefit increases for Local Plan members.

1.11.1.1 **Section 1A:** The section approved an increase in the cost of living adjustment (COLA) from 3% compounded every other year to 3% every year on a compounded basis for both police and fire Local Plan members under LOPFI administration.

The cost associated with the increase for Local Plan Police members was 3.34% of total police payroll per year (in addition to the 3.29% cost associated with R105-96 for a 3% compounded COLA every other year).

The cost associated with the increase for Local Plan Fire members was 5.75% of total fire payroll per year (in addition to the 5.84% cost associated with R105-96 for a 3% compounded COLA every other year).

1.11.1.2 **Section 1B:** This section approved an additional benefit (in addition to the same 1.25% approved as outlined in Section 1.8.1.4) of 1.25% benefit applied for years of service in excess of 25 years to a max total benefit of 100% of salary.

There were two exceptions to this benefit not allowed in Section 1.8.1.4. The first was that this benefit increase shall be payable to retired members beginning at the age of sixty (60) years and thereafter and the second was that the benefit shall be payable to surviving spouses and dependent children, as applicable.

The cost associated with this additional benefit for the Local Plan Police members was 0.67% of total police payroll per year. The cost associated with this additional benefit for the Local Plan Fire members was 0.96% of total fire payroll per year.

It is also important to note that the benefit increase in Section 1.11.1.2 applied to only Local Plan members that retired after June 6, 2003. It is estimated that only ten (10) remaining Local Plan members qualified for this increase. A second important note was the fact that out of the approximately ten (10) Local Plan members eligible for this benefit increase, they would have still had to work 44 years to reach a benefit of 100% of final salary. No member of the fire or police department reached the maximum benefit.

1.12 DECEMBER 2, 2003 LOCAL PLAN BENEFIT INCREASES

1.12.1 **RESOLUTION R-243-03:** This ordinance approved one (1) benefit increase for both fire and police LOPFI members and five (5) benefit increases for Local Plan members. The ordinance was passed on December 2, 2003 and went into effect on January 1, 2004.

1.12.1.1 **Section 1:** The City selected LOPFI's Benefit Program 2 (BP 2) for the fire and police retirement program for LOPFI members. BP 2 is an enhanced benefit that increased the multiplier used in the benefit calculation formula and raised the maximum benefit cap to determine a LOPFI member's retirement benefit. Specific information on this provision can be found in Section 2.7 BENEFIT PLAN 2 HISTORY.

1.12.1.2 **Section 2:** The City of Fort Smith adopted the benefit provisions provided for in Acts 1278, 1369, 1371, 1372, and 1736 of 2003 passed by the Arkansas General Assembly for its Local Plan Fire and Police members. The total cost to the City of adopting this list of benefit increases is not known. A letter from LOPFI in September 2003 stated that "In many cases the fiscal impacts to implement one of the …Acts is limited. However, for those locations that prefer a separate valuation please forward the request to Cathyrn E. Hinshaw, Executive Director." LOPFI nor the City has any record of the City requesting a valuation to determine the cost of adopting these benefit provisions.

- **Act 1278:** Allows the same surviving spouse benefits for fire plan members in closed plans as provided for police plan members as it relates to remarriage following retirement. The provision allows to cover surviving spouses, even if they were not married to the firefighter at the time of retirement, provided that (1) they were married at least five years, and (2) the Local Plan can actuarially afford to pay such surviving spouses.

  Act 1278 also removed the remarriage "penalty" for Line-of-Duty Deaths (LODD). Therefore, a surviving spouse of a firefighter can remarry and continue to receive his/her benefits.
- **Act 1369:** Allows the 5-year DROP for Local Plan members to be extended to 10 years.
- **Act 1371:** Allows Local Plan members to leave their DROP account on deposit with LOPFI after they have left employment of their department.
- **Act 1372:** Allows continued employment at the conclusion of the DROP period with the following rules:
  a) The member contribution to the plan ceases
  b) The employer matching contribution ceases, however, other employer contributions continue

c) The member does NOT receive any monthly retirement benefit until actual separation of employment
d) Benefits are no longer added to the DROP account
e) The DROP balance will continue to earn 2% below the rate earned by the local plan with a minimum rate of 0%.

- **Act 1736:** Allows surviving spouse benefits to continue in the event of remarriage.

1.13 2005 LOCAL PLAN BENEFIT INCREASES

1.13.1 RESOLUTION R-151-05: Allows the members retirement benefit to be deposited at 100% during the second five years of DROP. This provision only affected one Local Plan member of the fire department.

