

**ARKANSAS STATE POLICE RETIREMENT SYSTEM**  
ANNUAL ACTUARIAL VALUATION AND THE  
GAIN/LOSS ANALYSIS OF EXPERIENCE  
JUNE 30, 2014

**REPORT OF THE  
ANNUAL ACTUARIAL VALUATION AND GAIN/LOSS ANALYSIS  
OF THE  
ARKANSAS STATE POLICE RETIREMENT SYSTEM  
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November 13, 2014

The Board of Trustees  
Arkansas State Police Retirement System  
Little Rock, Arkansas

Ladies and Gentlemen:

The results of the *Annual Actuarial Valuation of the Arkansas State Police Retirement System as of June 30, 2014, and the Gain/Loss Analysis of Experience among Active Members from July 1, 2013 to June 30, 2014* are presented in this report. The valuation was based upon Retirement System provisions in effect on the valuation date. The purpose of the valuation and gain/loss analysis 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) Statement No. 27. The results of the valuation may not be applicable for other purposes. A separate report will be issued to provide actuarial information for GASB Statement No. 67.

This report should not be relied on for any purpose other than those described above. It was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board.

The signing actuaries are independent of the plan sponsor.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

*The cooperation of the administrative staff* in furnishing the materials required for this valuation is hereby acknowledged with appreciation. The actuarial methods and assumptions used in the valuation are summarized in Section D of this report. The assumptions are established by the Retirement Board after consulting with the actuary. The actuarial assumptions used for the valuation produce results which, individually and in the aggregate, are reasonable.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, this report is complete and accurate and was made in accordance with standards of practice promulgated by the Actuarial Standards Board.

Board of Trustees  
November 13, 2014  
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Mita Drazilov is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



Mita D. Drazilov, ASA, MAAA



David L. Hoffman

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## OBJECTIVES AND STATUS

**General Financial Objective.** Section 24-2-701 of the Arkansas Code provides as follows:

“6.01. (a) The general financial objective of each Arkansas public employee retirement plan shall be to ***establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens.*** More specifically, contributions received each year shall be sufficient both (i) to fully cover the costs of benefit commitments being made to members for their service being rendered in such year and (ii) 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.....”

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**Benefit Changes.** The most recent benefit changes were reflected in the June 30, 2009 valuation. No benefit changes have been adopted for consideration in the June 30, 2014 valuation.

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**Assumption Changes.** Demographic assumptions were last updated in the June 30, 2013 valuation. Economic assumptions were last updated in the June 30, 2014 valuation. In particular, the assumed rate of investment return was lowered from 8.0% to 7.75% and the assumed rate of wage inflation was lowered from 4.0% to 3.75%.

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**Method Changes.** The actuarial cost method and amortization method were updated for the June 30, 2013 valuation in conjunction with the recently completed experience study.

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**ASPRS Status.** Based upon the results of the June 30, 2014 actuarial valuation, ***ASPRS continues to satisfy the general financial objective*** of level contribution financing.

**ASPRS Reserve Strength.** As a by-product of achieving level contribution financing, actuarial accrued liabilities usually become more and more funded over a period of years. **The funded ratio of ASPRS** has been adversely affected by the market downturn in late 2008 and early 2009 (as has virtually all other public employee retirement systems in the country). On a funding value of assets basis, the System has a 68% funded ratio. On a market value of assets basis, the System has a 73% funded ratio.

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**Employer Contribution Rates.** Based upon experience through June 30, 2014, the State Police contribution rate will be 47.35% of covered payroll for the fiscal year beginning July 1, 2014.

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**SECTION A**  
VALUATION RESULTS

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**COMPUTED ACTUARIAL ACCRUED LIABILITIES  
AS OF JUNE 30, 2014**

<b>Actuarial Present Value of</b>	<b>(1) Total Present Value</b>	<b>(2) Portion Covered By Future Normal Cost Contributions</b>	<b>(3) Actuarial Accrued Liabilities (1) - (2)</b>
Future benefits to be paid to current retirees, beneficiaries, future beneficiaries of current retirees, and current DROP members (not including DROP reserve)	\$282,486,917	\$ 2,990,653	\$279,496,264
Age and service benefits based on service likely to be rendered by present active members (including DROP reserve)	136,599,348	41,473,389	95,125,959
Separation benefits likely to be paid present active and inactive members	8,819,867	5,241,006	3,578,861
Disability benefits likely to be paid present active members	6,926,939	4,307,060	2,619,879
Death-in-service benefits likely to be paid on behalf of present active members	1,724,897	690,512	1,034,385
<b>Total</b>	<b>\$436,557,968</b>	<b>\$54,702,620</b>	<b>\$381,855,348</b>
Valuation assets			<u>259,458,978</u>
Unfunded actuarial accrued liabilities			\$122,396,370

**AMORTIZATION OF  
UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)  
JUNE 30, 2014**

Description	Remaining Years	Amount
Active Member UAAL		
Act 1071 of 1997#	25	\$ 95,403,932
Remainder - Tier One	25	23,704,990
- Tier Two	25	3,287,448
Total Active		122,396,370
<b>Total UAAL</b>		<b>\$122,396,370</b>

# See page G-1.



**COMPUTED EMPLOYER CONTRIBUTION RATES  
AS OF JUNE 30, 2014  
EXPRESSED AS PERCENTS OF ACTIVE MEMBER PAYROLL**

<b>Contributions for</b>	<b>Contributions Expressed as Percents of Covered Payroll*</b>		<b>Weighted Average</b>
	<b>Tier 1</b>	<b>Tier 2</b>	
Normal Cost			
Age and Service Annuities	16.86 %	16.35 %	16.48 %
Separation Benefits	1.94 %	1.95 %	1.95 %
Disability Benefits	1.51 %	1.69 %	1.64 %
Death-in-Service Annuities	0.30 %	0.26 %	0.27 %
<b>Total</b>	<b>20.61 %</b>	<b>20.25 %</b>	<b>20.34 %</b>
Unfunded Actuarial Accrued Liabilities@	70.35 %	1.16 %	27.01 %
<b>Total Computed Employer Contribution Rate</b>	<b>90.96 %</b>	<b>21.41 %</b>	<b>47.35 %</b>

\* Covered payroll includes all active members, including DROP participants. Valuation payroll totals \$28,548,873.

@ Unfunded actuarial accrued liabilities were amortized over a closed 25 year period.

## COMPUTED EMPLOYER CONTRIBUTION RATES COMPARATIVE STATEMENT

June 30	Active Members in Valuation		Change in Average Pay %	Change in CPI: Inflation	UAAL Financing Period	Computed Employer Rate &
	Number	Average Pay \$				
2005@#	488	\$ 44,539	(0.4)%	3.2 %	30	41.36%
2006	527	44,358	(0.4)%	4.1 %	30	40.04%
2007@	536	44,773	0.9 %	2.4 %	30	37.86%
2008	555	46,687	4.3 %	5.6 %	30	38.20%
2009@	539	49,714	6.5 %	(2.1)%	30	44.71%
2010	545	52,318	5.2 %	1.2 %	30	44.67%
2011	530	52,950	1.2 %	3.6 %	30	47.64%
2012	534	53,236	0.5 %	1.4 %	30	48.28%
2013@	525	53,344	0.2 %	2.0 %	26	47.93%
2014	530	53,866	1.0 %	2.0 %	25	44.77%
2014@	530	53,866	1.0 %	2.0 %	25	47.35%
<b>10-Year Average</b>			<b>1.9 %</b>	<b>2.3 %</b>		

# After legislated changes in benefit provisions.

& Beginning in 1996, rate is based on active member payroll including DROP participants.

@ After changes in actuarial assumptions and/or methods.

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**“Employer contributions” are the total** of all types of revenue to the System except employee contributions by payroll deduction and investment return. “Employer contributions” include such revenues as court fines and other transfers.

## SHORT CONDITION TEST – 10-YEAR COMPARATIVE STATEMENT

The Arkansas SPRS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year-to-year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due -- the ultimate test of financial soundness*. Testing for level contribution rates is the long-term test.

*A short condition test* is one means of checking a System’s progress under its funding program. In a short condition test, the plan’s valuation assets (cash and investments) are compared with:

- 1) Member accumulated contributions;
- 2) The liabilities for future benefits to present retired lives;
- 3) The employer financed portion of liabilities for service already rendered by non-retired members.

In a System that has been following the discipline of level percent-of-payroll financing, active member contributions (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by valuation assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of valuation assets. The larger the funded portion of liability 3, the stronger the condition of the System.

Valuation Date June 30	Entry Age Accrued Liability			Valuation Assets	Portion of Present Values Covered By Valuation Assets			
	(1) Active Members Contr.	(2) Retirees and Benef.	(3) Active Member (Employer Financed Portion)		(1)	(2)	(3)	Total
	(\$ in Millions)							
2005#@	\$0.54	\$144.30	\$136.44	\$200.10	100%	100%	41%	71%
2006	0.47	143.63	147.07	210.34	100%	100%	45%	72%
2007@	0.51	158.34	148.81	233.13	100%	100%	50%	76%
2008	0.44	167.93	151.73	238.04	100%	100%	46%	74%
2009#@	0.45	169.43	156.06	206.32	100%	100%	23%	63%
2010	0.35	179.38	153.87	211.07	100%	100%	20%	63%
2011	0.28	205.40	137.53	208.05	100%	100%	2%	61%
2012	0.31	217.64	137.35	215.01	100%	99%	0%	61%
2013@	0.53	227.80	133.13	233.15	100%	100%	4%	65%
2014	0.50	232.20	140.33	259.46	100%	100%	19%	70%
2014@	0.50	237.17	144.19	259.46	100%	100%	15%	68%

# After legislated changes in benefit provisions.

@ After changes in actuarial assumptions and/or methods.

