

**ARKANSAS FIRE & POLICE
PENSION REVIEW BOARD**

PRB

**620 W. 3rd Street, Suite 200
LITTLE ROCK, AR 72201**

RULES

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

BOARD RULES

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ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB RULE #1

Adopted:	April 17, 1985
Amended:	May 30, 1985
Amended:	September 4, 1986
Amended:	May 21, 1987
Amended:	December 14, 1990
Amended:	June 29, 1999
Amended:	March 21, 2007
Amended:	September 7, 2011

Description of the Board; Method of Operation; Methods for Public Access to the Information; Election of Chair.

The Arkansas Fire and Police Pension Review Board (PRB) was established by Act 381 of 1983. Its legal charge is to enforce Arkansas laws which govern funding of local police and fire pension funds (Local Plans), which were established by Act 250 of 1937 and Act 491 of 1921, respectively, and to enforce the proper legal level of benefit payments from these Local Plans. The law also charges the PRB with approving the decisions of staff, who certify the proper action to be taken on benefit increase requests for Local Plans.

The PRB has nine voting members. Employers have three (3) representatives; each employee group has two (2) representatives; the public has one (1) representative, and the Director of the Department of Finance and Administration sits ex officio. The PRB Members are appointed by the Governor and hold terms, which are set by law. The PRB must meet once a year, and may call other regular and special meetings at its discretion.

In or after July of each odd-numbered year the voting members of the PRB shall elect from among their number a Chair of the Board and a Vice-Chair to move up to Chair of the Board. The Vice-Chair will serve in the absence of the Chair and/or in the event the member holding the position of Chair leaves the Board prior to the expiration of his/her term. However, the period a member may serve as Vice-Chair will not apply towards the stated term limitation in the event that member is elected to the position of Chair. Beginning with the July 2007 election cycle, a member will be limited to one (1) term as Chair. The rotation of the Chair position shall begin with the Arkansas Municipal League representatives, followed by the Police representatives, followed by the public representative, and then the Firefighter representatives. In the event a representative group does not wish to serve as Chair, then the rotation shall move to the next representative group.

The law designates the Executive Director and staff of the Arkansas Local Police and Fire Retirement System to serve as director and staff for the PRB.

The PRB is authorized to make rules necessary to enforce the laws governing funding and benefit levels, and to withhold Premium Tax Turnback from the Local Plans and their sponsoring locations when non-compliance with such laws is determined.

The press is notified of each PRB meeting, which are open to the public. The public may review the records of the Board at its offices located at 620 W. 3rd Street, Suite 200, Little Rock, Arkansas. Office hours are Monday through Friday from 8:30 a.m. – 4:30 p.m.

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PRB Rule #1 (continued)

Public records may be copied in the office, but charges not to exceed 50 cents per page may be charged to defray the cost of copying large volumes of pages. Any interested party will be afforded access to the public files, but such persons are asked to contact the PRB's director first at (501) 682-1745 so that a mutually convenient time may be arranged and office operations will not be disrupted.

Actuarial Cost Studies for Legislative Proposals

The Executive Director will not pay for actuarial costing of proposed legislation without prior approval of the PRB.

Actuarial Cost Studies for Depository Insurance Recoveries

Local Plans will be responsible for charges incurred for actuarial services required to recover pension fund assets from depository insurance corporations.

PRB Rule 1 concluded.

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PRB RULE #2

Adopted:	April 17, 1985
Amended:	May 21, 1987
Amended:	December 7, 1994
Amended:	December 3, 1997
Amended:	September 10, 2004
Amended:	September 7, 2011

PROCEDURE FOR INCREASING BENEFITS FROM LOCAL PLANS

There are two methods by which a Local Plan may increase benefits to its members. The first is by legislation which mandates an increase. The second is by securing an actuarial valuation which demonstrates that a pension fund can support the cost of the increased benefit over a defined period of years.

Local Plans are required by law to process all benefit increase requests through the PRB.

If a local board of trustees wishes to process a benefit increase through the PRB, the following procedure must be used:

1. The local board of trustees must adopt a resolution to raise benefits to the new amount. The resolution must be signed by $\frac{3}{4}$'s of the membership of the board (at least 6 of 7 trustees must sign.)

A certified copy of the minutes of the board meeting at which the resolution was adopted must accompany the resolution. The minutes must reflect who voted for the benefit increase resolution and who voted against it. The certification shall be by the PRB's director.

2. The resolution must state how much the increase would be and to whom it would apply, current retirants only; future retirants only; current and future retirants; current surviving spouses and/or children; future surviving spouses and/or children; current and future surviving spouses (Police pension funds may include dependent parents.)
3. The completed resolution should be mailed to:

Arkansas Fire and Police Pension Review Board
620 W. 3rd Street, Suite 200
Little Rock, AR 72201-2223

4. A determination will be made by PRB staff that, based on all available financial information on the fund, the benefit increase request should be processed. The pension fund will be invoiced for the actuarial valuation and the pension fund should return a check promptly for that amount to the above address. No actuarial work will be processed until payment is received.
5. Once the check has been received, it will be submitted to the actuary who will begin work on the benefit increase valuation.

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PRB Rule #2 (continued)

6. When the valuation results are received, the Executive Director shall certify to the local board whether or not the increased benefit can be given. If denied, the local board may appeal the findings of the staff to the PRB, upon a written request to do so. Benefit increases, which are approved, must also be accepted by the PRB

The Executive Director may make benefit increases retroactive to the date of the local board resolution requesting the increase, or to a later date, depending on the circumstances of the increase.

7. When an increase is granted, a copy of the resolution, actuarial valuation, and Executive Director's certification must be filed by the local board of trustees with the circuit and city clerks of the county and city in which the Local Plan is located.

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PRB RULE #3

Adopted: April 17, 1985
Amended: September 28, 1999
Amended: December 12, 2000
Amended: September 7, 2011

ANNUAL DISCLOSURES OF THE FINANCIAL ACTIVITIES LOCAL PLANS

Pursuant to Act 700 of 1979, as amended, each Local Plan is required annually to compile a financial report of the Local Plan. These annual financial reports must be filed with the PRB.

1. Financial reports, including the required personnel data, shall be filed with the PRB no later than March 31 of each year for the previous calendar year. The Executive Director may extend this date in writing, but in no case will this date be extended beyond May 15. The failure of a Local Plan to submit this information by this date may result in the loss of premium tax allocations to the Local Plan and the location sponsoring the Local Plan as described in PRB Rule 12.
2. Financial reports will be made in the manner and format supplied by the PRB.
3. Each financial report shall include at least the following:
 - 1) The Local Plan's revenues and expenditures during the year. The revenues exhibit shall allow at least the annual total for each of the following items:
 - (a) Employee contributions
 - (b) Employer contributions, from State
 - (c) Employer contributions, other
 - (d) Investment Income
 1. Interest and dividends
 2. Gain or (loss) on sales
 3. Other (specify)
 4. Total of 1+2+3
 - (e) Other (specify)
 - (f) Total (a) through (e)

The expenditures exhibit shall show at least the annual total for each of the following items:

- (a) Refunds of employee contributions
- (b) Benefits paid
- (c) Administrative expenses
- (d) Other (specify)
- (e) Total (a) through (d)

The difference between revenues and expenditures is the change in plan reserve assets for the year.