1.14 IMPACT OF OLD PLAN BENEFIT INCREASES TO THE LOPFI CONRIBUTION FUND

1.14.1 Yearly Cost Estimates for Local Fire Plan Benefit Increases: The total cost of the increase in benefits for the Local Fire Plan to the LOPFI Contribution Fund from 1995 through 2005 was 13.73% ***of total fire payroll***. This does not include the cost for the additional benefits approved in Section 2 of Resolution R-243-03 due to the fact there is no record of an actuarial valuation being requested to determine those cost.

1.14.2 Yearly Cost Estimates for Local Police Plan Benefit Increases: The total cost of the increase in benefits for the Local Police Plan to the LOPFI Contribution Fund from 1995 through 2005 was 8.05% ***of total police payroll***. This does not include the cost for the additional benefits approved in Section 2 of Resolution R-243-03 due to the fact there is no record of an actuarial valuation being requested to determine those cost.

1.15 GENERAL THEORIES ON OLD PLAN BENEFIT INCREASE LOGIC

1.15.1 Underfunded Liabilities of the Old Plans Not Considered: It appears that the cost justification for the increased retirement benefits for the Old Plan members was primarily based on the fund balance of the LOPFI Contribution Fund at the time of each proposed increase. It does not appear that consideration was given to the fact that retirement benefit increases were being given to a part of the Local (Old) Plan police and fire retirement that was already underfunded.

For example, the LOPFI Contribution Fund had an EOY fund balance of $11,864,280 in 2003 which would have primarily been a result of the lower cost of the LOPFI (New) Plan. However, even though the Local (Old) and LOPFI (New) Plans were now consolidated, the unfunded liability of the Local Police Plan was still $11,044,582 and the unfunded liability of the Local Fire Plan was $12,968,793 at the end of 2003.

1.16 ALL OLD FUNDING SOURCES

1.16.1 **Taxes:** Prior to the formation of LOPFI, the Fire and Police Relief and Pension Funds were partially supported by the same ad valorem tax discussed in Section 3.3.1. When LOPFI was formed, the ad valorem tax was then proportionally distributed to the LOPFI Contribution Fund (which at this time was not consolidated) and the Fire and Police Relief and Pension Funds. Once the Local Plans were consolidated under LOPFI administration, all ad valorem revenue was deposited in the LOPFI Contribution fund account.

1.16.2 **Insurance Premium Tax:** This is the same Insurance Premium Tax as discussed in Section 3.3.2. Prior to the formation of LOPFI, part of the revenue generated by this tax went to Local Fire and Police Relief Pension funds. The amount received by each agency was determined by a complex formula through the Arkansas Department of Finance and Administration (DFA) for the purpose of offsetting a portion of each municipality's police and fire pension costs.

1.16.3 **Employee Contributions -** Prior to the passage of Act 486 of 1981, Firefighters and Police Officers contributed 3% of normal pay to their respective pension funds. Act 486 made it mandatory for both the employees and the cities to contribute at least 6% of normal pay by January 1, 1985. The law allowed for the increase in contributions to be phased in at a 1% increase per year until the 6% contribution was met. However, the Fort Smith Firefighters and Police Officers agreed to begin withholding the 6% immediately.

1.16.4 **Employer Matching Contributions -** Prior to the passage of Act 486 of 1981, municipalities in the State of Arkansas were not required to match the contributions of the employees. One of the requirements of Act 486 was for the municipalities to begin to contribute to the Pension and Relief Funds 3%, beginning on January 1, 1982, and increasing by 1% per year, until reaching a 6% employer match on January 1, 1985. The requirements of Act 486 still ***did not*** require the municipalities to make the actuarial contribution necessary to fully find the pension plans.

The matching 6% contribution by the municipalities for each employee ceased with the retirement or termination of each Old Plan member even though the City's pension obligation for that retired member continued.

1.16.5 **Investments –** Prior to a change in Arkansas state law in 1985, municipalities were limited on their options to invest the assets of the pension plans. The change in the law allowed for greater flexibility in investing strategies.

Section 2 ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM (LOPFI) - NEW PLAN

2.1 ACT 364 OF 1981

2.1.1 LOPFI Established - The Arkansas Local Police and Fire Retirement System (LOPFI) was established under the authority of Act 364 of 1981 during the 1981 Arkansas General Assembly. LOPFI became operational on January 1, 1983.

2.2 SUMMARY OF LOPFI PLAN PROVISIONS

2.2.1 Eligibility - To be eligible for a retirement benefit the Member must be vested. When LOPFI was created, all members had ten-year vesting. Beginning July 1, 1998, the LOPFI member vesting period was lowered to five years by state law. In 2013, the Arkansas General Assembly passed legislation to raise the vesting period of all LOPFI members hired after on or after July 1, 2013 back to ten actual years. The requirements for a normal retirement are:

Be at least		Accrued at least
Any age	and	28 years of Service Credit
Age 55	and	20 years of Service Credit
Age 60	and	5/10 years of Service Credit

LOPFI also has an early and deferred retirement plan. More information on those two options can be found on the LOPFI website.