## COMMENTS

### Experience

Experience was favorable this year; specifically investment return (measured on a funding value basis). As a result, the funded status increased to 68% (see page A-5). On a market value basis, the funded status is 73% (up from 65% last year). As of June 30, 2014, unrecognized cumulative investment gains totaling \$17.7 million remain to be recognized in the next three years (see page B-14). If there are no new losses to offset scheduled investment recognition during this coming period and based upon a 25-year amortization period, the employer contribution rate would be expected to decrease by approximately 3.9% of payroll from the current level.

### Annual Reserve Transfers

Each year reserve transfers are recommended so that there will be 100% funding in the Retirement Reserve Account and the Deferred Annuity Account. The Retirement Reserve Account is responsible for future annuity payments to present retired lives. The Deferred Annuity Account is responsible for future annuity payments to present inactive members.

This year's transfer amounts are given below:

<b>Employer Accum. Account Before Transfers</b>	<b>Transfers as of July 1, 2014 (from) to:</b>		<b>Employer Accum. Account After Transfers</b>
	<b>Deferred Annuity Account</b>	<b>Retirement Reserve Account</b>	
\$38,820,172	\$514,276	\$11,517,793	\$26,788,103

### Conclusion

The computed employer contribution rate to satisfy the statutory funding requirements set forth in Section 24-6-209 of the Arkansas Code (see page G-1) is 47.35% of covered payroll for the year beginning July 1, 2014.

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**SECTION B**  
VALUATION DATA

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## **SUMMARY OF NON-CONTRIBUTORY BENEFIT PROVISIONS (LAST CHANGED AS OF 7-1-2009)**

The Non-Contributory Plan was created by Act 793 of 1977 and was effective January 1, 1978. All non-retired members are now covered by non-contributory benefits. Act 1071 of 1997 created a Tier Two benefit plan for all officers hired on or after April 3, 1997. Existing members of the plan in effect prior to this date (Tier One) had one year to elect coverage under Tier Two.

### **VOLUNTARY RETIREMENT**

*With a full benefit*, after 30 years of actual service, regardless of age, or at age 65 with 5 actual years of service for Tier One and Tier Two. The age requirement is reduced by 1 month for every 2 months of Public Safety service credit, but not below age 52 for Tier One or age 55 for Tier Two members.

Public Safety service credit is granted at the rate of 1.5 months of credit for each month of actual Public Safety employment for Tier One. Service is credited at a rate of one for one in Tier Two.

*With a reduced benefit*, once a member's age is within 10 years of becoming eligible for full benefits. The reduction for Tier One is equal to 1/2 of 1% for each month retirement precedes Normal Retirement Age. The reduction for Tier Two is equal to 3/4 of 1% for each month retirement precedes Normal Retirement Age.

### **FINAL AVERAGE PAY (FAP)**

Average of the highest 60 calendar months' pays for Tier One or 48 calendar months for Tier Two.

### **FULL AGE & SERVICE RETIREMENT BENEFIT**

Tier One: 1.55% of FAP times years and months of credited service. Tier Two: 2.475% of FAP times credited service. If retirement is prior to age 62, an additional .322% of FAP times credited service will be paid until the retiree attains age 62 for Tier One or .513% of FAP times credited service for Tier Two.

Public Safety service credit is granted at the rate of 1.5 months of credit for each month of actual Public Safety employment for Tier One. Service is credited at a rate of one for one in Tier Two.

For Tier One, the portion of the SPRS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at time of retirement; and if there is credited service for time prior to July 1, 1991, the benefit cannot be less than under the provisions in effect July 1, 1990, (using Social Security offset), plus increases granted since that date.

For Tier One, the minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

## **VESTED AND REDUCED EARLY RETIREMENT BENEFITS**

5 years of actual service, and leaving System-covered employment before full retirement age.

Deferred full retirement benefit, based on service and pay at termination, begins when full retirement age would have been reached by continuing covered employment.

In place of a deferred full benefit, a qualifying member may elect an immediate reduced benefit, provided the member is within 10 years of full retirement age. The reduced amount is the full amount reduced by 1/2 of 1% for Tier One and/or 3/4 of 1% for Tier Two for each month of difference in benefit commencement ages.

## **DEATH WHILE IN SYSTEM COVERED EMPLOYMENT**

Member's accumulated contributions before 1978 are refundable.

If the deceased member has 5 or more years of service and has qualifying dependents, monthly benefits are payable instead. A surviving spouse receives a benefit as if the member had retired and elected the joint & 75% survivor option. Payment begins immediately if the member was eligible for a full age and service benefit or had 20 years of service; or payment begins at the spouse's age 50 if the member had 15 or more years of service; or payment begins at the spouse's age 62 if the member had less than 15 years of service.

If a member is killed while in the official line of duty and the surviving spouse is eligible for a deferred benefit, then the surviving spouse may elect to receive a reduced benefit immediately. The reduction of the benefit shall be 1/2 of 1% per month for each of the first 60 months that the benefit commences before when it would have otherwise commenced, plus; 1/4 of 1% per month for each month more than 60 months that the benefit commences before when it would have otherwise commenced. However, the total reduction shall not be more than 50%.

Each dependent child receives a benefit of 10% of annual pay (maximum of 25% of annual pay for all children).

Dependent parents' benefits are payable if neither spouse nor children's benefits are payable.

## **TOTAL AND PERMANENT DISABILITY**

Tier One eligibility: Disabled after 5 years of service.

Tier Two eligibility: Disabled after 5 years of service.

Amount is computed as an age and service benefit, based on service and pay to the time of disability.

## **DEATH AFTER RETIREMENT**

Retiring member can provide protection for a beneficiary by electing an option which provides beneficiary protection by reducing the retired employee's benefit amount.

Under Tier One, if a straight life annuity is paid, upon the retiree's death, 50% of the retiree's benefit is continued to a surviving spouse. If the deceased retiree leaves children under age 18, 75% of the retiree's benefit is continued to the surviving spouse. If there is no surviving spouse, the 75% will be divided among the children under age 18.

Under Tier Two, if a straight life annuity is elected, no survivor benefit is payable.

## **BENEFIT INCREASES AFTER RETIREMENT**

Annually, there is a cost-of-living adjustment equal to 3% of the current benefit amount.

## **MEMBER CONTRIBUTIONS**

None.



**ARKANSAS STATE POLICE OFFICERS DEFERRED RETIREMENT OPTION PLAN – TIER I**  
**(Act 967 of 1995)**

Tier One members with 30 years of credited service and who are eligible to receive a service retirement pension may participate.

Participating members may continue in employment for up to 7 years and have their accrued monthly benefit (at date of participation) credited to an individual account in the Deferred Retirement Option Plan in lieu of any further benefit accruals.

The Deferred Retirement Option Plan accounts accumulate with interest and are paid to the member at termination of active membership in either a lump sum or as an annuity of equivalent value. Interest is credited annually at a rate established by the Board of Trustees.

**ARKANSAS STATE POLICE OFFICERS DEFERRED RETIREMENT OPTION PLAN – TIER II**  
**(Act 1242 of 2009)**

Tier Two members with at least 30 years of actual service and are eligible to receive a service retirement pension may participate.

Participating members may continue in employment for up to 7 years and have seventy-two percent (72%) of their accrued monthly benefit (at date of participation) credited to an individual account in the Deferred Retirement Option Plan in lieu of any further benefit accruals.

The Deferred Retirement Option Plan accounts accumulate with interest and are paid to the member at termination of active membership in either a lump sum or as an annuity of equivalent value. Interest is credited annually to participant accounts at a rate established by the Arkansas State Police Retirement System Board of Trustees that shall not be greater than five percent (5%) nor less than one percent (1%) per annum.

**RETIREES, BENEFICIARIES AND DROP PARTICIPANTS**  
**JUNE 30, 2014**  
**BY TYPE OF BENEFIT BEING PAID**

Type of Benefit Being Paid	Number	Annual Pensions	Actuarial Accrued Liability
Age & Service Retirees			
Life	90	\$ 2,994,756	\$ 28,124,120
B-50	321	14,036,449	167,271,112
B-75	14	337,653	4,183,502
Totals	425	17,368,858	199,578,734
Beneficiaries of Age & Service Retirees			
Life	10	162,954	1,728,435
B-50	91	1,847,621	17,657,689
B-75	2	23,640	325,978
Totals	103	2,034,215	19,712,102
Total Age & Service Retirees	528	19,403,073	219,290,836
Disability Retirees			
Life	17	285,312	3,217,772
B-50	22	699,012	7,992,512
B-75	1	3,816	66,330
Totals	40	988,140	11,276,614
Beneficiaries of Disability Retirees	2	13,524	164,214
Total Disability Retirees and Beneficiaries	42	1,001,664	11,440,828
Death-in-Service Beneficiaries	5	74,640	747,004
QDRO Alternate Payees	32	462,263	5,693,700
Total Retirees and Beneficiaries	607	20,941,640	237,172,368
DROP Participants (excluding DROP reserve)	59	3,290,208	42,323,896
Total Retirees, Beneficiaries and DROP Participants	666	\$ 24,231,848	\$ 279,496,264

*Also included in the valuation were 69 inactive members* eligible to receive vested deferred benefits, commencing at normal retirement age, totaling \$706,771 annually.