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PRB Rule #3 (continued)

- 2) The plan reserve assets exhibit at year-end shall show at least the total for each of the following items:
 - (a) Cash and bank checking account (non-interest bearing)
 - (b) Bank deposits, interest earning
 - (c) Savings and loan deposits, interest earning
 - (d) Other cash equivalents, maturing one (1) year or less
 - (e) USA Government securities
 - (f) Mortgages
 - (g) Corporate bonds
 - (h) Corporate common stock
 - (i) Other (specify)
 - (j) Total (a) through (i)

The asset values shall be cost values or amortized cost values. If corporate common stock is held, there shall also be shown separately the year-end market value of such stock.

- 3) The accumulated employee contributions at year-end of all non-retired covered employees.
- 4) The chair of the local board of trustees shall certify that all information contained in the report is an accurate reflection of the financial activities of the Local Plan. The PRB may add additional certifications as part of the annual financial report.
- 5) The staff of the PRB may refuse to accept financial reports in which the reported balances do not reconcile or which are incomplete, and the staff may require the Local Plan to submit corrected or new reports. A Local Plan will not be shown as having reported for the year until an adequate report has been accepted by the PRB staff. Staff refusal to accept inadequate or incorrect reports will be subject to review by the PRB if requested in writing by the Local Plan.

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PRB RULE #4

Adopted: May 30, 1985
Amended: July 18, 1995
Amended: September 10, 1997
Amended: September 10, 2004
Amended: June 12, 2007
Amended: September 7, 2011

DEFINITION OF “ACTUARIAL SOUNDNESS”

Under law, the financial objectives of the Local 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 Local Plan 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 Local Plan 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 PRB.
3. From the date of the adoption of this rule, the tests described below shall be used to evaluate benefit increase requests from the Local Plans and to determine if pension recipients are eligible for benefits mandated by law for Local Plans which are “actuarially sound.”

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

1. Normal Cost; and

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PRB Rule #4 (continued)

2. An amortization of unfunded accrued liabilities over a period of future years as defined in the table below.

Short Condition Test

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

Testing Dates as of <u>December 31</u>	Amortization of Unfunded Active <u>Liabilities</u>	Amortization of Unfunded Retiree <u>Liabilities</u>	Active Liability-Short <u>Condition Test</u>	Funded Percentage <u>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 Local Plan has 50 or more participants, the Local Plan may show "actuarial soundness" using a Cash Flow Projection Valuation. This valuation will project the assets, future income, and future benefit obligations of the Local Plan. The assumptions used in this valuation shall be based upon the same assumptions used by the PRB for regularly scheduled valuations. The Cash Flow Projection Valuation must show that the current assets projected with future income will always be sufficient to cover all benefit obligations. A Cash Flow Projection Valuation is not required to be done on a regular basis, but will only be completed when requested by the Local Plan and at the expense of the Local Plan.

Alternate Cash Flow Projection Valuation

If a Local Plan has less than 50 participants, the Local Plan 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 Local Plan. The assumptions used for an Alternate Cash Flow Projection Valuation will not

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PRB Rule #4 (continued)

necessarily be the same assumptions used by the PRB 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 Local Plan and at the expense of the Local Plan.

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

1. The Local Plan 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.

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.

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PRB RULE #5

Adopted: April 17, 1985
Amended: June 9, 2009
Amended: September 7, 2011

BENEFIT LEVELS AND ANNUAL FINANCIAL DISCLOSURE

Pursuant to law, the PRB is required to withhold Premium Tax Turnback to Local Plans and their sponsoring locations, as described in PRB Rule 12, that are found to be in non-compliance with laws governing benefit levels and annual financial disclosures.

For Benefit Payments Which Are Too Low

1. PRB staff shall notify the Local Plan in writing of its non-compliance and shall inform the local board of the proper benefit levels to be paid. Staff will ask the local board to increase payments to underpaid recipients or, if applicable, to file a proper written notice of prorating with the PRB.
2. The local board shall submit a copy of the minutes of the board meeting at which the increase was made or the decision to prorate benefits was adopted. The local board shall take this action within six (6) weeks of notification of non-compliance or request, in writing, a review by the Board of staff findings. This notice must be filed within the same six (6) week timeframe.
3. Back payments for underpaid benefits shall be left to the discretion of the local board and its legal counsel.
4. Any local board which disagrees with the findings of staff regarding the correct level of benefit payments may request, in writing, a hearing before the PRB. The PRB shall schedule the hearing during its next regular meeting but may delay the hearing to a later meeting if requested, in writing, by the local board.
5. Premium Tax Turnback to the Local Plan and the sponsoring location, as described in PRB Rule 12, shall be withheld until staff findings are overturned, compliance is achieved through an increase in benefit payments to their correct level, or, if applicable, filing a proper written notice of prorating.
6. A proper written notice of prorating shall describe the method and amount of proration and shall comply with A.C.A. 24-11-416, for police pension funds or A.C.A. 24-11-807, for fire pension funds.

For Benefit Payments Which Are Too High

1. PRB staff shall notify the Local Plan in writing of its non-compliance and shall inform the local board of the proper benefit levels to be paid. Staff will ask the local board to decrease payments to overpaid recipients to the correct levels or to file a written request with the PRB for a review of staff findings.

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PRB Rule #5 (continued)

2. The local board shall submit a copy of the minutes of the board meeting at which the rollback was made or the request for a review by the PRB of staff findings was approved. The local board shall take this action within six (6) weeks of notification of non-compliance.
3. Recovery of overpaid benefits shall be left to the discretion of the local board and its legal counsel.
4. Any local board which disagrees with the findings of staff regarding the correct level of benefit payments may request, in writing, a hearing before the PRB. The PRB shall schedule the hearing during its next regular meeting but may delay the hearing to a later meeting if requested, in writing, by the local board.
5. Premium Tax Turnback to the Local Plan and the sponsoring location, as described in PRB Rule 12, shall be withheld until staff findings are overturned or until compliance is achieved through a rollback in benefit payments to their correct level.

ANNUAL FINANCIAL DISCLOSURE

All Local Plans that have not consolidated with the Arkansas Local Police and Fire Retirement System are required to file an annual financial report with the PRB. The requirements for the annual filing are described in PRB Rule #3. A Local Plan and the sponsoring location, as described in PRB Rule 12, shall have their Premium Tax Turnback withheld, and risk forfeiture, if the Local Plan fails to comply with the reporting requirements.

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PRB RULE #6

Adopted: April 17, 1985
Amended: September 7, 2011

ENFORCEMENT OF FUNDING STANDARDS

Employee Contributions

FIRE

Under current law, employees who wish to be covered by local fire pension funds are required to contribute 6% of their gross pay to the Local Plan, or, in the case of volunteers, \$12 annually.

A.C.A. 24-11-816 provides that any firefighter who fails or refuses to pay the required contribution shall forfeit the right to receive benefits from the Local Plan. The contribution requirement does not apply to retired members or any active member with 20 years of service.

1. If staff determines that an employee or employees of a Local Plan are not making the required contributions, staff shall notify the chief executive of the employing group by certified mail that the contributions are required and that these employees are no longer eligible for pension benefits, unless the current and past due contributions are made.

The employer shall respond in writing within eight (8) weeks to notify the PRB as to which employees have made their contributions and which employees have chosen to forfeit their rights to coverage.

2. In such cases in which no active employees have made or are making the required contributions, the PRB may make a determination, after eight (8) weeks from notification of the participating employer, that the Local Plan fund is inactive, and may remove the Local Plan from the annual certification list for Premium Tax Turnback.
3. Staff determinations regarding employee contributions shall be made from the annual financial disclosure reports submitted by the Local Plans.
4. If an employee or employees disagree with staff findings regarding employee contributions, the affected party may request, in writing, a hearing before the PRB. The PRB shall schedule the hearing for its next regular meeting but may schedule the hearing for a future meeting if requested by the affected party.
5. Premium Tax Turnback will be withheld from the Local Plan and the sponsoring location, as described in PRB Rule 12, until staff findings are overturned, or the required employee contributions are made or the ineligible employees are removed from the pension rolls.