2.2.2 Age and Service Benefit - The formula for calculating retirement benefits for FSFD and FSPD LOPFI Members is:

Final Average Pay (FAP) x Current Multiplier x Service Credit = Retirement Benefit (with a maximum benefit cap of 100% of Final Average Pay).

Due to the city adopting Benefit Plan 2 in 2004, most Members would use a combination of two calculations to determine their retirement benefit. This will be discussed in detail later in this report.

2.2.3 Duty Disability Benefit – A member who becomes totally and permanently disabled from a duty-related injury or disease is eligible for a disability benefit. The benefit shall be either equal to 65% of FAP or equal to the annuity paid to retirants for each year of paid service resulting from employment as provided in ACA 24-10-602, whichever is greater.

2.2.4 Non-Duty Disability Benefit – A paid member with five (5) years of credited service, unless hired on or after July 1, 2013, which means the member must have ten (10) years of actual LOPFI credited service who becomes totally and permanently disabled from causes other than duty-related receives a non-duty benefit computed in the same manner as an age and service benefit, but based upon actual service and FAP at the time of disability.

2.2.5 Survivor Benefit – Upon the death of a member from duty related causes, regardless of length of service, the designated beneficiary benefit is computed as if the member had 25 years of credited service and elected Option B50 (see Section 2.2.7 below). When a paid member dies from non-duty related causes, who has at least five (5) years or more of credited service, unless hired on or after July 1, 2013, which means the member must have ten (10) years of actual LOPFI credited service the designated beneficiary benefit is computed as if the member had retired on the death date and elected Option B50.

2.2.6 **Post Retirement Adjustment –** Beginning the first July following twelve (12) months of normal retirement, or after five (5) years of DROP, there is an annual redetermination of the monthly benefit amount. The redetermination amount shall be the amount of benefit as of the immediately preceding July 1 increased by three percent (3%).

2.2.7 **Optional Forms of Payment –** When a LOPFI member makes application for retirement, benefits are calculated in four (4) optional forms and the member selects the one that best fits his/her retirement needs. Once the member's first benefit payment becomes due the option is irrevocable, except with a life changing event. The options are:

- **Option A60:** Under Option A60 a retirant receives an annuity for life, with the added provision that if he/she dies before being paid a total of 60 monthly payments, the same amount will be continued to his/her designated beneficiary until a total of 60 monthly payments have been made. Option A60 pays an amount equal to 100% of the life benefit.
- **Option A120:** This option has the same general provisions as Option A60 but with the guaranteed payment period of 120 months rather than 60 months. This option pays a benefit equal to 98% of the life benefit.
- **Option B50:** Under Option B50 a retirant receives a reduced monthly lifetime benefit with the added provision that should he/she die before his/her designated eligible beneficiary, the beneficiary will receive a monthly benefit for life equal to 50% of the reduced amount received by the retirant. The reduced annuity to the retiree shall be 98% of the A60 benefit. Please consult the LOPFI website for more information on benefit amount adjustments for age differences of designated beneficiary.
- **Option B75:** Under Option B75 a retirant receives a reduced monthly lifetime benefit with the added provision that should he/she die before his/her designated eligible beneficiary, the beneficiary will receive a monthly benefit for life equal to 75% of the reduced amount received by the retirant. The reduced annuity to the retiree shall be 94% of the A60 benefit. Please consult the LOPFI website for more information on benefit amount adjustments for age differences of designated beneficiary.

2.2.8 **Deferred Retirement Option Plan –** The Deferred Retirement Option Plan (DROP) allows any LOPFI-covered paid service member who has at least 28 years of paid service or who has 20 years of paid service and is at least age 55, to accumulate a portion of their retirement benefit in a separate account, without terminating employment. Please refer to the LOPFI website for more information.

2.3 EMPLOYER CONTRIBUTIONS

2.3.1 From a given schedule of benefits and from the employee data and asset data furnished, the actuary determines the contribution rates to support the benefits, by means of an actuarial valuation and a funding method.

The actuarial valuations are done annually and designed to cover the current actuarial cost and not defer the cost to future generations. Detailed information on the LOPFI valuation methods is available on the LOPFI website.

2.4 EMPLOYEE CONTRIBUTIONS

2.4.1 Employee Contributions for FSFD and FSPD LOPFI members are remitted to the system on a pre-tax basis. The employee contributions was at 6% of remunerable pay until 2009. In the 2009 Arkansas General Assembly, legislation was passed (Act 720) to increase the maximum benefit from 85% to 100% of FAP. However, the entire actuarial cost of the increase in the benefit cap was passed on to LOPFI members. The municipalities did not incur any of the actuarial cost of the increase. The employee contribution was increased from 6% to 8.5% of reportable pay to fully fund the cost of the increase of the benefit cap.