**RETIRES, BENEFICIARIES AND DROP PARTICIPANTS  
BY ATTAINED AGES  
AS OF JUNE 30, 2014**

Attained Ages	Age and Service		Disabilities		Death in Service		DROP Participants	
	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions
Under 40	2	\$ 10,024	3	\$ 30,936				
40-44	4	35,870	4	70,236				
45-49	6	83,022	4	42,144			1	\$ 37,176
50-54	19	518,394	5	101,184			18	998,088
55-59	71	2,466,870	6	163,764			39	2,208,972
60-64	114	3,941,816	10	298,584			1	45,972
65-69	143	5,390,052	7	234,012	2	\$24,840		
70-74	92	3,649,440	1	21,576	1	13,500		
75-79	55	2,048,784	2	39,228	1	24,648		
80-84	34	1,100,076			1	11,652		
85-89	17	567,492						
Over 90	3	53,496						
<b>Totals</b>	<b>560</b>	<b>\$19,865,336</b>	<b>42</b>	<b>\$1,001,664</b>	<b>5</b>	<b>\$74,640</b>	<b>59</b>	<b>\$3,290,208</b>

**RETIREES, BENEFICIARIES AND DROP PARTICIPANTS  
IN ACTUARIAL VALUATIONS  
COMPARATIVE STATEMENT**

<b>June 30</b>	<b>Number</b>			<b>Annual Pensions</b>		
	<b>Retirees &amp; Beneficiaries</b>	<b>DROP Participants</b>	<b>Total</b>	<b>Retirees &amp; Beneficiaries</b>	<b>DROP Participants</b>	<b>Total</b>
2005	436	72	508	\$ 11,740,680	\$ 2,939,784	\$ 14,680,464
2006	435	75	510	12,404,615	3,141,876	15,546,491
2007	428	80	508	13,275,239	3,926,772	17,202,011
2008	445	82	527	14,201,027	4,029,012	18,230,039
2009	455	95	550	14,833,696	4,706,004	19,539,700
2010	476	85	561	15,796,711	4,246,608	20,043,319
2011	554	76	630	17,982,593	3,806,412	21,789,005
2012	580	63	643	19,322,269	3,290,952	22,613,221
2013	598	61	659	20,346,612	3,273,420	23,620,032
2014	607	59	666	20,941,640	3,290,208	24,231,848

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS  
(VOLUNTARY RETIREMENTS STILL RECEIVING  
BENEFITS AS OF JUNE 30, 2014)**

	Years Credited Service				
	10-14	15-19	20-24	25-29	30+
<b>Retirement Effective Dates July 1, 2013 to June 30, 2014</b>					
Average Monthly Benefit	\$ 312.67	\$ 1,348.00		\$ 2,432.00	\$ 2,438.67
Average Monthly FAS	1,485.64	4,149.00		4,075.67	4,419.33
Number of Active Retirees	3	1		1	3
<b>Retirement Effective Dates July 1, 2012 to June 30, 2013</b>					
Average Monthly Benefit	1,089.00			1,423.17	3,491.00
Average Monthly FAS	6,276.26			2,765.84	5,222.72
Number of Active Retirees	1			1	3
<b>Retirement Effective Dates July 1, 2011 to June 30, 2012</b>					
Average Monthly Benefit	120.00			3,151.00	2,492.29
Average Monthly FAS	266.33			5,047.58	4,569.19
Number of Active Retirees	1			2	7
<b>Retirement Effective Dates July 1, 2010 to June 30, 2011</b>					
Average Monthly Benefit	771.50		2,938.00	2,139.00	2,792.38
Average Monthly FAS	3,126.46		4,908.00	3,241.25	4,678.95
Number of Active Retirees	2		1	1	8
<b>Retirement Effective Dates July 1, 2009 to June 30, 2010</b>					
Average Monthly Benefit	559.00	728.00	1,660.00		3,219.80
Average Monthly FAS	2,968.67	1,839.58	4,099.42		4,537.88
Number of Active Retirees	1	1	1		5
<b>Retirement Effective Dates July 1, 2009 to June 30, 2014</b>					
Average Monthly Benefit	531.13	1,038.00	2,299.00	2,459.23	2,833.58
Average Monthly FAS	2,527.64	2,994.29	4,503.71	4,035.59	4,655.06
Number of Active Retirees	8	2	2	5	26

**SCHEDULE OF NEW RETIREES AND DROP PARTICIPANTS  
DURING THE PERIOD OF JULY 1, 2013 TO JUNE 30, 2014**

**RETIREES AND DROP PARTICIPANTS**

	<b>Age &amp; Service</b>	<b>Disability</b>
Number	17	2
Average Age	52.88	42.50
Average Credited Service	28.06	10.00
Average Monthly Benefit	\$ 2,919.29	\$ 1,046.50

**RETIREES ONLY**

	<b>Age &amp; Service</b>	<b>Disability</b>
Number	8	2
Average Age	53.75	42.50
Average Credited Service	21.50	10.00
Average Monthly Benefit	\$ 1,504.25	\$ 1,046.50

**ACTIVE MEMBERS  
AS OF JUNE 30, 2014  
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	15							15	\$ 535,850
25-29	52	8						60	2,363,430
30-34	30	33	4					67	3,039,811
35-39	16	28	24	7				75	3,796,428
40-44	9	22	24	40	2			97	5,340,816
45-49	2	14	13	50	12			91	5,268,988
50-54	2	5	6	14	19	13		59	3,783,449
55-59		2		2		3		7	498,293
<b>Base Totals</b>	<b>126</b>	<b>112</b>	<b>71</b>	<b>113</b>	<b>33</b>	<b>16</b>		<b>471</b>	<b>\$24,627,065</b>
DROP									
Participants							59	59	3,921,808
<b>Grand Totals</b>	<b>126</b>	<b>112</b>	<b>71</b>	<b>113</b>	<b>33</b>	<b>16</b>	<b>59</b>	<b>530</b>	<b>\$28,548,873</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

	<u>Average</u>
Age:	41.6 years
Service:	13.9 years
Salary:	\$53,866

**ACTIVE MEMBERS  
IN ACTUARIAL VALUATIONS  
COMPARATIVE STATEMENT**

June 30	No. #	Group Averages		
		Age	Service	Pay
1995	494	42.2 yrs.	16.0 yrs.	\$36,622
1996	513	41.8	15.6	36,468
1997	503	41.7	16.0	36,141
1998	564	39.9	14.2	35,137
1999	565	40.7	14.8	36,084
2000	542	41.3	14.0	37,733
2001	558	41.5	14.0	36,125
2002	510	41.5	14.1	38,584
2003	495	42.0	14.5	39,730
2004	477	42.2	16.2	44,700
2005	488	42.8	16.7	44,539
2006	527	41.3	14.5	44,358
2007	536	41.4	14.5	44,773
2008	555	41.3	14.1	46,687
2009	539	42.0	15.0	49,714
2010	545	42.0	14.3	52,318
2011	530	42.0	14.4	52,950
2012	534	41.6	13.9	53,236
2013	525	41.6	13.9	53,344
2014	530	41.6	13.9	53,866

# Includes DROP participants.

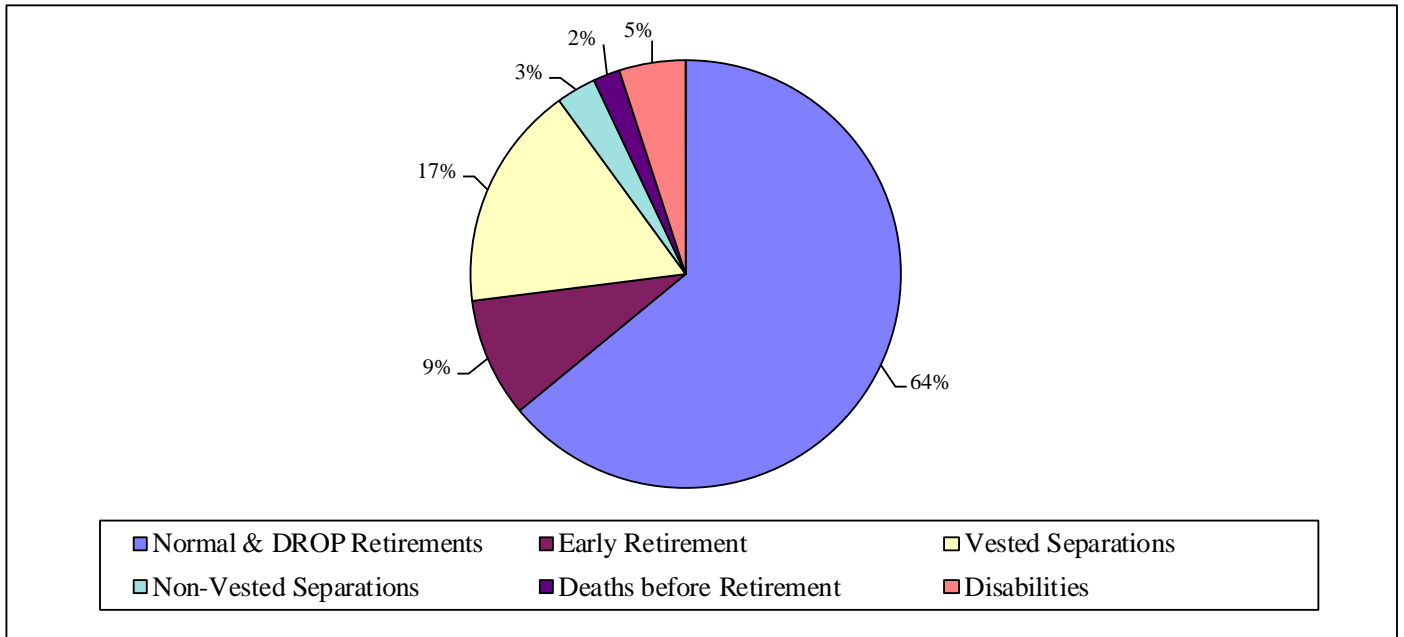
**TIER ONE AND TIER TWO PARTICIPANTS  
AS OF JUNE 30, 2014**

	No.	Group Averages		
		Age	Service	Pay
Tier One	103	48.7 yrs.	20.9 yrs.	\$65,474
Tier One - DROP	59	56.1	36.5	66,471
Tier Two	368	37.2	8.3	48,596
<b>Total</b>	<b>530</b>	<b>41.6</b>	<b>13.9</b>	<b>\$53,866</b>



## DEVELOPMENT OF PRESENT POPULATION JUNE 30, 2014

### Expected Terminations from Active Employment for Current Active Members



The chart shows the expected future development of the present population in simplified terms. The Retirement System presently covers 471 active members (not in the DROP). Eventually, 3% of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for a monthly benefit. 90% of the present population is expected to receive monthly retirement benefits either by retiring directly from active service, or by separating from service without withdrawing contributions. 7% of the present population is expected to become eligible for death-in-service or disability benefits.

