

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB BOARD RULE #4

Adopted: May 30, 1985
Amended: July 18, 1995
Amended: September 10, 1997
Amended: September 10, 2004

DEFINITION OF “ACTUARIAL SOUNDNESS”

Under law, the financial objectives of the local pension plans shall be to establish and receive contributions which will remain approximately level from year to year and will not have to be increased for future generations of citizens. The law specifies that this objective is achieved when contributions received each year by a pension fund are sufficient both, (1) to fully cover the costs of benefit commitments being made to employees for their service being rendered in such year and, (2) to make a level payment which, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for service previously rendered.

1. The financial objectives discussed above must be met in order for a fund to be considered “actuarially sound.”
2. All computations of actuarial condition shall be based upon assumptions of future financial experiences and funding methods which are either established by or approved by the Pension Review Board.
3. From the date of the adoption of this Board rule, the tests described below shall be used to evaluate benefit increase requests from the local funds and to determine if pension recipients are eligible for benefits mandated by law for pension funds which are “actuarially sound.”

A fire or police pension fund that is designated as “actuarially sound” must meet one of the following conditions:

1. The Contribution Test and the Short Condition Test; or
2. The Contribution Test and the Funded Percentage Test; or
3. Cash Flow Projection Valuation
4. Alternate Cash Flow Projection Valuation

Contribution Test

The contributions made to the Fund must be equal to or more than the actuarially computed contributions to pay for the Fund’s proposed total benefits. Such computed contributions shall consist of the following items:

1. Normal Cost; and
2. An amortization of unfunded accrued liabilities over a period of future years, which period is defined in the table below.

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Short Condition Test

The Pension Fund's current assets (cash and investments) must be sufficient to cover:

1. Active member contributions on deposit; and
2. The proposed total liabilities for future benefits to present retired lives and inactive members; and
3. A portion of the proposed total liabilities for service already rendered by active members. The portion is defined in the table below.

Funded Percentage Test

The Pension Fund's current assets (cash and investments) must be sufficient to cover a portion of the proposed total liabilities of all participants of the Pension Fund. The portion is defined in the table below.

<u>Testing Dates as of December 31</u>	<u>Amortization of Unfunded Active Liabilities</u>	<u>Amortization of Unfunded Retiree Liabilities</u>	<u>Active Liability-Short Condition Test</u>	<u>Funded Percentage Test</u>
1994	18	9	55%	82%
1995	16	8	60%	84%
1996	14	7	65%	86%
1997	12	6	70%	88%
1998	10	5	75%	90%
1999	9	5	80%	92%
2000	8	5	85%	94%
2001	7	5	90%	95%
2002	6	5	95%	96%
2003 & after	5	5	100%	97%

Cash Flow Projection Valuation

If the pension fund has 50 or more participants, the Fund may show "actuarial soundness" using a Cash Flow Projection Valuation. This valuation will project the assets, future income, and future benefit obligations of the pension fund. The assumptions used in this valuation shall be based upon the same assumptions used by the Pension Review Board for regularly scheduled valuations. The Cash Flow Valuation must show that the current assets projected with future income will always be sufficient to cover all benefit obligations. A Cash Flow Valuation is not required to be done on a regular basis, but will only be completed when requested by the Fund and at the expense of the pension fund

If, however, a pension plan has received money from the Arkansas Fire and Police Guarantee Fund, that pension fund may not have a cash flow study performed for the purpose of granting a benefit increase for a two-year period following receipt of the Guarantee Fund money.

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Alternate Cash Flow Projection Valuation

If a pension fund has less than 50 participants, the Fund may show “Actuarial Soundness” using an Alternate Cash Flow Projection Valuation as defined in this paragraph. This valuation will project the assets, future income and future benefit obligations of the pension fund. The assumptions used for an Alternate Cash Flow Projection Valuation will not necessarily be the same assumptions used by the Pension Review Board for regularly scheduled valuations, because of the small number of fund participants. The Alternate Cash Flow Projection Valuation must show that the current assets projected with future income will always be sufficient to cover all benefit obligations. An Alternate Cash Flow Projection Valuation is not required to be done on a regular basis, but will be completed when requested by the Fund and at the expense of the pension fund.

For a pension fund to be able to use the Alternate Cash Flow Projection Valuation, it must also meet the following conditions:

1. The fund uses a PRB Recognized Investment Management and Trust Arrangement.
2. The local pension board, as well as the local city council, must certify to the PRB that they understand the risks involved in using a cash flow model for a small group, and that they assume responsibility for any future funding shortfall risk that might occur as a result of the utilization of the Alternate Cash Flow Projection Valuation.

An investment management and trust arrangement will be a Recognized Investment Management and Trust Arrangement by the PRB if it contains the following independent and separately accountable components:

1. Investment Advisory and Reporting, including, but not limited to
 - a. Pension plan prudent asset allocation advice
 - b. Choosing independent investment managers or funds
 - c. Reporting the results of the investment managers versus their benchmark at least quarterly.
2. Investment Management, including, but not limited to
 - a. Investing plan assets on a plan-specific basis which pertains to the stated asset allocation designated by the local pension board with the assistance of the investment advisor
 - b. Regular reporting of results through the recognized investment management and trust arrangement.
3. Trust, Custodial and Administrative Services, including, but not limited to
 - a. Trust and/or custodian agreement with an independent trustee and/or custodian
 - b. Year-end plan financial reporting to the PRB.

Certified By: _____
David B. Clark, Interim Executive Director