POLICE

Under current law, all employees who are eligible to be covered by a local police pension plan are required to accept coverage. Employees who are not covered by Social Security are required to contribute 6% of their gross pay to the Local Plan. Employees who are covered by

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PRB Rule #6 (continued)

Social Security are required to contribute 4% of their gross pay to the Local Plan unless a majority of the contributing members vote to contribute more than 4%, but the contribution shall not exceed 6%.

1. If staff determines that an employee or employees of a Local Plan are not making the required contributions, staff shall notify the Chief Executive of the employing group by certified mail that the contributions are required.
2. The employer shall respond in writing within eight (8) weeks to notify the PRB that the required contributions are being made.
3. Staff determinations regarding employee contributions shall be made from the annual financial disclosure reports submitted by the Local Plans.
4. If an employee or employees disagree with staff findings regarding employee contributions, the affected party may request, in writing, a hearing before the PRB. The PRB shall schedule the hearing for its next regular meeting but may schedule the hearing for a future meeting if requested by the affected party.
5. Premium Tax Turnback will be withheld from the Local Plan and the sponsoring location, as described in PRB Rule 12, until either staff findings are overturned, or the required employee contributions are made.

EMPLOYER CONTRIBUTIONS

From 1985 forward, employers are required to match all employee contributions.

1. If staff determines that an employer is not making the required contributions, staff shall notify the Chief Executive of the employer group by certified mail that the contributions are required.
2. The employer shall respond in writing within eight (8) weeks to notify the PRB that the required contributions are being made.
3. If the employer does not respond or refuses to make the required contributions, the PRB shall notify the Division of Legislative Audit of the Arkansas General Assembly of the non-compliance and shall request an audit exception in the next regular audit of the employer's accounts.
4. Staff determinations regarding employer contributions shall be made from the annual financial disclosure reports submitted by the Local Plan.
5. If an employer disagrees with staff findings regarding employer contributions, the employer may request, in writing, a hearing before the PRB. The PRB shall schedule the hearing at their next regular meeting, but may schedule the hearing for a future meeting if so requested by the affected party.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB RULE #7

Adopted: May 30, 1985
Amended: June 29, 1999
Amended: September 28, 1999
Amended: September 7, 2011

POLICE PENSION FUNDS: Definition of “Salary” and “Compensation”

Contributions

Arkansas law provides that police officers covered by a Local Plan shall contribute 6% of monthly salary to the Local Plan. However, if the officers are also contributing to Social Security, the law sets the monthly deduction at 4% of monthly salary, which can be increased to no more than 6% by a majority vote of the contributing members.

Beginning, January 1, 1985, each city and town with a local police pension fund shall contribute 6% of each officer’s monthly salary to the Local Plan, except in those departments covered by Social Security, in which case the employer shall contribute the same percent of salary which is contributed by the officers (no less than 4% or more than 6%).

Computation of Benefits

Under Act 899 of 1985, benefits to members retiring on or after June 28, 1985, shall be based on one-half (½) of the actual salary of the member based upon the member’s highest salary year during his or her time of service. Such salary shall not include overtime pay, payments for unused accrued sick leave or annual leave, or the cash value of any non-recurring or unusual remuneration.

For benefits computed on a salary year prior to June 28, 1985, the overtime exclusion does not apply. Beginning March 18, 1985, the minimum monthly pension of a police officer is \$250/month (Act 391 of 1985), unless the plan is Act 1197 eligible, at which time it will be a minimum of \$350/month.

1. On and after June 28, 1985, the term “salary” as used for purposes of pension deductions and computation of benefits shall mean line-item salary, education or certificate pay, annual and holiday pay, and longevity pay.
2. For a pension computed on a salary year prior to June 28, 1985, the local board of trustees shall determine by board regulation what shall constitute “compensation.”
3. On and after June 28, 1985, pension deductions shall not be withheld on overtime pay, or on any other type of pay, which will not be included as “salary” for pension contributions.
4. Local boards of trustees shall not authorize refunds to active members of pension contributions made on overtime pay or other types of pay prior to June 28, 1985.

Please note that these definitions and provisions do not apply to LOPFI members.

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PRB RULE #8

Adopted: May 30, 1985
Amended: December 5, 2007
Amended: September 7, 2011

EXPENSES FOR BOARD MEMBERS

PRB members and staff shall be reimbursed for any necessary expenses incurred for performing duly authorized PRB business. Expense reimbursement shall be made on an agency-approved Travel Reimbursement form and in accordance with state travel limits. Receipts for hotel, meals (alcoholic beverages are excluded for reimbursement purposes), and commercial transportation expenses must accompany the reimbursement form. In addition, when PRB members perform any proper business of the board, they may receive, per day, a stipend not to exceed the amount listed in A.C.A. 25-16-903, as amended.

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PRB RULE #9

Adopted: July 14, 1993
Amended: March 10, 2004
Amended: September 7, 2011

An Administrative Services Committee (ASC) is hereby created to deal with the annual establishment of staff pays, to review appeals of grievances which may be submitted by staff members against their supervisors, and to review complaints against the Executive Director of the Agency.

The ASC shall be comprised of three members of the LOPFI Board of Trustees, and two members of the Arkansas Fire and Police Pension Review Board, to be appointed by the Chairman of the LOPFI Board. The members of both Boards or their designated members may meet in executive session concerning the Board's executive director, staff, or persons being considered for any of those positions. Such executive sessions must comply with the open public meetings requirements in A.C.A. 25-19-106, as amended.

A) The procedure for establishing annual staff pays shall follow the Budget and Expense Allocation Procedure approved annually by both Boards.

1. Executive Director drafts a proposed budget after consulting the approved salary range for each staff position, including the application of any applicable career service award.
2. Any proposed cost of living adjustment by the Executive Director shall apply to all staff pays and be calculated in accordance with the Budget and Expense Allocation Procedure.
3. ASC reviews the proposed budget including consulting with the Executive Director. Eventually, the ASC renders a decision and reports their position to the Executive Director. The Executive Director includes the ASC's approved amounts in the budget submitted to both Boards.

Executive Director

- a) ASC reviews the Executive Director's performance, and then arrives at a pay amount for the coming year. If it wishes, the ASC may discuss these matters with the Executive Director.
- b) The ASC presents its findings to the Executive Director. This should be done at least one month before the Executive Director's anniversary date of hire.
- c) Executive Director includes the ASC's decision on the next meeting agenda for each Board.
- d) Both Board's shall review the decision at their next meeting.

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PRB Rule #9 (continued)

B) The procedure to be used by staff to file complaints against their supervisors shall be as follows:

The grievant shall inform the immediate supervisor of the person with whom she/he has a grievance. The immediate supervisor shall meet with the parties and mediate the grievance. If no satisfactory solution can be reached, then the immediate supervisor and the complaining parties will meet with the Executive Director. If the Director is also unsuccessful in reaching a solution satisfactory to all parties, the matter shall be referred to the LOPFI Board of Trustees.