**REPORTED ASSETS  
APPLICABLE TO BENEFIT LIABILITIES**

Reserve Account	Fund Balance		
	Tier One	Tier Two	Total
Member Deposit Account	\$ 320,492	\$ 181,498	\$ 501,990
MDA Interest Reserve	(78,042)	22,079	(55,963)
Employers Accumulation Account*	(17,733,141)	44,521,244	26,788,103
Retirement Reserve Account*	235,565,214	1,607,154	237,172,368
Deferred Annuity Account*	2,297,946	0	2,297,946
DROP Reserve	10,496,429	0	10,496,429
Misc. Reserve Accounts	1,095	0	1,095
<b>Total</b>	<b>\$230,869,993</b>	<b>\$46,331,975</b>	<b>\$277,201,968</b>
<b>Funding Value Adjustment</b>	<b>(14,777,399)</b>	<b>(2,965,591)</b>	<b>(17,742,990)</b>
<b>Valuation Assets</b>	<b>\$216,092,594</b>	<b>\$43,366,384</b>	<b>\$259,458,978</b>

\* After recommended reserve transfers (see page A-6).

**REVENUES & EXPENDITURES**

<b>Assets Beginning of Year - Market Value</b>		<b>\$236,270,435</b>
<b>Revenues:</b>	Member Contributions	0
	Employer Payroll Contributions <sup>&amp;</sup>	6,405,887
	Employer Supplemental Contributions	5,957,540
	Other Sources*	7,138,257
	Investment Income	44,309,932
	Other	0
	<b>Total Revenue</b>	<b>63,811,616</b>
<b>Expenditures:</b>	Retirement Benefits Paid	21,688,239
	Refund of Member Contributions	0
	Administrative Expenses	189,658
	Investment Expenses	1,002,186
	Other	0
	<b>Total Expenditures</b>	<b>22,880,083</b>
<b>Assets End of Year - Market Value</b>		<b>\$277,201,968</b>

& 22% of payroll.

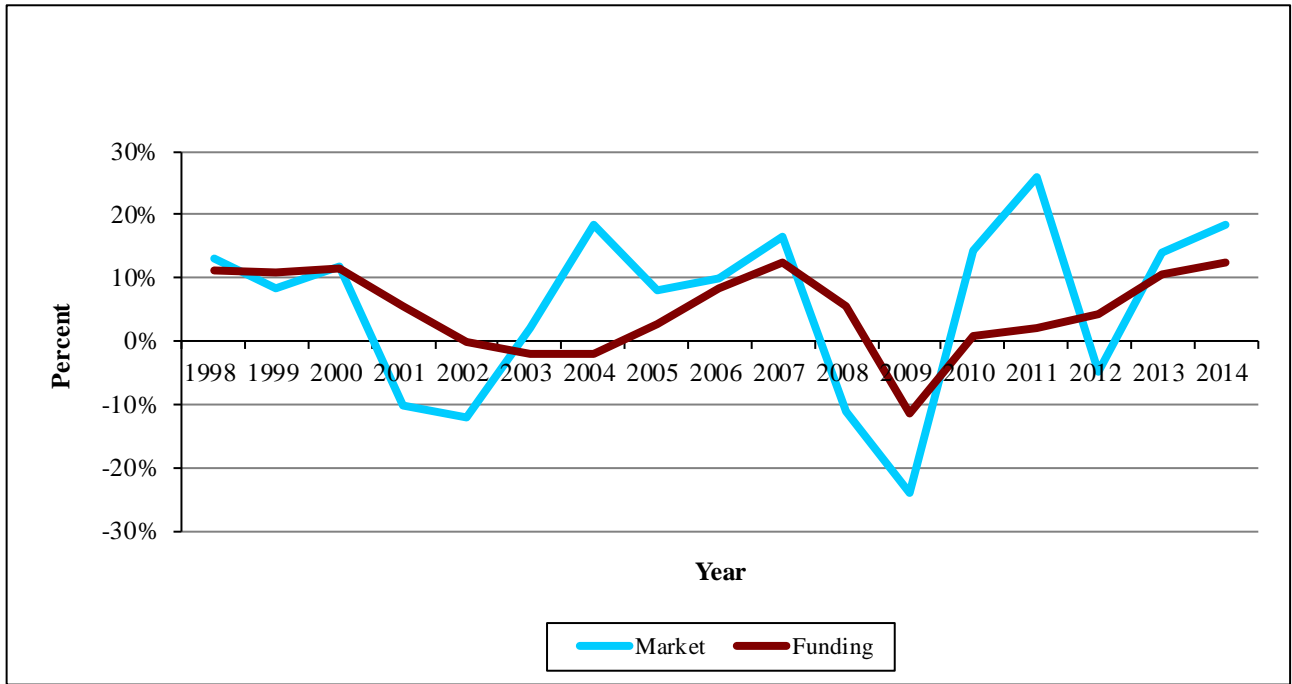
\* Includes court fees, drivers' license reinstatement fees, motor vehicle title fees and other items.

## DEVELOPMENT OF FUNDING VALUE OF ASSETS

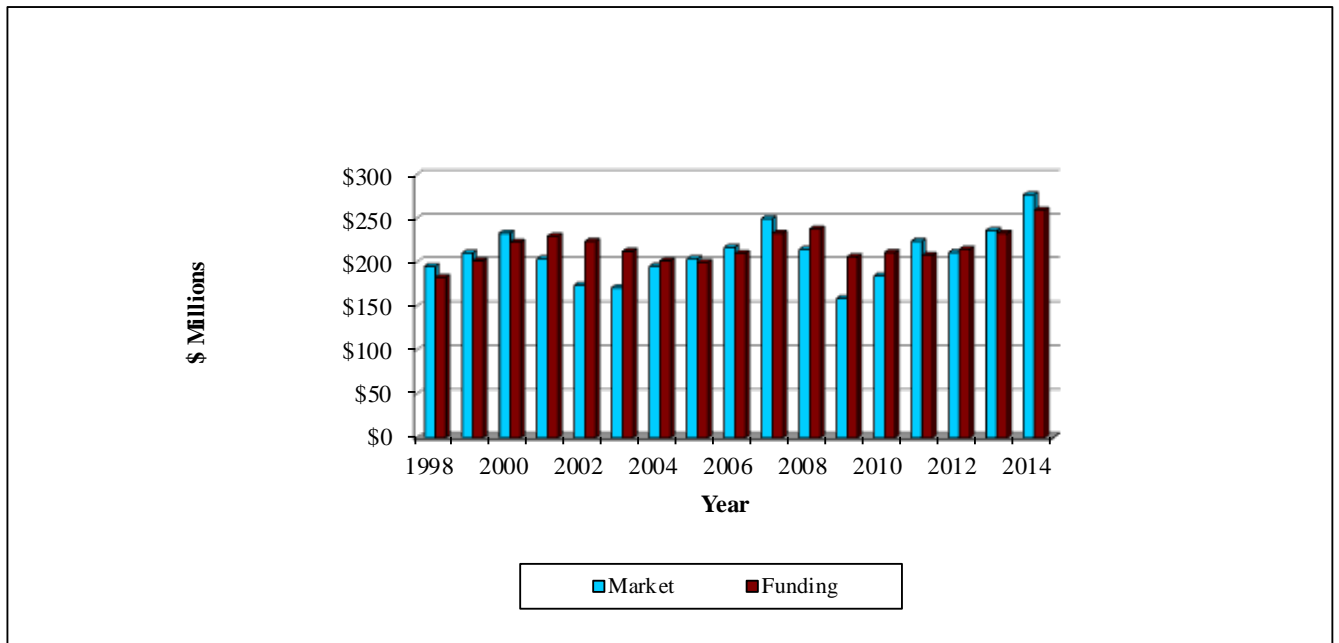
Valuation Date June 30:	2012	2013	2014	2015	2016	2017
A. Funding Value Beginning of Year	\$208,049,878	\$215,005,496	\$233,152,854			
B. Market Value End of Year	211,145,214	236,270,435	277,201,968			
C. Market Value Beginning of Year	223,920,781	211,145,214	236,270,435			
D. Non-Investment Net Cash Flow	(1,983,280)	(4,244,286)	(2,186,555)			
E. Investment Return:						
E1. Market Total: B-C-D	(10,792,287)	29,369,507	43,118,088			
E2. Assumed Rate	8.00%	8.00%	8.00%	7.75%	7.75%	7.75%
E3. Amount for Immediate Recognition	16,565,677	17,032,846	18,565,888			
E4. Amount for Phased-In Recognition	(27,357,964)	12,336,661	24,552,200			
F. Phased-In Recognition of Investment Return:						
F1. Current Year: 0.25xE4	(6,839,491)	3,084,165	6,138,050			
F2. First Prior Year	7,544,069	(6,839,491)	3,084,165	\$ 6,138,050		
F3. Second Prior Year	1,570,055	7,544,069	(6,839,491)	3,084,165	\$ 6,138,050	
F4. Third Prior Year	(9,901,412)	1,570,055	7,544,067	(6,839,491)	3,084,166	\$ 6,138,050
F5. Total Recognized Investment Gain (Loss)	(7,626,779)	5,358,798	9,926,791	2,382,724	9,222,216	6,138,050
G. Funding Value End of Year:						
G1. Preliminary Funding Value End of Year: A+D+E3+F5	215,005,496	233,152,854	259,458,978			
G2. 130% of Market Value Corridor	274,488,778	307,151,566	360,362,558			
G3. 70% of Market Value Corridor	147,801,650	165,389,305	194,041,378			
<b>G4. Funding Value End of Year</b>	<b>215,005,496</b>	<b>233,152,854</b>	<b>259,458,978</b>			
H. Difference Between Market & Funding Values	(3,860,282)	3,117,581	17,742,990			
<b>I. Recognized Rate of Return</b>	<b>4.3%</b>	<b>10.5%</b>	<b>12.3%</b>			
J. Market Value Rate of Return	(4.8%)	14.1%	18.3%			
K. Ratio of Funding Value to Market Value	101.8%	98.7%	93.6%			

The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment return (line E4) are phased-in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. If assumed rates are exactly realized for 3 consecutive years, funding value will become equal to market value.