2.5 HISTORICAL PLAN AMENDMENTS

2.5.1 **Act 364 of 1981:** The paid service multiplier was originally 2.0 when LOPFI became operational in 1983.

2.5.2 **Act 474 of 1995:** Benefit Program 2 (BP 2) created. There was no benefit increase for members not covered by social security at the beginning of BP 2. BP 2's multiplier for members not covered by social security was 2.0 (same as BP 1).

2.5.3 **Act 869 of 1999:** BP 1 Paid service multiplier increased from 2.0 to 2.1 The BP 2 paid service multiplier increased from 2.0 to 3.0.

2.5.4 **Act 1536 of 2001:** BP 1 Paid service multiplier increased from 2.1 to 2.2. BP 2 did not change.

2.5.5 **Act 480 of 2003:** BP 1 Paid service multiplier increased from 2.2 to 2.5. BP 2 did not change.

2.5.6 **Act 1286 of 2005:** Paid service multiplier for Benefit Program 1 increased from 2.5 to 2.7. Benefit Program 2 paid service multiplier increased from 3.0 to 3.1 with the maximum benefit increasing from 80% to 85%.

2.5.7 **Act 1569 of 2007:** The maximum benefit for BP 1 increased from 80% to 85%. The maximum benefit for BP 2 did not change.

2.5.8 **Act 720 of 2009:** Paid service multiplier for Benefit Program 1 increased from 2.7 to 2.94. The Benefit Program 2 paid service multiplier increased from 3.1 to 3.28. The maximum benefit for both BP 1 and BP 2 Programs increased from 85% to 100% with an increase of 2.5% of the member's contributions.

2.6 LOPFI's THREE (3) STEP APPROACH TO RETIREMENT

2.6.1 **Retirement Planning** - When LOPFI was created, a member's retirement benefit was not intended to replace 100% of a member's final salary upon retirement. LOPFI emphasizes the need for members to use a three step approach in retirement planning to secure a post retirement income equal to or exceeding the member's final average pay. An example of a three step approach would be:

- Pension Plan
- Social Security
- Investments/Personal Savings

It is important to note that LOPFI members within the Fort Smith Fire and Police Departments ***do not contribute*** to Social Security. Therefore, unless the LOPFI member has paid into Social Security through other types of employment, the member will not be eligible to receive Social Security benefits. Furthermore, members who are eligible to receive Social Security benefits from other employment, will only receive a fraction of the Social Security benefit due to their participation in LOPFI. This is due to the Social Security Administration's Windfall Elimination Provision and the Government Pension Offset. Under the windfall Elimination Provision, a LOPFI member may only receive as little as 40% of their normal calculated social security benefit. The Government Pension Offset may reduce the Social Security benefits for the member's spouse or widows or widowers.

2.6.2 **Defined Benefit verses Defined Contribution for Public Safety Workers –** There has been much debate about the need to convert all defined benefit plans over to a type of defined contribution plan such as 401(k)'s. While this might seem like a good idea to take away the financial risk to the employer, it does have significant drawbacks to both the employer and the public safety employee. For example, a normal non-public safety employee can expect to work somewhere between the age of 62-70 under a 401(k) type of retirement plan before retiring. For a firefighter on the front line, this is not possible. The extreme physical strain while working under very dangerous environmental conditions make it almost impossible for many people over the age of 55 to handle. For example, the weight of a firefighter's full turnout gear, self-contained breathing apparatus (SCBA) and a high-rise hose pack that they often have to carry, is approximately 122 pounds above their own body weight. This is the same reasoning that you don't see 50 year-old infantrymen in the military. These factors can contribute to higher worker's compensation, medical costs, and liability for the cities due to all types of injuries and time off for older public safety personnel.

2.7 BENEFIT PLAN 2 HISTORY

2.7.1 **Adoption -** As noted in Section 1.12.1.1, when the City adopted Benefit Plan 2 (BP 2) for Fire and Police LOPFI members, the difference in the multiplier was increased by 0.5% and the maximum benefit was increased from 80 % to 85%. The increased cost as determined by the actuary to the City was 2.95% of total police (Local and LOPFI member) payroll and 2.79% of total fire (Local and LOPFI member) payroll per year.

2.7.2 **Initial Cost** **-** Based on payroll projections for 2004, adopting BP 2 would approximately cost the LOPFI Contribution Fund an additional $180,000 per year for the police department and an additional $157,000 per year for the fire department. At the time, it appeared that sufficient funds were available both at the time and into the future for the selection of BP 2.