C) Complaints regarding the Executive Director

If any person has a complaint against the Executive Director with respect to the Director's discharge of his/her business responsibilities, such complaint must be expressed in writing. Copies of complaints received concerning the Executive Director shall immediately be forwarded to the Chairman of the PRB, for review by the PRB, with recommendations if any, to be referred to the LOPFI Board.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB RULE #10

Adopted: August 11, 1993
Amended: September 28, 1999
Amended: June 11, 2003
Amended: September 7, 2011

ADMINISTRATION OF DROP ACCOUNTS

SECTION

1. Purpose
2. Authority
3. Effective Date and Applicability
4. Local Election of DROP Account
5. Accumulation of DROP Account
6. Employee Contributions
7. Interest Rate Certification
8. Conclusion of the DROP Period
9. Death Benefits
10. Distribution of DROP Account
11. Actuarial Equivalence and Interest Equivalence
12. Reporting Requirements
13. Ten Year DROP for certain Police Plans
14. Continued Employment after DROP Period

SECTION 1. Purpose

The purpose of this rule is to describe the administration of the Deferred Retirement Option Plan (DROP) as it affects the benefit levels and funding of the pension funds. Act 757 of 1993 established the DROP for police officers. Act 1004 of 1993 established the DROP for paid firefighters. Both of these Acts were effective on August 13, 1993.

SECTION 2. Authority

This rule is promulgated by the Arkansas Fire and Police Pension Review Board (PRB) by the authority of A.C.A. 24-11-203.

SECTION 3. Effective Date and Applicability

This rule was effective on August 13, 1993 and is applicable to all Local Plans that elect to implement the DROP.

SECTION 4. Local Election of DROP Program

Act 757 and Act 1004 made the DROP a local option. If the local pension board wishes to make it available to its members, the local pension board must vote to do so. If a local pension board does elect to make the DROP an option, a copy of the board resolution to elect the DROP and a copy of the local pension board's rules to administer the DROP must be filed with the PRB. The local pension board's rules must comply with this Board Rule #10.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #10 (continued)

SECTION 5. Accumulation of DROP Account

Each individual member's DROP account is credited with the following items during the DROP period:

- A. DROP Payments. The DROP account is credited each month of the DROP period with the DROP payments. The amount of the DROP payment is equal to the amount of monthly benefit that would have been received by the member if they had elected service retirement on the first day of the individual's DROP period.
- B. Employer contributions. For municipalities with a population over 20,000, 1/2 of the employer matching contributions are credited to the DROP account. That is, for firefighter plans and police plans that do not participate in Social Security, 3% of current salary, 2% of current salary is added to the DROP account for police plans that participate in Social Security. Plans that have voluntarily agreed to a rate higher than 6% would contribute 1/2 of that amount.

Effective July 1, 1999, for municipalities with a population under 20,000, and those over 20,000 where the local pension board has agreed, all of the employer matching contributions are credited to the Local Plan, not to the DROP account.

- C. Employee Contributions. Effective July 1, 1999, for municipalities with a population under 20,000 and those over 20,000 where the local pension board has agreed, all of the employee contributions will be credited to the DROP account.
- D. Interest. Interest is to be credited to the DROP account. The interest rate to be used is defined in section 7 of this rule.

SECTION 6. Employee Contributions

The member continues to make employee contributions during the DROP period. These employee contributions are credited to the Local Plan and not to the individual's DROP account. Effective July 1, 1999, for municipalities with a population under 20,000, and those over 20,000, where the local pension board has agreed, employee contributions are credited to the DROP account and not to the Local Plan.

SECTION 7. Interest Rate Certification

The rate of interest that is to be credited to the DROP account is to be certified by the actuary for the PRB. The PRB will communicate the necessary information from the annual financial reports that are submitted to it to the actuary for the PRB. The actuary will annually issue a list of Local Plans, which have elected participation in the DROP and the certified interest rate for the DROP.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #10 (continued)

The interest rate credited after the first 5 years of DROP, when a participant has elected to defer receipt of the DROP account, and for continued employment after DROP, has a minimum rate of 0%. Therefore, there will be two interest rates communicated each year.

The first rate will be for the first 5 years of DROP participation. The second rate will be for DROP participation after 5 years, deferred receipt of the DROP account, and continued employment after DROP.

SECTION 8. Conclusion of DROP

- A. The DROP period will conclude at the date of termination of employment but no later than 5 years after the date that the individual member began participation in the DROP. Termination of employment means leaving the employment of the department for any reason. The DROP period may be extended to 10 years as defined in section 13 of this rule.
- B. At the conclusion of the DROP period the DROP account will be distributed. This distribution is described in section 10 of this rule. Act 1371 of 2003 allows a city to elect to allow participants to defer the receipt of their DROP account after the conclusion of the DROP Period.
- C. The monthly benefit that will be received by the member after the DROP period is the retirement benefit as calculated at the date the member began DROP. The monthly benefit does NOT change after the enrollment in DROP, except as described below. This same monthly amount is now paid to the individual member instead of into the DROP account.

The retirement benefit at the end of the DROP period:

- Does **NOT** change with the increase in salary during the DROP period;
- Does **NOT** change with extra service during the DROP period;
- Is the **SAME** amount as was being credited to the DROP account.

There are two exceptions: The age 60 bonus, based on having over 25 years of service earned before the enrollment in DROP, starts at age 60; any benefit increases granted to all retirees, or overall benefit increases, may also be given to persons on DROP.

- D. Disability Benefits. The provisions of these rules do not restrict a local board's authority to provide for disability retirement benefits of DROP participants pursuant to existing law.

SECTION 9. Death Benefits

If a member of a fire or police department dies during the period of participation in the DROP, a

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #10 (continued)

lump sum payment equal to the balance of the DROP account will be paid pursuant to Act 757 or Act 1004 of 1993. The widow's benefit will be paid pursuant to existing law.

SECTION 10. Distribution of DROP Account

A member who has a DROP account must be allowed to choose to receive his or her DROP account as either a lump sum or a true annuity, as described below. At the option of the local pension board, other forms of distribution may also be offered.

- A. Lump Sum. A lump sum amount equal to the accumulation of the DROP account as defined in section 5 of this rule, as of the date of the conclusion of the DROP period.
- B. True Annuity. A true annuity is payable monthly during the lifetime of the member only. If the true annuity is not purchased from an insurance company licensed to do business in the State of Arkansas, the monthly amount of the true annuity can be paid out of the Local Plan. In this case, the monthly amount is the actuarial equivalent of the lump sum, as explained in "A" of this section. Actuarial equivalence is defined in Section 11 of this rule.
- C. Other Forms. The local pension board may choose to distribute the DROP account in other forms of payment. Any other forms that might be made available must meet the following rules:
 1. If the form of payment involves the life expectancy of any individual or individuals, then either,
 - a) an appropriate annuity must be purchased from an insurance company licensed to do business in the State of Arkansas, or
 - b) the amount is paid out of the Local Plan, and the amount is the actuarial equivalent of the lump sum in "A" of this section.
 2. For all other forms of payment, the amount of payment must be the interest equivalent of the lump sum, as explained in "A" of this section. Interest equivalence is defined in Section 11 of this rule.
- D. Deferred Receipt. The local pension board, with the consent of the sponsoring municipality, may allow a participant to defer receipt of their DROP account after the conclusion of the DROP Period. This is a one-time deferral that should be made in writing to the local board. The DROP account must be paid out as a lump sum or converted to an annuity before the participant reaches age 70 ½.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #10 (continued)

SECTION 11. Actuarial Equivalence and Interest Equivalence

Actuarial equivalence, as used in this rule, means that the amounts produce the same lump sum based on the 1983 Group Annuity Mortality Table with 5% interest. Interest equivalence, as used in this rule means that the amounts produce the same lump sum based on an interest rate or rates of not less than 5%.

SECTION 12. Reporting Requirements

The financial and member information required to be reported annually will be supplemented by a detailed listing of each member currently on DROP and the amount of their DROP account as of the end of the current reporting period. The PRB has the right to request additional information concerning the calculation of the DROP account.