## COMPARISON OF RATES OF RETURN



## COMPARISON OF ASSET VALUES



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**SECTION C**

**RESULTS OF GAIN/LOSS ANALYSIS**

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## COMMENTS

*Purpose of Gain/Loss Analysis.* Regular actuarial valuations provide information about the composite change in unfunded actuarial accrued liabilities -- whether or not the liabilities are increasing or decreasing and by how much. However, valuations do not show the portion of the change attributable to each risk area within the retirement system financial mechanism: the rate of investment return which plan assets earn; the rates of withdrawal of active members who leave covered employment; the rates of mortality; the rates of disability; the rates of pay increases; and the ages at actual retirement. In an actuarial valuation, assumptions are made as to what these rates will be, for the next year and for decades in the future.

*The objective of a gain and loss analysis is to determine the portion of the change in unfunded actuarial accrued liabilities that is attributable to each risk area.*

The fact that actual experience differs from assumed experience is to be expected -- *the future cannot be predicted with precision.* The economic risk areas (particularly investment return and pay increases) are volatile.

Changes in actuarial assumptions for a risk area should be made when the differences between assumed and actual experience have been observed to be sizable and persistent. A gain and loss analysis covering a relatively short period may or may not be indicative of *long-term trends, which are the basis of financial assumptions.*

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The Arkansas State Police Retirement System had a net experience gain of \$10.5 million during the 2013-2014 observation year. Recognized investment return above the assumed rate produced a gain of \$9.9 million. Further details are shown on pages C-2 to C-6.

**DERIVATION OF EXPERIENCE GAIN/LOSS**  
**YEAR ENDED JUNE 30, 2014**  
**(IN \$1,000'S)**

Actual experience will not (except by coincidence) coincide exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain/loss is shown below.

(1) UAAL * at start of year	\$ 128,306
(2) Normal cost from last valuation	5,525
(3) Employer contributions	19,502
(4) Interest accrual: $(1) \times 0.08 + ((2) - (3)) \times 0.04$	9,705
(5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	124,036
(6) Change for revised actuarial assumptions and/or valuation methods	8,820
(7) Change from benefit changes	0
(8) Expected UAAL after changes: $(5) + (6) + (7)$	132,856
(9) Actual UAAL at end of year	122,396
(10) Gain/loss: $(8) - (9)$	\$ 10,460
<hr/>	
(11) Gain/loss as percent of actuarial accrued liabilities at start of year	2.9%

\* *Unfunded actuarial accrued liability.*

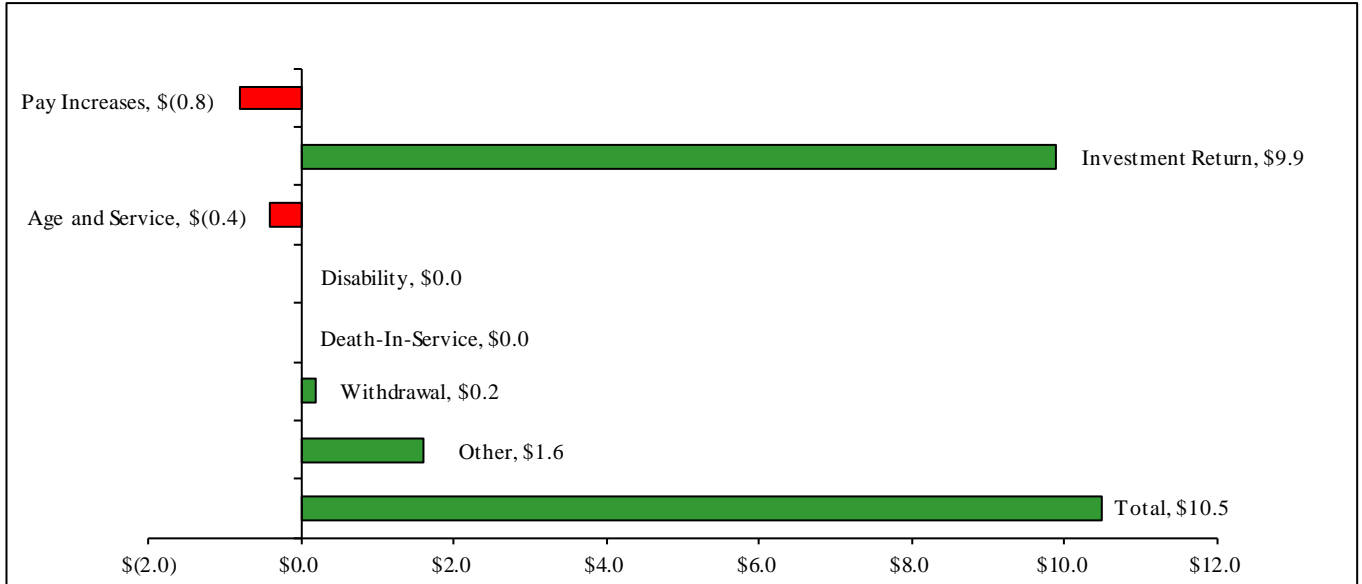
**GAINS & LOSSES BY RISK AREA  
DURING THE PERIOD JULY 1, 2013 TO JUNE 30, 2014**

Type of Risk Area	Gain/Loss in Period	
	\$ Millions	Percent of Liabilities
<b>ECONOMIC RISK AREAS .....</b>		
<i>Pay Increases.</i> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$(0.8)	(0.2)%
<i>Investment Return.</i> If there is greater recognized investment return than assumed, there is a gain. If less return, a loss.	9.9	2.7 %
<b>NON-ECONOMIC RISK AREAS .....</b>		
<i>Age &amp; Service Retirements.</i> If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	(0.4)	(0.1)%
<i>Disability Retirements.</i> If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.0	0.0 %
<i>Death-in-Service Benefits.</i> If there are fewer claims than assumed, there is a gain. If more, a loss.	0.0	0.0 %
<i>Withdrawal.</i> If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	0.2	0.1 %
Actuarial Gain/Loss	\$8.9	2.4 %
<i>Other.</i> Gains and losses resulting from group size change, data adjustments, timing of financial transactions, and retiree mortality.	1.6	0.5 %
<b>TOTAL GAIN (OR LOSS) DURING PERIOD</b>	<b>\$10.5</b>	<b>2.9 %</b>