2.7.3 **Other BP 2 Legislative Changes -** There have been a number of legislative changes in the BP 2 program since the City adopted it in 2003. These changes have somewhat over time minimized the enhanced benefits of BP 2 from BP 1 from 2003 when the City adopted BP 2.

2.7.3.1 **Act 474 of 1995:** When BP 2 was created, the multiplier for members not covered by social security was 2.0 – the same as BP 1.

2.7.3.2 **Act 869 of 1999:** The multiplier for BP 1 was increased from 2.0 to 2.1 and the multiplier for BP 2 was increased from 2.0 to 3.0.

2.7.3.3 **Act 1536 of 2001:** The multiplier for BP 1 increased from 2.1 to 2.2. The multiplier for BP 2 did not change.

2.7.3.4 **Act 480 of 2003:** The multiplier for BP 1 increased from 2.2 to 2.5. The multiplier for BP 2 did not change.

2.7.3.5 **Act 1286 of 2005:** One of the provisions of Act 1286 was to increase the multiplier of Benefit Plan 1 from 2.5 to 2.7 for an increase of 0.2. The multiplier for BP 2 was also increased, but only by 0.1, from 3.0 to 3.1.

2.7.3.6 **Act 1569 of 2007:** The next change occurred with Act 1569 of 2007. This Act increased the cap on the maximum retirement benefit under LOPFI from 80% to 85%. However, this increase only applied to BP 1 groups because BP 2 already had the 85% cap. And there was no provision to increase BP 2 accordingly.

2.7.3.7 **Act 720 of 2009:** The last change occurred with the adoption of Act 720 of 2009. The provisions of this Act included (a) increasing the multiplier of BP 1 from 2.7 to 2.94 (0.24 increase) while only increasing BP 2 from 3.1 to 3.28 (0.18 increase). Act 720 also increased the maximum benefit cap from 85% to 100% for both BP 1 & BP 2. In comparison, when the City adopted BP 2 in 2003, the difference in the multipliers between BP 1 & BP 2 was 0.50 (2.5 verses 3.0) where now it is 0.34 (2.94 verses 3.28) and the maximum benefit for both programs is now 100% to where the difference when adopted in 2003 was 5% (80% verses 85%).

It is very important to note that the cost of the increases adopted in Act 720 were covered by all LOPFI members and ***not by any Arkansas municipalities***. The contribution from all LOPFI members increased from 6% to 8.5% of his or her pay. ***However, this 2.5% increase does not cover participating in the BP 2 Program.*** It still costs the City an ***additional***

2.5% of all police and fire reportable pay ***to participate in BP 2***. The 2.5% is now a fixed rate charged by LOPFI to all BP 2 participants due to LOPFI going to a single uniform rate.

2.7.4 **Other Arkansas Cities that have Adopted BP 2 for Fire Departments:** There are twenty-two (22) all paid (career) fire departments in Arkansas. Fort Smith, Fayetteville, and Hot Springs are the only three (3) cities out of the twenty-two (22) that has adopted BP 2. There are sixty-two (62) other cities in Arkansas that have combination paid/volunteer fire departments. Out of those sixty-two (62) combination paid/volunteer fire departments, only two (2) of those cities have adopted BP 2.

2.7.5 **Premium Tax Application to BP 2:** Another issue to consider with Fort Smith's adoption of BP 2 is the application (or lack thereof) the Premium Tax to the BP 2 Program. Normally, 30% of the City's Consolidated Local Plan actuarial cost is funded by the Premium Tax. However, according to state law, no premium tax funding can be used for any of the enhanced benefit increased difference in cost. Therefore, it theoretically does cost the City more to participate in BP 2 due to the fact they do not get assistance for the BP 2 program from the Premium Tax whereas they do get assistance for BP 1 from the Premium Tax.

2.7.6 **BP 1 Comparison to BP 2:** With the legislative changes to the BP 2 Program since 2004, it is also important to know what the current BP 2 Program actually provides its participants. Depending on a member's retirement date, it may or may not provide any benefit enhancement. For example, since the maximum benefit cap for both BP 1 & BP 2 is now fixed at 100%, it all depends on how many years a member works before retirement to determine their final retirement benefit. If a member worked all 34 years of their career under BP 2 before they retired, they would have reached the 100% maximum retirement benefit anyway. That would result in the City's 2.5% employer contribution of that member's salary for their entire career unnecessary. The other side of that argument would be that a member could retire at 100% of the maximum benefit at 30.5 years of service if they worked their entire career under the BP 2 Program. In comparison to Fort Smith Fire and Police LOPFI members, the difference is somewhere in between since we currently already have eleven plus (11+) years in the BP 2 Program. And, if the BP 2 Program was rescinded, all time accrued under the BP 2 Program would count at the higher multiplier upon the member's retirement date and at the higher rate of their Final Average Pay (FAP). A LOPFI member does not lose any accrued time under the BP 2 Program if the program is rescinded.