SECTION 13. Ten-Year DROP

The duration of participation in the DROP may be extended to a maximum of 10 years. This extension must apply to all active members and be approved by the local pension board. The extension must also be approved by a majority vote of the governing body of the sponsoring municipality. The following differences exist between the extended DROP period and the preceding sections:

- A. Interest Credited. The interest credited to the DROP account has a minimum of 0% instead of the assumed actuarial rate.
- B. Forfeiture of certain credits. The interest credited to the DROP account and the employer contributions credited to the DROP account after the first 5 years of participation may be forfeited. The portion forfeited is 80% if terminated in the 6th year, 60% for the 7th year, 40% for the 8th year, and 20% for the 9th year.

There is no longer a forfeiture of credits for participants who leave the DROP after August 1, 2003.

- C. DROP Payments for Fire Plans. The DROP payments during the second 5 years for fire plans that elect the 10-year DROP is 75% of the DROP payment in the first 5 years. This is described in Act 1369 of 2003.

SECTION 14. Continued Employment After DROP

Act 1372 of 2003 allows the sponsoring municipality and the local pension board to agree to allow participants to work after the conclusion of the DROP period, whether it is 5 years or 10 years. The participant would no longer be able to add to their DROP account during the period of continued employment, except for interest earned. After the period of continued employment, the participant would be able to begin drawing their normal retirement benefit and take a distribution of their DROP Account as described in Section 10.

PRB Rule 10 concluded.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

Attachment 1

**RESOLUTION TO AMEND THE ARKANSAS POLICE OFFICER'S
DEFERRED RETIREMENT OPTION PLAN
PURSUANT TO ACT 1372 OF 2003**

Whereas, the governing body of the City of _____ believes that it is to the advantage of the members of this pension plan and of benefit to our municipality for this option to be made available to our members.

It is therefore resolved that the governing body of the City of _____ approves this amendment of the Deferred Retirement Option Plan pursuant to Act 1372 of 2003.

The City of _____, in electing to amend this plan, agrees to the following:

1. At the conclusion of the Deferred Retirement Option Plan (DROP), a member may continue employment.
2. This continued employment shall be available to all similarly situated members.
3. Once continued employment is elected, a member's monthly DROP payment shall cease.
4. The provisions of Act 1372 regarding interest rate awards will be implemented.
5. The employer and employee contributions of 6% shall cease.
6. A copy of this signed resolution will be filed with the PRB.

This election may be effective on the date of resolution, but no earlier than July 16, 2003.

DATE _____

Chairman _____

Secretary/Treasurer _____

Member _____

Member _____

Member _____

Member _____

Member _____

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

Attachment 1 (Continued)

**RESOLUTION TO AMEND THE ARKANSAS FIREFIGHTER'S
DEFERRED RETIREMENT OPTION PLAN
PURSUANT TO ACT 1372 OF 2003**

Whereas, the governing body of the City of _____ believes that it is to the advantage of the members of this pension plan and of benefit to our municipality for this option to be made available to our members.

It is therefore resolved that the governing body of the City of _____ approves amendment of the Deferred Retirement Option Plan pursuant to Act 1372 of 2003.

The City of _____, in electing to amend this plan, agrees to the following:

1. At the conclusion of the Deferred Retirement Option Plan (DROP), a member may continue employment.
2. This continued employment shall be available to all similarly situated members.
3. Once continued employment is elected, a member's monthly DROP payment shall cease.
4. The provisions of Act 1372 regarding interest rate awards will be implemented.
5. The employer and employee contribution of 6% shall cease.
6. A copy of this signed resolution will be filed with the PRB.

This election may be effective on the date of resolution, but no earlier than July 16, 2003.

DATE _____

Chairman _____

Secretary/Treasurer _____

Member _____

Member _____

Member _____

Member _____

Member _____

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

Attachment 2

**ARKANSAS FIRE AND POLICE LOCAL PLANS
DEFERRED RETIREMENT OPTION PLAN (DROP)
MEMBER ELECTION FORM**

I hereby elect the DROP as my retirement benefit option from the pension plan in place of the normal retirement benefit. I understand that in electing the DROP I have agreed to the following statements:

1. * The amount of the DROP payments will be \$_____ per month. This amount includes all service and age 60 bonuses that I have earned to this date. This amount is the same as if I retired today.
2. * I understand that the monthly benefit that I will receive at the end of the DROP period is the exact same amount stated in item 1, regardless of any pay raises I receive or extra years of accrued service.
3. I understand that at the end of the DROP period I will have the option to receive the DROP account as a lump sum or convert the DROP account to a monthly annuity amount.
4. I understand that the DROP account will remain in the pension fund until I leave the department. I do not have the ability to withdraw from the DROP account until I terminate covered employment.
5. I have elected to begin the DROP on _____. The DROP will end at the earlier of when I terminate covered employment or _____ (5 years from above date, or 10 years, for eligible pension funds).
6. I understand that neither the pension fund nor the department has given any tax advice concerning the way the DROP account is taxed. I have or will consult my own tax advisor for this information.

* Two exceptions to these rules: Age 60 bonuses (for members with over 25 years of service at the time of enrollment in DROP) begin at age 60 whether still on DROP or not; raises given to retirees that are also given to DROP participants.

Member Signature

Date _____

Plan Representative

Date _____

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

Attachment 2 (Continued)

**ARKANSAS FIRE AND POLICE LOCAL PLANS
DEFERRED RETIREMENT OPTION PLAN (DROP)
MEMBER ELECTION FORM**

DESIGNATION OF BENEFICIARY

I hereby designate the following beneficiary to receive any benefits from my DROP account if I die prior to my termination of covered employment:

_____ Date _____
Signature of Member

Please select one of the following:

_____ I certify that to the best of my knowledge, the above named Member is single or that his spouse cannot be located.

_____ Date _____
Signature of Plan Representative
Or Notary

_____ I certify that I have agreed with my spouse on the selection of the above beneficiary or beneficiaries. I understand that if I am not the named beneficiary, I will not be entitled to benefits under the plan.

_____ Date _____
Signature of Spouse

I certify that I have witnessed the spouse's signature above.

_____ Date _____
Signature of Plan Representative
Or Notary

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

Attachment 3

**ARKANSAS FIRE AND POLICE LOCAL PLANS
DEFERRED RETIREMENT OPTION PLAN (DROP)**

**Actuarial Equivalence Factors for Converting
The DROP Account to a True Annuity**

Factors for converting to a monthly annuity payable for the life of the member only:

<u>Age nearest Birthday at End of DROP</u>	<u>Multiply DROP Account by this factor</u>	<u>Age nearest Birthday at End of DROP</u>	<u>Multiply DROP Account by this factor</u>
46	0.0053146	63	0.0073579
47	0.0053846	64	0.0075709
48	0.0054584	65	0.0077992
49	0.0055364	66	0.0080432
50	0.0056188	67	0.0083033
51	0.0057060	68	0.0085802
52	0.0057984	69	0.0088750
53	0.0058965	70	0.0091893
54	0.0060009	71	0.0095256
55	0.0061123	72	0.0098872
56	0.0062314	73	0.0102771
57	0.0063592	74	0.0106982
58	0.0064965	75	0.0111525
59	0.0066443	76	0.0116413
60	0.0068035	77	0.0121651
61	0.0069749	78	0.0127239
62	0.0071594	79	0.0133180
		80	0.0139474

Based on 83 Group Annuity Mortality and 5% interest.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB RULE #11

Adopted: September 28, 1999
Amended: September 7, 2011

ASSET VALUATION METHOD

Act 1293 of 1999 amended A.C.A. 24-11-207. This Act states that the assets will be valued on the asset valuation method determined by the PRB in consultation with their actuary. The asset valuation method is the method used to value the assets of a Local Plan. This value of assets will be used for all calculation purposes; including, the annual actuarial valuation, any benefit increase proposal, and DROP interest rate calculations.