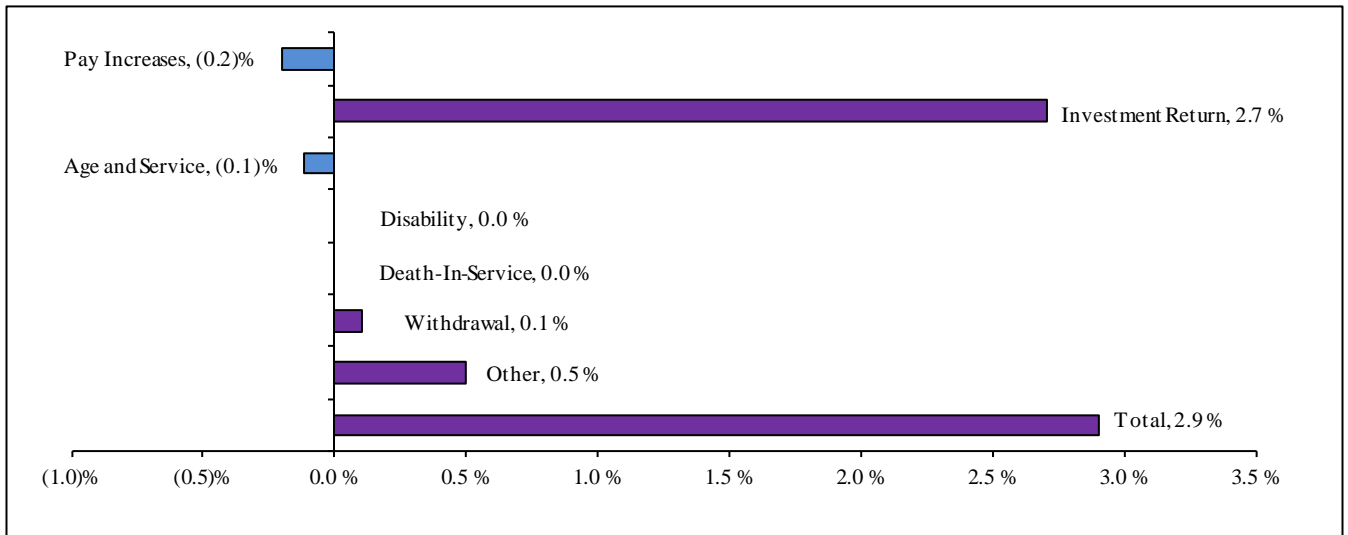


# GAINS & LOSSES BY RISK AREA ACTUARIAL GAIN/LOSS EXPERIENCE 2013-2014 YEAR

**Amount as \$ Millions**



**% of Accrued Liabilities**



**GAINS & LOSSES BY RISK AREA  
COMPARATIVE STATEMENT  
(\$ IN MILLIONS)**

Year Ending June 30	Gain/Loss by Risk Area							Total Experience Gain/Loss		Accrued Liability End of Year
	Pay Increases	Investments	Age & Service Retirement	Disability	Death-in- Service	Withdrawal	Other	Dollars	% of AAL	
1995	\$(2.2)	\$(5.2)	\$(0.3)	\$(0.2)	\$(0.3)	\$(0.4)	\$(0.3)	\$ (8.9)	(5.8)%	\$170.0
1996@	2.1	1.8	(0.9)	0.1	0.0	0.3	0.5	3.9	2.3 %	181.0
1997	1.8	4.1	(0.2)	0.1	0.0	(0.1)	0.3	6.0	3.3 %	190.7
1998	3.0	5.6	(0.7)	0.1	0.0	0.4	(4.1)	4.3	2.2 %	203.5
1999	1.6	5.6	(0.7)	0.1	0.0	(0.5)	(2.0)	4.1	2.0 %	221.2
2000	1.5	7.5	0.7	0.1	0.0	(0.1)	0.8	10.5	4.8 %	233.0
2001	1.5	(5.0)	0.6	0.1	(0.2)	(0.1)	1.3	(1.8)	(0.8)%	242.4
2002	1.5	(18.0)	0.1	0.1	0.1	0.4	3.5	(12.3)	(5.1)%	251.8
2003	1.3	(21.9)	0.0	0.0	0.0	2.8	21.2	3.4	1.3 %	261.5
2004	(8.0)	(20.5)	0.1	0.1	0.0	4.7	1.1	(22.5)	(8.6)%	275.7
2005	1.7	(10.3)	0.0	0.1	0.0	0.0	(3.5)	(12.0)	(4.2)%	281.3
2006	0.5	1.3	(0.1)	0.1	0.0	0.4	(0.6)	1.6	0.6 %	291.2
2007@	2.5	9.6	(0.4)	0.2	0.0	2.9	(3.5)	11.3	3.9 %	307.7
2008	(2.0)	(5.4)	(0.7)	0.0	0.0	0.4	(0.8)	(8.5)	(2.8)%	320.1
2009@	(0.7)	(45.0)	(1.6)	0.1	0.0	(0.2)	1.5	(45.9)	(14.4)%	325.9
2010	3.8	(14.8)	(0.5)	0.1	0.0	(0.4)	2.3	(9.5)	(2.9)%	333.6
2011	1.5	(12.2)	(1.0)	0.1	0.0	0.1	0.0	(11.5)	(3.5)%	343.2
2012	0.2	(7.6)	(0.4)	0.1	0.0	(0.3)	(0.8)	(8.8)	(2.6)%	355.3
2013@	2.6	5.4	(1.0)	0.0	0.0	0.4	1.3	8.7	2.4 %	361.5
2014@	(0.8)	9.9	(0.4)	0.0	0.0	0.2	1.6	10.5	2.9 %	381.9

@ Revised actuarial assumptions and/or methods.

**INVESTMENT GAIN/LOSS  
DURING THE PERIOD JULY 1, 2013 TO JUNE 30, 2014**

	<b>\$ Millions</b>
1. Total Assets Beginning of Year - Funding Value	\$233.15
2. Total Assets End of Year - Funding Value	
a. Actual	259.46
b. If net investment return had been 8.0%*	249.53
3. Gain/Loss: 2(a) minus 2(b)	
	\$ 9.93

\* *“Investment return” as used in this Gain/Loss Analysis means essentially: assumed return plus/minus phase-in recognition of cumulative market gains or losses (see page B-14).*

**SALARY INCREASES  
BY AGE GROUP  
MEMBERS ACTIVE BOTH BEGINNING AND END OF YEAR  
DURING THE PERIOD OF JULY 1, 2013 TO JUNE 30, 2014**

<b>Age Groups</b>	<b>Expected Increase</b>	<b>Actual Increase</b>
25- 29	8.7%	3.7%
30- 34	6.9%	5.0%
35- 39	5.6%	5.7%
40- 44	5.0%	7.1%
45- 49	4.8%	7.0%
50- 54	4.5%	4.7%
55- 59	4.3%	4.6%

**ACTIVE MEMBERS WHO SEPARATED  
FROM ACTIVE MEMBERSHIP  
DURING THE PERIOD FROM JULY 1, 2013 TO JUNE 30, 2014**

Age Groups	Normal Retirement		Death in Service		Disability Retirement		Terminated Vested		Non-Vested Separations	
	A	E	A	E	A	E	A	E	A	E
20-24										0.4
25-29								0.5	1	2.9
30-34						0.1		2.0	1	0.9
35-39					1	0.2	4	2.2		0.5
40-44						0.4	6	2.0		0.2
45-49	1	0.6		0.1	1	0.5		0.9		
50-54	7	3.3		0.1		0.3		0.1		
55-59	2	0.5								
60-64										
65										
<b>Totals</b>	<b>10</b>	<b>4.4</b>		<b>0.2</b>	<b>2</b>	<b>1.5</b>	<b>10</b>	<b>7.7</b>	<b>2</b>	<b>4.9</b>

A: Actual

E: Expected

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**SECTION D**

ACTUARIAL METHODS AND ASSUMPTIONS

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**SUMMARY OF ACTUARIAL ASSUMPTIONS  
USED FOR STATE POLICE ACTUARIAL VALUATIONS  
ASSUMPTIONS ADOPTED BY BOARD OF TRUSTEES AFTER  
CONSULTING WITH ACTUARY**

In accordance with Section 24-6-204 of the Arkansas Code, the Board of Trustees adopts the actuarial assumptions used for actuarial valuation purposes.

***Economic Assumptions***

***The investment return rate*** used in making the valuation was 7.75% per year, compounded annually (net after administrative and investment expenses). The assumed real rate of return is the portion of investment return which is more than the wage inflation rate. Considering assumed wage inflation of 3.75%, the 7.75% investment return rate translates to an effective assumed real rate of return of 4.00%. The wage inflation assumption was revised for the June 30, 2014 valuation and the investment assumption was revised for the June 30, 2014 valuation.

***Pay increase assumptions*** for individual active members are shown on page D-5. Part of the assumption for each age is for a merit and/or seniority increase, and the other 3.75% recognizes wage inflation. The pay increase assumption for individual active members was revised for the June 30, 2014 valuation.

***Total active member payroll*** is assumed to increase 3.75% a year, which is the portion of the individual pay increase assumptions recognizing wage inflation.

***The number of active members*** is assumed to continue at the present number.

***Non-Economic Assumptions***

***The mortality tables*** used to measure retired life mortality were the RP-2000 Combined Healthy mortality table, Projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females. Related values are shown on page D-3. Disability post-retirement mortality was assumed to be the same as standard post-retirement mortality set forward an additional 10 years. Based upon the experience observed during the most recent experience study, it appears that at the time of the study, the current table provides for an approximate 14% margin for future mortality improvement. Pre-retirement mortality rates are assumed to be 50% of post-retirement mortality rates. The mortality assumption was revised for the June 30, 2013 valuation.

*The probabilities of retirement* for members eligible to retire are shown on page D-4. The assumption was revised for the June 30, 2013 valuation.

*The probabilities of death-in-service, disability and withdrawal from service* are shown for sample ages on page D-5. The assumption for death-in-service was revised for the June 30, 2013 valuation.

*The individual entry-age normal actuarial cost method of the valuation* was used in determining liabilities and normal cost.

Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal & interest) which are level percent-of-payroll contributions.

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*Present assets (cash & investments) were valued on a market related basis in which differences between actual and assumed returns are phased-in over a four year period.*

*The data about persons now covered and about present assets* was furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

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The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA).



**SINGLE LIFE RETIREMENT VALUES**  
**RP-2000 COMBINED HEALTHY PROJECTED TO 2020 MORTALITY**  
**MALE RATES SET-FORWARD 2 YEARS**  
**FEMALE RATES SET-FORWARD 1 YEAR**  
**AND 7.75% INTEREST**

Sample Ages	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$189.86	\$199.70	31.13	34.64
55	174.68	186.08	26.58	29.98
60	157.43	170.13	22.23	25.44
65	138.40	152.20	18.14	21.14
70	117.68	132.83	14.35	17.16
75	96.25	112.51	10.95	13.56
80	75.15	91.71	8.02	10.35

Sample Attained Ages	\$100 Benefit Increasing 3% Yearly
55	\$100.00
60	115.93
65	134.39
70	155.79
75	180.60
80	209.36

## PROBABILITIES OF RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year		Years of Service	Percent of Eligible Active Members Retiring Within Next Year
	Tier One	Tier Two		Tier Two
47	2%	-		
48	2%	-		
49	2%	-		
50	6%	2%	30	25%
51	6%	2%	31	15%
52	10%	2%	32	15%
53	10%	6%	33	20%
54	10%	6%	34	35%
55	10%	25%	35	40%
56	10%	20%	36 & Over	100%
57	15%	18%		
58	20%	18%		
59	35%	20%		
60	40%	25%		
61	50%	30%		
62	60%	100%		
63	80%	100%		
64	100%	100%		
65	100%	100%		

A member is assumed to be eligible to retire at age 52 (55 for Tier Two) with 17 years of service, or at any age with 30 years of service (Tier Two). A member is assumed to be eligible to retire early at age 47 (50 for Tier 2) with 17 years of service. For a Tier 2 member with 30 or more years of service at the beginning of a year, the percents shown for service based retirement (30 or more years) take precedence over the percents associated with age based retirement.

It was assumed that members eligible to enter the DROP will do so to maximize the value of their benefits.

**SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE  
AGE AND SERVICE RETIREMENT  
& INDIVIDUAL PAY INCREASES**

Sample Ages	Percent of Active Members Separating Within the Next Year				Pay Increase Assumptions for Active Members		
	Death		Disability	Other	Merit & Seniority	Base (Economic)	Increase Next Year
	Male	Female					
20	0.02%	0.01%	0.06%	5.50%	6.29%	3.75%	10.04%
25	0.02%	0.01%	0.09%	5.50%	5.39%	3.75%	9.14%
30	0.03%	0.01%	0.19%	5.50%	4.01%	3.75%	7.76%
35	0.04%	0.02%	0.31%	4.18%	2.29%	3.75%	6.04%
40	0.06%	0.04%	0.43%	2.64%	1.50%	3.75%	5.25%
45	0.08%	0.06%	0.55%	1.43%	1.10%	3.75%	4.85%
50	0.13%	0.09%	0.67%	0.55%	0.80%	3.75%	4.55%
55	0.22%	0.14%	0.79%	0.00%	0.60%	3.75%	4.35%

## MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

### JUNE 30, 2014

<b>Marriage Assumption:</b>	95% of males and 95% of females are assumed to be married for purposes of death-in-service benefits. 90% of males and 90% of females are assumed to be married for purposes of death-after-retirement benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
<b>Pay Increase Timing:</b>	Beginning of year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
<b>Decrement Timing:</b>	Decrements are assumed to occur mid-year.
<b>Eligibility Testing:</b>	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
<b>Decrement Relativity:</b>	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
<b>Decrement Operation:</b>	Disability and withdrawal decrements do not operate during the period a member is assumed to be eligible for an unreduced benefit.
<b>DROP Participants:</b>	For members participating in the DROP, reported payroll is multiplied by 3.7 to estimate present value of future salaries. Payroll data was provided for the month of June 2014.
<b>Incidence of Contributions:</b>	Contributions are assumed to be received continuously throughout the year.
<b>Benefit Service:</b>	Exact fractional service is used to determine the amount of benefit payable.
<b>Tier One DROP Interest Credit:</b>	Interest is assumed to be credited at 3.25%.
<b>Tier Two DROP Interest Credit:</b>	Interest is assumed to be credited at 3.25%.
<b>Other Liability Adjustments:</b>	Active member non-refund normal costs and actuarial accrued liabilities were increased by 1.5% to reflect non-reported reciprocal service.

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**SECTION E**  
FINANCIAL PRINCIPLES

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## FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES OF ASPRS

*Promises Made, and Eventually Paid.* As each year is completed, ASPRS in effect hands an “IOU” to each member then acquiring a year of service credit --- the “IOU” says: “The Arkansas State Police Retirement System owes you one year’s worth of retirement benefits, payments in cash commencing when you qualify for retirement.”

The related *key financial questions* are:

*Which generation of taxpayers contributes the money to cover the IOU?*

*The present taxpayers*, who receive the benefit of the member’s present year of service?

*Or the future taxpayers*, who happen to be in Arkansas at the time the IOU becomes a cash demand?

The law governing ASPRS financing intends that this year’s taxpayers contribute the money to cover the IOUs being handed out this year. By following this principle, funds will be accumulated during members’ periods of active participation which, when combined with investment income, are expected to be sufficient to pay promised benefits throughout the years of retirement.

An inevitable by-product of the level-cost design is the accumulation of reserve assets, for decades, and the income produced when the assets are invested. *Investment income* becomes *the third and largest contributor* for benefits to employees, and is interlocked with the contribution amounts required from members and employers.

Translated to actuarial terminology, this level-cost objective means that the contribution rates must total at least the following:

Normal Cost (the cost of members' service being rendered this year)

... plus ...

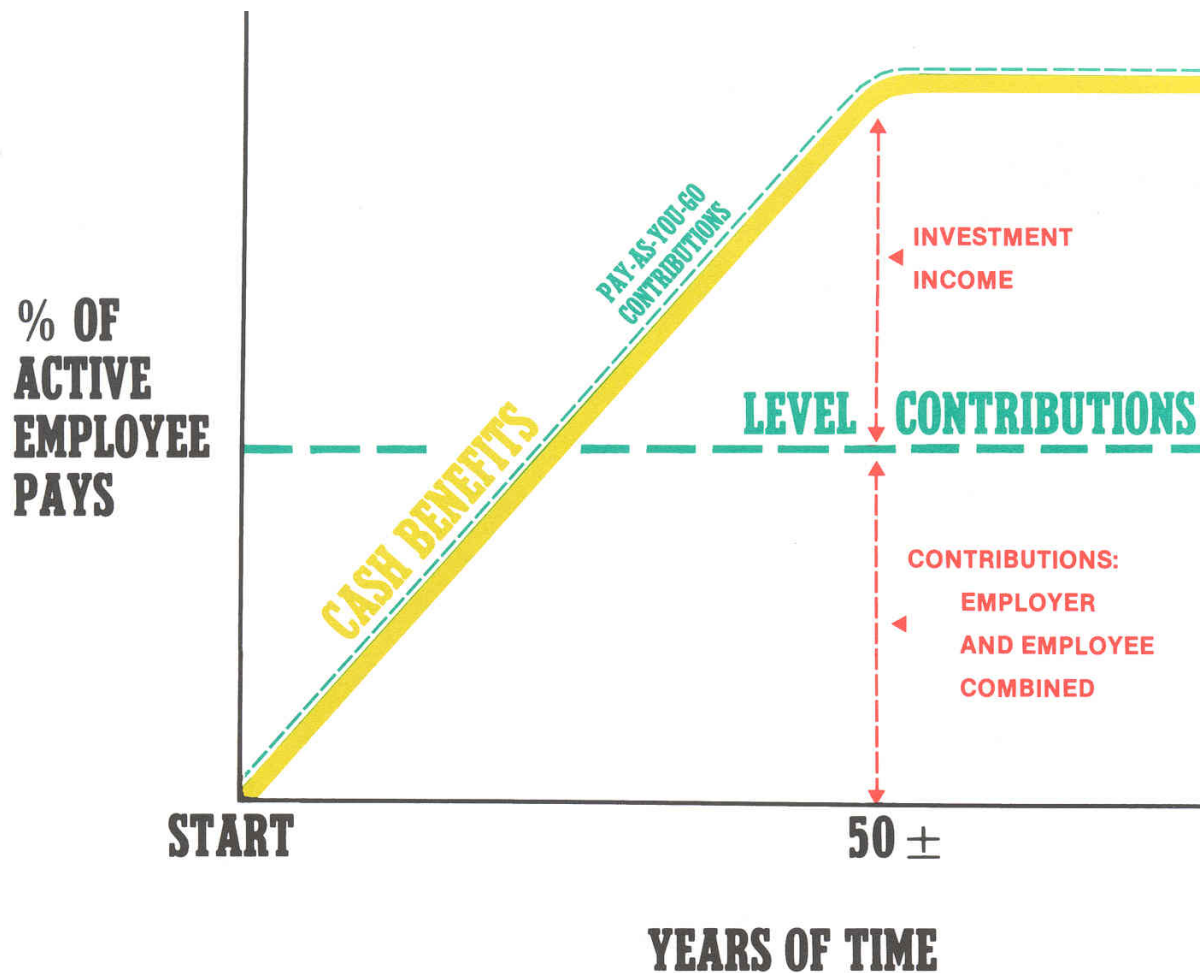
Interest on Unfunded Actuarial Accrued Liabilities (unfunded actuarial accrued liabilities are the difference between: the actuarial accrued liabilities for members' service already rendered; and the actuarial value of assets of ASPRS).

***Computing Contributions to Support Fund Benefits.*** From a given schedule of benefits and from the employee data and asset data provided, the actuary determines the contribution rates to support the benefits, by means of ***an actuarial valuation and a funding method.***

An actuarial valuation has a number of ingredients such as: the rate of investment income which plan assets will earn; the rates of withdrawal of active members who leave covered employment before qualifying for any monthly benefit; the rates of mortality; the rates of disability; the rates of pay increases; and the assumed age or ages at actual retirement.

In an actuarial valuation, assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

***Reconciling Differences Between Assumed Experience and Actual Experience.*** Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the wisdom of the assumptions or the skill of the actuary and the many calculations made. ASPRS copes with these continually changing differences by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is ***continuing adjustments in financial position.***



**CASH BENEFITS LINE.** This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

**LEVEL CONTRIBUTION LINE.** Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

**Economic Risk Areas**

- Rates of investment return
- Rates of pay increase
- Changes in active member group size

**Non-Economic Risk Areas**

- Ages at actual retirement
- Rates of mortality
- Rates of withdrawal of active members (turnover)
- Rates of disability



## THE ACTUARIAL VALUATION PROCESS

*The financing diagram* on the previous page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is thus an *increasing contribution method*; and the *level contribution method* which equalizes contributions between the generations.

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*The actuarial valuation* is the mathematical process by which the level contribution rate is determined, and the flow of activity constituting the valuation may be summarized as follows:

- A. *Census Data*, furnished by plan administrator.
  - Retirees now receiving benefits
  - Former members with vested benefits not yet payable
  - Active members
- B. + *Asset Data* (cash & investments), furnished by the plan administrator.
- C. + *Benefit provisions* that establish eligibility and amounts of payments to members.
- D. + *Assumptions concerning future experience in various risk areas*, which assumptions are established by the Board of Trustees after consulting with the actuary.
- E. + *The funding method* for employer contributions (the long-term, planned pattern for employer contributions).
- F. + *Mathematically combining the assumptions, the funding method, and the data.*
- G. = Determination of:
  - Plan financial position; and/or*
  - New Employer Contribution Rate*

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## **SECTION F**

### **ACTUARIAL AND REQUIRED SUPPLEMENTAL INFORMATION REQUIRED BY STATEMENT NO. 27 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

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**This information is presented in draft form for review by the System's auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the System's financial statements.**

**The information on the following pages should be used for Employer Reporting under GASB Statement No. 27. Information to be used for plan reporting is now issued in a separate report in accordance with GASB Statement No. 67.**

**GASB STATEMENT NO. 27**  
**REQUIRED ACTUARIAL INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**  
**(\$MILLIONS)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age AAL (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll [(b-a)/(c)]
6/30/1995	\$126.50	\$170.00	\$ 43.51	74.4%	\$18.14	239.9%
6/30/1996	149.15	180.50	31.35	82.6%	18.43	170.1%
6/30/1997	164.66	190.73	26.07	86.3%	18.98	137.4%
6/30/1998	183.00	204.10	21.10	89.7%	19.65	107.4%
6/30/1999	201.75	221.17	19.42	91.2%	20.94	92.7%
6/30/2000	222.87	232.99	10.12	95.7%	21.31	47.5%
6/30/2001	229.92	242.35	12.43	94.9%	21.86	56.9%
6/30/2002	223.77	251.76	28.00	88.9%	20.76	134.9%
6/30/2003	212.45	261.50	49.05	81.2%	20.50	239.2%
6/30/2004	201.83	275.72	73.89	73.2%	22.36	330.5%
6/30/2005 #@	200.10	281.28	81.18	71.1%	22.52	360.5%
6/30/2006	210.34	291.17	80.82	72.2%	23.38	345.7%
6/30/2007 @	233.13	307.66	74.53	75.8%	24.00	310.6%
6/30/2008	238.04	320.10	82.06	74.4%	25.91	316.7%
6/30/2009 #@	206.32	325.94	119.62	63.3%	26.80	446.4%
6/30/2010	211.07	333.60	122.53	63.3%	28.51	429.7%
6/30/2011	208.05	343.21	135.16	60.6%	28.06	481.6%
6/30/2012	215.01	355.30	140.29	60.5%	28.43	493.5%
6/30/2013 @	233.15	361.46	128.31	64.5%	28.01	458.1%
6/30/2014	259.46	373.03	113.58	69.6%	28.55	397.8%
6/30/2014 @	259.46	381.86	122.40	67.9%	28.55	428.7%

# After legislated changes in benefit provisions.

@ After changes in actuarial assumptions or methods.