2.7.7 **Current BP 2 Cost to LOPFI Contribution Fund:** Finally, the current cost of BP 2 is something that will have to be considered as decisions are made to fund the LOPFI Contribution Fund into the future. For example, the actual cost to the LOPFI Contribution Fund in 2004 was $332,129 (compared to the $337,000 estimate). At the time of this report, it is estimated that the final cost of the BP 2 Program in 2014 for both fire and police personnel will be $496,313. The cost of the BP 2

Program alone will be approximately 46% of the projected shortfall ($1,077,679) in the LOPFI Contribution Fund in 2014.

Section 3 CONSOLIDATION OF LOCAL PLANS WITH LOPFI

3.1 1990 CONSOLIDATION ORDINANCES

3.1.1 In 1990, the City agreed with the Fire Relief and Pension Fund Board and the Police Relief and Pension Fund Board to consolidate both pension funds with LOPFI. The agreement to consolidate Local plans with LOPFI was pursuant to the authority of Act 364 of 1981, as amended, and including Act 609 of 1983. Consolidating the Fire and Police Relief and Pension Funds transferred the responsibility and liability for administration of a local fire or police pension fund (Old Plan) to LOPFI.

Part of the agreement to consolidate the Local Plans with LOPFI included the transfer of all assets and liabilities from both pension funds to LOPFI. LOPFI then would require that the City would make an employer contribution based on an annual actuarial report. The initial amortization financing period was 40 years. The financing period would eventually change to 30 years open until 2007 when LOPFI closed the open financing structure. The financing period is now 22 years from December 31, 2014.

3.1.2 Ordinance 63-90 titled "AN ORDINANCE ELECTING COVERAGE FOR ELIGIBLE MEMBERS OF THE POLICE RELIEF AND PENSION FUND UNDER THE ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM AND AUTHORIZING THE MAYOR TO ENTER INTO AN AGREEMENT WITH LOPFI" was passed on September 18, 1990. Under the agreement, the City agreed to pay LOPFI an actuarial combined rate of 34.19% of total police payroll for retirement provisions. The 34.19% was calculated at 16.08% for the LOPFI members plus (+) 18.11% for the Local Plan members. Each subsequent year's rate would be determined by an annual LOPFI valuation.

3.1.3 Ordinance 64-90 titled "AN ORDINANCE ELECTING COVERAGE FOR ELIGIBLE MEMBERS OF THE FIRE RELIEF AND PENSION FUND UNDER THE ARKANSAS LOCAL POLICE AND FIRE RETIREMENT SYSTEM AND AUTHORIZING THE MAYOR TO ENTER INTO AN AGREEMENT WITH LOPFI" was passed on September 18, 1990. Under the agreement, the City agreed to pay LOPFI an actuarial combined rate of 34.22% of total fire payroll for retirement provisions. The 34.22% was calculated at 15.43% for the LOPFI members plus (+) 18.79% for the Local Plan members. Each subsequent year's rate would be determined by an annual LOPFI valuation.

3.2 FORT SMITH FIRE AND POLICE PENSION FUNDING

3.2.1 **LOPFI Contribution Fund:** The funding for the Fort Smith Fire and Police retirement plan comes from multiple sources. The revenues are deposited into a separate fund dedicated to only the fire and police retirement system. The fund is called the LOPFI Contribution Fund.

3.3 LOPFI CONTRIBUTION FUND REVENUES

3.3.1 **Taxes:** The Fire and Police retirement system is partially supported by 1 mill each for fire and police (for a total of 2 mills) of an ad valorem tax on the assessed value of taxable real and personal property located within the City. This is the same ad valorem tax that supported the Local (Old) Plans discussed in Section 1.16.1. The authority to levy the tax is pursuant to the provisions of Amendment 31 of the Constitution of the State of Arkansas of 1874 adopted November 5, 1940. The amount collected in 2013 was $2,679,577.

- **Amendment 59**: Arkansas Amendment 59 was a tax roll-back provision passed by the voters in Arkansas in the early 1980's. The amendment rolled backed the 1 mill ad valorem tax to .5 mills each for the police and fire pension fund. The 1 mill each was reinstated in 1989 by a vote of the citizens of Fort Smith. It is likely that the reduced funding from the ad valorem tax during that period did have a negative impact on both fire and police pension funds.