Actuarial Value of Assets

The value of assets determined by the method defined by this rule will be called the Actuarial Value of the assets.

Book Value of Assets

The Book Value of assets will be the cost value of the asset, that is, the amount paid for the asset. If the asset has an amortized cost basis, such as a bond, the book value of the asset will be the amortized cost basis.

Local Plans with over \$5,000,000 Book Value

Local Plans with a book value of assets equal to or greater than \$5 million will use the method in this paragraph to determine the actuarial value of assets. This method is a 5-year smoothing method. The actuarial value of assets will be determined using the following steps:

1. The total market return is calculated (including realized and unrealized appreciation).
2. The assumed actuarial rate of return is credited to the previous year's actuarial value of assets.
3. The difference between steps 1 and 2 is the portion that will be added to the assets over 5 years. Take step 1 minus step 2 and divide by 5.
4. Add the amount in step 3 to the value of assets from step 2.
5. Add the "step 3" amount from the previous 4 years to the amount from step 4.

Local Plans with less than \$5,000,000 Book Value

The actuarial value of assets for Local Plans with less than \$5 million of book value of assets will be the book value as defined in this rule.

Effective Dates

This asset valuation method will be used for all calculations made as of December 31, 1999, and later. The first actuarial valuation using this method will be the January 1, 2000 valuation. The DROP interest rate for 1999 based on December 31, 1999 assets will use this method.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB RULE #12

Adopted: December 12, 2000
Amended: December 12, 2001
Amended: June 11, 2003
Amended: September 7, 2011

PREMIUM TAX TURNBACK ALLOCATION

A.C.A. 24-11-101 et. seq., as amended by Act 979 of 2011, affects the allocation of premium taxes that are to be turned back to Qualified Locations to defray a portion of the employer contributions to the Local Plans and to LOPFI. The Arkansas Fire and Police Pension Review Board (PRB) is authorized to determine the Qualified Locations and their eligibility to receive an allocation.

Section 1. Definitions

A. Actuarial Cost for Local Plans- The Actuarial Cost is the basis for the allocation of premium tax as provided in A.C.A. 24-11-214(b)(2). The Actuarial Cost for Local Plans is calculated using the Base Benefits of the Local Plan. The assumptions used in determining this Actuarial Cost are not necessarily the assumptions used in the actuarial valuations of the Local Plans. The actuarial assumptions and methods will be recommended by the actuary assigned to complete the premium tax allocation and approved by the PRB.

B. Additional Allocation- The Additional Allocation is described in A.C.A. 24-11-217. Beginning in 2012, the Additional Allocation will be calculated and allocated to certain qualified Underfunded Plans as provided in Section 9 of this rule.

C. Base Benefits- The Base Benefits for Local Plans are the minimum benefits defined in the pertinent law:

1. For paid service benefits, 50% of final salary plus an additional \$20 per month for years of service 21 through 25 (with a maximum of an additional \$100), plus 1.25% of final salary for years of service over 25 at age 60. For volunteer benefits, \$100 per month plus \$10 per month additional for years of service 21 through 25 (with a maximum of an additional \$50).
2. For non-duty disability benefits, computed the same as a normal service retirement. Duty disability benefits are computed at 65% of final salary.
3. For death benefits, the surviving spouse paid same amount the member received at the time of his/her death, excluding the Age 60 bonus of 1.25%. For volunteer fire plans, each eligible child paid \$25 per month. For paid fire plans, each eligible child paid \$125 per month. For police plans, eligible children paid an aggregate \$350 per month.

D. Certified Location- A Qualified Location will have its area established by the legal description of its metes and bounds. (The legal description does NOT include areas covered by mutual aid agreements.) This will be completed by the UALR Census State Data Center.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #12 (continued)

The mayor or qualified representative (police locations) must certify the accuracy of the legal description information. The fire coordinator of the city, town, or fire protection district will make the certification for fire locations. The population information for each fire and police location must be certified by the Census State Data Center. After the Executive Director receives both of these certifications a Qualified Location becomes a Certified Location.

E. Eligible Location (In Compliance)- A Certified Location that is in compliance with the laws governing Local Plans and the rules promulgated by the PRB will be eligible to receive an allocation. An Eligible Location is a Certified Location that is NOT a Non-Complying Location. A location that sponsors LOPFI coverage is considered eligible if it is not delinquent according to LOPFI rules.

F. Fire Allocation Fund- This is the portion of the Firemen's and Police Officers' Pension and Relief Fund attributable to the percentages of the lines of insurance assigned to firefighter funds.

G. Firemen's and Police Officers' Pension and Relief Fund- This term is defined in A.C.A. 24-11-301 and A.C.A. 24-11-809. This is the combination of the percentages of the assigned lines of insurance premium tax for both fire and police.

H. General Revenue Allocation Fund- This is the portion of the Police Allocation Fund and the Fire Allocation Fund that will not be distributed to locations and will be returned to general revenues.

I. Insurance Tax Revenues- A.C.A. 24-11-203 (k) and A.C.A. 24-11-214 (k) allow up to 1% to be taken from Insurance Tax Revenues for PRB administration and an additional 1% of Insurance Tax Revenues for premium tax allocation expenses. The Insurance Tax Revenues will be defined as the Firemen's and Police Officers' Pension and Relief Fund.

J. Local Plan- A plan authorized under A.C.A. 24-11-401 et. seq., or A.C.A. 24-11-801 et.seq., whether locally administered or consolidated with LOPFI.

K. Non-Complying Location- A Certified Location that is not complying with the laws governing Local Plans and rules promulgated by the PRB or LOPFI will be certified by the Executive Director to be a Non-Complying Location. The PRB may find a location in noncompliance for any of the following reasons:

1. Failure to file a complete annual report of financial and participant information on the form provided by the PRB by March 31 of each calendar year. This date may be extended by the Executive Director, but in no case will it be extended beyond May 15.
2. An annual report that does not balance or does not properly track participant information will not be considered a complete report and must be corrected by the compliance date.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #12 (continued)

3. Failure to pay benefits at the rate provided by law, or paying a benefit increase that has not been approved by the PRB. This includes administration of DROP accounts not in compliance with PRB Rule 10.
4. Other failures to comply with A.C.A. 24-11-101 et. seq., and the PRB rules.
5. A location that sponsors LOPFI coverage that is delinquent according to LOPFI rules.
6. A location that does not provide the certifications needed to be a Certified Location will be treated as a Non-Complying Location. These certifications must be provided to the Executive Director by March 31 of each calendar year, unless extended by the Executive Director.

L. Police Allocation Fund- This is the portion of the Firemen's and Police Officers' Pension and Relief Fund attributable to the percentages of the lines of insurance assigned to police funds.

M. Qualified Location- A city, town, or fire protection district that sponsors a local fire or police pension plan or is a member of LOPFI is qualified. A location remains qualified as long as it continues its pension coverage. The Executive Director will update the list of Qualified Locations by December 15 of each year.

N. Underfunded Plans- A Underfunded Plan, as described in A.C.A. 24-11-217, will be any Local Plan whose assets are less than its liabilities. The determination of the liabilities will be based on the same assumptions used to determine the Actuarial Cost for the plan. The assets used for this determination will be the actuarial (funding) value of assets reported in the respective actuarial valuation.