**GASB STATEMENT NO. 27**  
**REQUIRED ACTUARIAL INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>Percent Contributed</b>
1994	\$ 6,031,718	81.08%
1995	6,596,421	79.48%
1996	7,127,246	81.56%
1997	6,704,081	91.16%
1998	6,768,125	106.56%
1999	6,454,835	104.55%
2000	6,356,114	109.16%
2001	5,883,192	120.77%
2002	5,780,658	119.39%
2003	6,298,145	107.80%
2004	8,375,966	90.71%
2005	9,869,227	79.70%
2006	9,988,919	96.59%
2007	9,852,432	116.39%
2008	9,996,439	116.56%
2009	10,535,605	115.25%
2010	12,748,302	161.18%
2011	12,580,828	112.30%
2012	14,052,962	139.94%
2013	13,564,538	143.56%
2014	13,956,098	139.74%

**GASB STATEMENT NO. 27**  
**REQUIRED ACTUARIAL INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Valuation Date	Fiscal Year	Computed Employer Rate	Payroll*	ARC#	Interest on NPO	ARC Adjustment	Amort. Factor	Annual Pension Cost	Contribution	Change in NPO	NPO Balance	Valuation Interest
6/30/1993	6/30/1994	35.70%	\$ 16,895,570	\$ 6,031,718	\$ (109,054)	\$ (78,810)	18.45	\$ 6,001,475	\$ 4,890,468	\$ 1,111,007	\$ (343,043)	7.50%
6/30/1994	6/30/1995	36.37%	18,136,985	6,596,421	(25,728)	(16,421)	20.89	6,587,115	5,243,004	1,344,111	1,001,067	7.50%
6/30/1995	6/30/1996	38.68%	18,426,178	7,127,246	75,080	62,960	15.90	7,139,365	5,813,020	1,326,345	2,327,413	7.75%
6/30/1996	6/30/1997	35.33%	18,975,605	6,704,081	180,375	132,843	17.52	6,751,613	6,111,256	640,357	2,967,769	7.75%
6/30/1997	6/30/1998	34.44%	19,651,932	6,768,125	230,002	136,665	17.03	6,861,462	7,212,031	(350,569)	2,617,201	7.75%
6/30/1998	6/30/1999	30.82%	20,943,657	6,454,835	199,919	179,538	16.53	6,475,216	6,748,482	(273,266)	2,343,934	7.75%
6/30/1999	6/30/2000	29.82%	21,314,937	6,356,114	202,833	163,473	16.01	6,395,474	6,938,423	(542,949)	1,800,986	7.75%
6/30/2000	6/30/2001	26.91%	21,862,475	5,883,192	181,655	151,417	15.48	5,913,430	7,105,059	(1,191,629)	609,357	7.75%
6/30/2001	6/30/2002	27.85%	20,756,403	5,780,658	139,576	125,592	14.34	5,794,643	6,901,552	(1,106,909)	(497,553)	7.75%
6/30/2002	6/30/2003	30.72%	20,501,775	6,298,145	47,225	44,092	13.82	6,301,278	6,789,368	(488,090)	(985,643)	7.75%
6/30/2003	6/30/2004	37.46%	22,359,759	8,375,966	(38,560)	(37,438)	13.29	8,374,844	7,597,519	777,325	(208,318)	7.75%
6/30/2004	6/30/2005	43.83%	22,517,060	9,869,227	(76,387)	(52,849)	18.65	9,845,690	7,865,734	1,979,956	1,771,638	7.75%
6/30/2005	6/30/2006	41.36%	24,151,157	9,988,919	(16,145)	(11,170)	18.65	9,983,944	9,648,121	335,823	2,107,460	7.75%
6/30/2006	6/30/2007	40.04%	24,606,473	9,852,432	137,302	97,772	18.12	9,891,961	11,467,568	(1,575,607)	531,853	7.75%
6/30/2007	6/30/2008	37.86%	26,403,696	9,996,439	163,328	116,306	18.12	10,043,462	11,651,406	(1,607,945)	(1,076,091)	7.75%
6/30/2008	6/30/2009	38.20%	27,580,117	10,535,605	(83,397)	(59,387)	18.12	10,511,595	12,142,060	(1,630,465)	(2,706,556)	7.75%
6/30/2009	6/30/2010	44.71%	28,513,313	12,748,302	(209,758)	(153,694)	17.61	12,692,238	20,547,974	(7,855,736)	(10,562,292)	8.00%
6/30/2010	6/30/2011	44.67%	28,163,932	12,580,828	(844,983)	(599,789)	17.61	12,335,634	14,128,062	(1,792,428)	(12,354,720)	8.00%
6/30/2011	6/30/2012	47.64%	29,498,241	14,052,962	(988,378)	(701,574)	17.61	13,766,158	19,665,878	(5,899,720)	(18,254,440)	8.00%
6/30/2012	6/30/2013	48.28%	28,095,564	13,564,538	(1,460,355)	(1,036,537)	17.61	13,140,720	19,473,217	(6,332,497)	(24,586,937)	8.00%
6/30/2013	6/30/2014	47.93%	29,117,668	13,956,098	(1,966,955)	(1,513,042)	16.25	13,502,185	19,501,684	(5,999,499)	(30,586,436)	8.00%

\* Actual payroll.

# ARC: Payroll multiplied by computed employer rate for the year, for FY 1994 and later.

**GASB STATEMENT NO. 27**  
**REQUIRED SUPPLEMENTARY INFORMATION**

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	25-year closed
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases Including Wage Inflation at Cost-of-Living Adjustments	3.75% - 10.75% 3.75% 3.0% Annual compound increases
Retirees and Beneficiaries Receiving Benefits	607
Terminated Plan Members Entitled to but not yet Receiving Benefits	69
DROP Members	59
Active Plan Members	<u>471</u>
Total	1,206

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**SECTION G**  
APPENDIX I

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## **STATUTORY EMPLOYER CONTRIBUTIONS ARKANSAS CODE SECTION 24-6-209**

24-6-209. Employer's contribution.

(a) The Department of Arkansas State Police, as employer, shall make contributions to the Arkansas State Police Retirement System of twenty-two percent (22%) of active member payroll.

(b) The Director of the Department of Finance and Administration, at the request of the Executive Secretary of the Arkansas State Police Retirement System, is authorized and directed to make annual transfers on each June 30 to the State Police Retirement Fund from the remainder of insurance premium taxes enumerated in A.C.A. 19-6-301(27) before they are transferred to General Revenues enumerated in A.C.A. 19-6-201(19) such amounts of money necessary to amortize the unfunded liabilities over a period not to exceed thirty (30) years for those members not covered by the provisions of A.C.A. 24-6-401 et. seq. These transfers are intended to cover the unfunded accrued actuarial liabilities of the State Police Retirement Fund and shall not be used for the purpose of providing any benefit enhancements for the State Police Retirement System. Members of the Tier One-State Police Retirement System shall not be entitled to any benefit enhancements from these transfers unless funds from sources other than insurance premium taxes are found to provide for the retirement benefit enhancements. The amount of the transfer shall be determined by computing the dollar amount required based on the actuarially determined employer rate in the most recent annual actuarial valuation and subtracting from that amount the statutory contribution amount specified in subsection (a) of this section, the court fees provided by Act 1256 of 1995, and the driver's license renewal fees provided by Act 730 of 1995.

(c) The intent of this section is to provide for funding of any amounts of unfunded accrued actuarial liabilities of the Tier One-State Police Retirement Fund existing on June 30, 1997. These transfers shall be limited in use solely for the purpose of paying those liabilities and nothing more. In the event the transfers under this section exceed eight hundred thousand dollars \$(800,000) per fiscal year, the Executive Secretary of the Arkansas State Police Retirement System shall notify the Joint Committee on Public Retirement and Social Security Programs which shall then review the use of the funds and the benefit provisions of the systems and the actuarial reports on the retirement systems to ensure compliance with the intended purpose of the funds.



November 13, 2014

Ms. Gail H. Stone  
Executive Secretary  
Arkansas State Police Retirement System  
One Union National Plaza  
124 West Capitol, 4th Floor  
Little Rock, Arkansas 72201

**Re: State Police Retirement System Report of the June 30, 2014 Actuarial  
Valuation and the 2013/2014 Gain/Loss Analysis**

Dear Gail:

Please find enclosed 30 copies of this report. As usual, your comments and questions are welcome.

Sincerely,



David L. Hoffman

DLH:mrb  
Enclosures