3.3.2 **Intergovernmental**: Intergovernmental is the term used for the receipt of an Arkansas Insurance Premium Tax (sometimes referred to as the insurance turnback tax or Premium Tax). The tax is collected and dispersed by the State of Arkansas for several uses, one of them being fire and police pension funding. The revenue is dispersed on a formula too complex to discuss in this document. Each municipalities' share is deposited directly to LOPFI and credited to that municipalities' account. It is the long term intent for the Insurance Premium Tax to cover 40 % of the municipalities' LOPFI cost and/or 30% of the municipalities' Consolidated Plan cost. The amount collected in 2013 was $1,366,857. More information about the Premium Tax can be found in Section 3.5 PREMIUM TAX HISTORY.

3.3.3 **Fines and Forfeitures –** The funding from this category comes from a 10% fee charged to all municipal court fines. The amount collected in 2013 was $129, 528.

3.3.4 **Interest –** This is interest collected on the revenue within the LOPFI Contribution Fund. The interest received in 2013 was $18,183.

3.3.5 **Contributions –** Is the employees 6% (Local Plan) or 8.5% (LOPFI only) personal contributions, and the City's 6% match for any remaining Old Plan members that are still on active payroll, and the contribution from Program 4803 to the retirement plan. The City's contribution for the fire department personnel assigned to Program 4803 comes from revenue from the ¼% sales tax for Fire and Parks operations and therefore does not worsen the shortfall of the LOPFI Contribution fund. The fire and police employee and City retirement contributions for 2013 was $1,846,891.

As of December 31, 2014 there were only two (2) remaining Old Plan Fire members and no remaining Old Plan Police members employed with the City. Therefore, the City is only contributing a 6% match for two (2) Old Plan Fire members and no police members. When the last two (2) Old Plan Fire members retire, the City's 6% match to the LOPFI Contribution fund will cease.

3.3.6 **Miscellaneous –** All other revenue collected for the fire and police retirement system that does not go into one of the previous categories. That amount for 2013 was $1,221.

3.4 LOPFI CONTRIBUTION FUND EXPENDITURES

3.4.1 **Police:** The expenditures listed in the LOPFI Contribution Fund for police is the total contribution made (or projected) to meet the actuarial requirement for the police retirement benefit. This expenditure line item includes the city's contribution, the member's contribution (both LOPFI and Local Plan), and administrative costs. The total expenditures for the police portion for 2013 was $3,351,662.

3.4.2 **Fire:** The expenditures listed in the LOPFI Contribution Fund for fire is the total contribution made (or projected) to meet the actuarial requirement for the fire retirement benefit. This expenditure line item includes the city's contribution, the member's contribution (both LOPFI and Local Plan), and administrative costs. The total expenditures for the fire portion for 2013 was $4,002,720.

3.5 PREMIUM TAX HISTORY

3.5.1 The State of Arkansas collects a State Insurance Premium Tax Turnback (Premium Tax) that is used to defray a portion of the employer contributions for LOPFI and the local fire and police pension funds.

3.5.2 The Premium Tax allocated to LOPFI locations and Consolidated Local Plans are deposited directly with LOPFI. LOPFI then credits the respective employer internal accounts with all Premium Tax allocations.

3.5.3 Act 979 of 2011 amended the distribution formula for the Premium Tax. This act created a transition period for years 2012 through 2015 to implement a uniform employer contribution rate for LOPFI-covered paid service employers. The goal was to have all paid locations transition to a single employer contribution rate by the 2016 Premium Tax allocation.

3.5.4 Once the transition to a single employer rate is accomplished, all paid locations will have 40% of the LOPFI-only actuarial cost and, if a location has a Consolidated Local Plan (Fort Smith), 30% of the Consolidated Local Plan actuarial cost funded by the Premium Tax.

3.6 LOPFI CONTRIBUTION FUND BREAKDOWN

3.6.1 The City of Fort Smith Arkansas' LOPFI Contribution Fund is set up under a General Ledger Account Code of 1109. To help better understand how the individual 1109 account numbers match the Statement of Revenues, Expenditures, and Changes in Fund Balance spreadsheet (SRE History) prepared by the Finance Department, the following is an analysis of the Revenues/Expenditures Titles and their respective 1109 account codes.

3.6.2 Revenues

- **Taxes:** Represents the Ad Valorem tax dedicated for Police and Fire Pensions. The account code is: 3210-000-1109
- **Intergovernmental:** Represents the State Insurance Turnback Tax (Premium Tax). The account code is: 3014-000-1109
- **Fines and Forfeitures:** Represents the 10% Municipal Court Revenue. The Account Code is: 3304-000-1109
- **Interest:** Interest Earned on LOPFI Contribution Account. The account code is: 3710-000-1109
- **Contributions:** Contributions include the City's 6% match to the Old Plan member's contributions (3132-000-1109). (*It is important to know that the City's 6% contribution for Old Plan Members ends with the actual termination of each Old Plan Member – even though their retirement benefit begins or continues*); ***and*** the Fire and Police Old & New Plan Member's 6% & 8 ½% individual salary contributions (3721-000-1109); ***and*** LOPFI contributions for FSFD personnel working in Program 4803 (3132-001-1109).
- Miscellaneous: Includes sale of surplus property and other miscellaneous donations (3713-000-1109).