Section 2. Allocation Report

The actuary for the PRB will present an allocation report to the PRB by June 15 of each year. This report will show the distribution of the entire Firemen's and Police Officers' Pension and Relief Fund. After approval by the PRB, the allocation report will be forwarded to the Department of Finance and Administration to request the distributions contained in it. The allocation report will contain at least the following items:

1. The amount of the Fire Allocation Fund and Police Allocation Fund.
2. The amount of the Fire and Police Allocation Funds to be distributed to Fire and Police locations and the General Revenue Allocation Fund, reflecting applicable minimums.
3. The amount allocated to each Certified Location and which Certified Locations are eligible to receive their allocations.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #12 (continued)

4. The amount allocated to each Certified Location split between the Local Plan and the LOPFI portion as defined in A.C.A. 24-10-409.
5. Non-Complying Locations and the amount each would receive upon making corrections per Section 3 below.
6. The amount of the PRB administrative costs and the premium tax allocation expenses.
7. The amount of the Fire Protection Fund division.
8. The amount to be allocated to the Additional Allocations, Police Supplement Fund, Fire and Police Future Supplement Funds, and State Police Retirement System.

Section 3. Non-Complying Locations - Corrections

A Non-Complying Location will be able to correct any issues of noncompliance and be approved for an allocation of premium taxes after the date of the allocation report. The process to effect this correction is as follows:

1. The PRB will notify each Non-Complying Location by certified mail of the areas of non-compliance and the amount of premium tax allocation to be withheld from each fund associated with the Non-Complying Location. This notification will be made on or about June 15.
2. The Non-Complying Location must correct the areas of non-compliance and submit a letter to the PRB stating the nature of the correction and asking to receive an allocation. The corrections must be made by August 15 and the letter must be received by the Executive Director by August 15.
3. If the non-compliance issue is resolved with the Executive Director, the Non-Complying Location will be recommended for an allocation at the PRB's September Board meeting.
4. If the compliance issue cannot be resolved with the Executive Director, then a local board member or city representative must appear at the PRB's September Board meeting to demonstrate that it has fully resolved the areas of non-compliance.

If the Non-Complying Location does not demonstrate that it has fully resolved the areas of non-compliance on or before its appearance at the PRB's September Board meeting then the premium tax allocated to every fund associated with that location—including Police and Fire Local Plans, Police Supplement, Fire and Police Future Supplement Funds, Additional Allocation and LOPFI—is forfeited for that year. The amount of that forfeited allocation will be added to the next year's Police Allocation Fund (for police locations) or Fire Allocation Fund (for fire locations). This would be added back at the point after the division to the General Revenue Allocation Fund and before the allocation to individual locations.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #12 (continued)

Section 4. Changes in Location Status

A. The Executive Director may add new Qualified Locations by December 15 of each year. A Certified Location continues in the allocation formula with the same area and population for the 10-year census period. The area of a Certified Location may change over the course of the 10-year census period. These changes may occur through annexation, deannexation, dissolution, or other possible area changes. Therefore, if these changes are reported and documented to the Executive Director by December 15 of a year, then a location can become certified using the changes in area and population in the next year's allocation report.

B. Only annexations certified by the Secretary of State's office will be accepted as changes to the boundaries of an incorporated city or town. The date of certification must be before December 15 for the city to be considered an eligible location for that allocation period. Proof of the certified annexation shall be submitted by the city to the Census State Data Center as soon as possible after certification by the Secretary of State to ensure that the map reflects the current and correct boundaries. A copy of the same items required by the Secretary of State's office shall be provided to the Census State Data Center. These items include:

1. Petition order from the county containing the legal description of the property and the names of the property owners.
2. A decree of annexation.
3. The city ordinance.
4. Plat map.
5. Letter from the Secretary of State that these items have been received, accepted and certified by their office.
6. Similar requirements would exist for other changes affecting an incorporated place (such as a new incorporation).

C. If a location does not provide the documentation for an annexation or other change and the location has a previously certified map of the location, the previously certified map and area will be used in the allocation report.

Section 5. Overlapping Locations

There may be situations where locations certify maps where part of the area in those maps overlap. The locations and Forestry Commission will be notified of the overlap. The locations are encouraged to work together with the Forestry Commission to resolve these situations.

ARKANSAS FIRE AND POLICE PENSION REVIEW BOARD

PRB Rule #12 (continued)

Section 6. Division of a Location's Premium Tax between Local Plan and LOPFI

The premium tax allocated to a location is to be used for the location's local fire or police pension and relief fund and LOPFI. This division is defined in A.C.A. 24-10-409. This calculation will be done as part of the allocation report defined in Section 2 of this rule and using the following considerations:

1. The number of participants used in making the calculation will be the number of participants on the December 31 preceding the year of the allocation.
2. The number of participants will include active members, retirees and beneficiaries, and members on the DROP for both Local Plan and LOPFI-only.
3. The number of participants will not include members of LOPFI who are vested terminated participants.
4. A paid participant will count as 5 volunteer participants for this division.
5. The amount of the division will not be more than 100% of the cost used in the allocation as defined in 24-11-214. For example, a location is allocated with \$5,000 and the division is \$2,000 Local Plan and \$3,000 LOPFI, but the cost for allocation purposes of LOPFI is only \$2,300, then the division is \$2,700 Local Plan and \$2,300 for LOPFI.

The amount of the division for LOPFI locations and local fire and police plans administered by LOPFI will be paid directly to LOPFI.

Section 7. Transition Period 2012 – 2015 Allocations

Act 979 of 2011 added A.C.A. 24-11-214(l) which defines the percentage of the LOPFI-only cost that premium tax is allocated to cover. This subsection also states that during this transition period the Actuarial Cost less the allocation amount may not increase in any one year by more than one percent of payroll. The following steps will be used to accomplish this goal:

- A. A Location Cost Percentage will be determined for each location. This amount will be the 2011 Actuarial Cost less the 2011 allocation of premium tax, all divided by the salary amount used in the 2011 allocation.
- B. The Location Cost Percent will be based on the LOPFI-only paid service cost. That is, the additional cost of the consolidated Local Plan will not be included.
- C. For 2012 – 2015, a Location Cost Percentage will be determined based on that year. It will be compared to the 2011 Location Cost Percentage.
- D. If the Location Cost Percentage for 2012 is more than 1% above the 2011 Location Cost Percentage, the allocation will be increased until it is only 1% more. The percentage for 2013 is 2%, 2014 is 3% and 2015 is 4%.
- E. The increased allocation described in D will be funded by setting a minimum on the difference in the Location Cost Percentage versus the previous year for all locations.

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PRB Rule #12 (continued)

- F. If there is not sufficient premium tax to accomplish the reallocation described in step E, then the percentage in step D will be increased to balance.
- G. Any location that adopts LOPFI coverage in 2011 or later is not subject to the transition period rules.

Section 8. Payment to Local Plan when an Excess Subsidy Account Exists

The amount calculated for each Subsidy Account was determined using the 1997-2002 premium tax distributions and costs for each Local Plan and LOPFI. With the June 2012 premium tax distribution, all locations will have a calculated balance of zero for their Subsidy Account. If a location has an actual balance after June 2012, the location may transfer all or a portion of the balance to their Local fire and/or police Plan, but only after written approval of the PRB. In all cases, monies in a Subsidy Account can only be used for the retirement costs of that location's fire or police pension plan and/or LOPFI.

Section 9. Additional Allocation

As provided in A.C.A. 24-11-217, beginning with the 2012 allocation, Local Plans meeting eligibility requirements will receive an Additional Allocation. The Additional Allocation is calculated so that no Local Plan will receive less than it would have received under the Guarantee Fund during the transition period of 2012-2015. After the 2015 Allocation, no Guarantee Fund calculation will exist.

- A. Eligibility for Additional Allocation. An Underfunded Plan will be considered eligible for an Additional Allocation if the Local Plan is in compliance with this rule and the previous year's employer contributions (other than premium tax allocation) were at least 80% of the Actuarial Cost.
- B. Amount of Additional Allocation. An eligible Underfunded Plan will receive 10% of the plan's Actuarial Cost. For allocation years 2012 through 2015, the Additional Allocation will be no less than the amount that previously would have been provided by the Guarantee Fund as described in A.C.A. 24-11-209.
- C. Transition. During the 2012 through 2015 allocations, the following transition rule will ensure that a Local Plan receives at least the amount that would have been allocated before Act 979 of 2011. If a Local Plan is not eligible for an Additional Allocation under Section 9(A), above, but would have been eligible for the assistance described in A.C.A. 24-11-209, the Local Plan will receive an allocation in the amount that would have been calculated under A.C.A. 24-11-209.
- D. Reduction of Additional Allocation. The Fire Allocation Fund and the Police Allocation Fund must cover specific funding of the following items within the allocation formula before the Additional Allocation:

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PRB Rule #12 (continued)

1. 40% LOPFI-only cost, 30% Local Plan (including Consolidation) cost, and 100% LOPFI-only volunteer cost after the required employer contribution.
2. Premium tax allocation expenses.
3. Police Supplement, Future Supplement Fire and Future Supplement Police.
4. Fire Protection Fund, State Police Retirement System, and at least \$4 million to state general revenue.

If the amount returned to general revenue is not at least \$4 million, the Additional Allocation will be reduced proportionately.

PRB Rule 12 concluded.

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PRB RULE #13

Adopted: March 5, 2008
Amended: September 7, 2011

MINIMUM ASSET MANAGEMENT STANDARDS

Act 851 of 2007, codified as A.C.A. 24-11-216, establishes minimum asset management standards for Local Plans subject to the jurisdiction of the PRB and directs the PRB to promulgate rules as necessary to implement the statute.

Section 1. Definitions.

A. Rate of Return

The “rate of return earned by the local pension and relief fund” shall mean the market rate of return, which shall be calculated using the following formula and definitions:

$$\text{Market Rate of Return} = (2 \times \text{II}) / (\text{A} + \text{B} - \text{II})$$

A = Beginning of the year Market Value of Assets

B = End of the year Market Value of Assets

Income = Non-Investment Income of the plan (e.g. millage, premium tax, etc.)

Benefits = Benefits and administrative expenses of the plan

II = Market Investment Income

$$= \text{B} - \text{A} - \text{Income} + \text{Benefits}$$

The Rate of Return will be determined by the PRB and reported in the valuation reports.

B. Three (3) Year Average Rate of Return

The three (3) year average rate of return and the phrase “over the most recent three (3) year period” is defined as the arithmetic mean of the Rate of Return as defined in Section 1(A) of this rule. For example, if a Local Plan had Rates of Return of 4.5%, 6.2%, and 5.2% in 2004, 2005 and 2006 respectively, then the Three Year Average Rate of Return would be 5.3% ((4.5 + 6.2 + 5.2)/3).

C. Actuarially Sound

The term Actuarially Sound is defined in PRB Rule 4. If a Local Plan is considered Actuarially Sound by virtue of a Cash Flow Projection Valuation or Alternate Cash Flow Projection Valuation as defined in that rule, then they will be considered to remain Actuarially Sound until the next regular actuarial valuation, cash flow study, or alternate cash flow study is released.

D. One (1) Year US Treasury Notes

The “rate of return for one (1) year United States Treasury notes over the most recent three-year period” is defined to be the arithmetic mean of the 36 months closing yield on “U.S. Treasury securities at 1-year constant maturity,” as this term is commonly used by the Federal Reserve and investment professionals. The 36 months average will be calculated using the December 31 closing yield of the year of measurement and the 35 preceding months. The PRB will determine

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PRB Rule #13 (continued)

the 36 months closing yield from Bloomberg or another similarly authoritative standard investment community source.

E. Compliance under 24-11-202

For purposes of this rule, the term “compliance under § 24-11-202” shall have the same meaning as “Eligible Location (In Compliance)” as defined in PRB Rule 12. The list compiled in accordance with PRB Rule 12 will therefore also serve to determine which Local Plans are not “in compliance” for purposes of this rule.

Section 2. Verification of Legally Constituted Board and Meetings

Along with the annual financial report required to be filed with the PRB, the Local Plan must include verification by the chairperson of the local board of trustees that the Local Plan has a legally constituted board of trustees that meets at least twice annually. The PRB will make the final determination of compliance with this section.

Section 3. Written Investment Policy

If the PRB determines that a Local Plan does not meet the minimum asset management standards as required by law, it will notify the Local Plan and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law. The PRB will also require the Local Plan to establish a written investment policy which must address the following areas:

1. Statement of Fiduciary Responsibility
2. Liquidity
3. Volatility
4. Asset Allocation Guidelines
5. Prohibited Investments
6. Performance Goals
7. Responsibilities of the Investment Consultant
8. Responsibilities of the Investment Managers
9. Selection process for Investment Managers
10. Investment Manager Performance Review
11. Annual review of Investment Policy

The PRB will provide a sample Written Investment Policy for consideration.

The Local Plan must file a copy of the written investment policy and any amendments or changes to that policy with the PRB within fourteen (14) days of their adoption.

Section 4. Professional Investment Management

If the PRB determines that a Local Plan does not meet the minimum asset management standards as required by law, it will notify the Local Plan and sponsoring municipality of its determination and identify the steps necessary to comply with the minimum standards established by law. The PRB will also require the Local Plan to obtain professional investment management which includes, at a minimum, the following services:

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PRB Rule #13 (continued)

1. Investment Advising 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 manager
 - b. Regular reporting of results through the recognized investment management and trust arrangement.
3. Clear statement of fee structure within the guidelines of A.C.A. § 24-11-410 and § 24-11-805.

The Local Plan must file a copy of the professional investment management contract and any amendments or changes to that contract, including a description of the services to be provided, with the PRB within fourteen (14) days of its execution.

Section 5. Written Plan of Action

If a Local Plan does not meet the minimum asset management standards and then does not create a written investment policy and hire professional investment management within six months of notification, then they must file a Written Plan of Action. The Written Plan of Action must be developed in conjunction with the PRB and its staff. The Written Plan of Action will at a minimum address the following items:

1. A measurable plan to attain the four defining points of the minimum asset management standards.
2. A timeline for meeting the standards.
3. Methods for reviewing and updating the Written Plan of Action.

The PRB will provide a sample Written Plan of Action for consideration.

Section 6. Non-Compliance

If the Local Plan does not meet the minimum asset management standards, they must create a written investment policy and hire professional investment management. The PRB will consider the Local Plan out of compliance if these are not provided to the PRB within six months of notification.

A Local Plan will continue to be considered out of compliance with this law until a Written Plan of Action is implemented by the Local Plan and accepted by the PRB.

A Local Plan that is out of compliance will risk the loss of all Premium Tax Turnback for the Local Plan and the sponsoring location as provided by Arkansas law and PRB Rule 12.

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PRB Rule #13 (Continued)

Section 7. Appeal Process

A Local Plan that is out of compliance with this law may appeal the findings of staff used to reach that decision to the entire PRB at its next regularly scheduled or specially called meeting.

If a Local Plan and the sponsoring location's Premium Tax Turnback is withheld because of non-compliance, the Local Plan may appeal that decision to the PRB under the steps found in PRB Rule 12.