3.6.3 Expenditures

- **LOPFI Contribution for Police:** Police Old Plan Members (6820-001-1109); ***and*** Police New Plan members (6820-004-1109); ***and*** a percentage of Administrative costs (6820-002-1109).
- **LOPFI Contribution for Fire:** Fire Old Plan Members (6820-005-1109); ***and*** Fire New Plan Members (6820-006-1109); ***and*** a percentage of Administrative costs (6820-002-1109).

3.7 2013 FORT SMITH PAID FIRE VALUATION

3.7.1 **Valuation -** Each year, an actuarial valuation is done which determines the employer contribution rate required to support the benefits provided by LOPFI for members of the Pension and Relief Fund. The purpose of the valuation is to measure funding progress in relation to the actuarial cost method, to determine the employer contribution rate and to determine actuarial information for Governmental Accounting Standards Board (GASB) Statements.

Valuation results depend on actual financial and demographic experience of both the retirement system and the Fort Smith police officers and firefighters. Investment experience in particular significantly impacts year-to-year results. The projection referenced in Section 3.8.1 would look very different if it had been performed in 2009 rather than 2014.

3.7.2 The valuation dates are December 31 of each year and sets the contribution rates for the second following year. For example, the December 31, 2013 valuation sets the LOPFI contribution rates for the calendar year 2015.

3.7.3 For a Consolidated Plan such as Fort Smith, the rates for the LOPFI only members are calculated separately from the Local Plan members and then combined for one total rate. The total rate is then multiplied by the total active member payroll (LOPFI and Local Fund combined) times the combined contribution rate.

- For the 2015 calendar year, the LOPFI rate for the fire department is 22.01%.
- For the 2015 calendar year, the Local Plan rate for the fire department is 17.49%
- For the 2015 calendar year, the combined rate is the sum of the LOPFI rate and the Local Plan rate or 39.50% of active payroll (22.01% + 17.49% = 39.50%).

3.8 LOPFI PROJECTIONS MEMO 08/05/2014

3.8.1 Projected Future Shortfall of LOPFI Contribution Fund: On August 5, 2014, Fort Smith Director of Finance Kara Bushkuhl wrote a memo to City Administrator Ray Gosack that discussed the LOPFI Contribution Fund for the years 2015 through 2022. A schedule was developed for the years 2015 through 2022 using employer contribution costs from an actuarial report provided by LOPFI to the City of Fort Smith. According to the schedule, the city will need to provide more funding to meet the required contribution levels by 2019.

3.9 OCTOBER 14, 2014 STUDY SESSION BOARD PACKET

3.9.1 LOPFI Contribution Fund Shortfall Discussion: Funding issues regarding the Arkansas Local Police and Fire Retirement Systems (LOPFI) was discussed with the Fort Smith Board of Directors, local state legislators, and David Clark, the Executive Director of LOPFI. Kara Bushkuhl, the Finance Director for the City of Fort Smith, provided background information about the LOPFI Contribution Fund and the primary concerns with the expected financial shortfall to meet the city's LOPFI contribution obligation.

The discussion centered on the State of Arkansas' willingness to support legislation to give municipalities more tools and options to raise revenue for pension funding. Senator Jake Files, Fort Smith, stated that he thought it would be very unlikely that the Arkansas 90th General Assembly in 2015 would be in favor of supporting such legislation.

It was determined to continue to pursue the matter both in the upcoming Fort Smith Budget hearings and the 90th Arkansas General Assembly.

The matter was presented to the 90th Arkansas General Assembly in 2015 in the form of Senate Joint Resolution 10 (SJR 10). However, the General Assembly chose not to act on the matter at this time.

3.10 EOY 1109 FUND BALANCE PROJECTIONS FOR DIFFERENT OPTIONS

3.10.1 **LOPFI Contribution Fund Funding Options:** The Finance Department prepared separate LOPFI Contribution Fund Spreadsheets with different funding options for the projected shortfall in revenue for the Police and Fire Pension plan. This information was provided to the Fort Smith Board of Directors prior to the 2015 Budget Hearings. The options included (a) 10% reallocation of the one cent street sales tax or (b) a $600,000 General Fund transfer per year or (c) rescinding BP 2. One other possible solution the Fort Smith Board of Directors may want to reconsider is the reimplementation of the City's business license fee. Although this possible solution was discussed by the Board in late 2014, it was decided to wait and see if 2015 Arkansas General Assembly would come up with a state wide solution for projected fire and police pension funding shortfalls.

END OF DOCUMENT