

Arkansas State Police Retirement System

Annual Actuarial Valuation and the
Gain/Loss Analysis of Experience
June 30, 2017



Report of the Annual Actuarial Valuation and Gain/Loss Analysis of the Arkansas State Police Retirement System

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November 9, 2017

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, 2017, and the Gain/Loss Analysis of Experience among Active Members from July 1, 2016 to June 30, 2017*** 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 and to determine the employer contribution rates for the fiscal year beginning July 1, 2017. The results of the valuation may not be applicable for other purposes. A separate report will be issued to provide actuarial information for GASB Statements No. 67 and No. 68.

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. Gabriel, Roeder, Smith & Company is not responsible for unauthorized use of this report.

The signing individuals are independent of the plan sponsor.

The findings in this report are based on data and other information through June 30, 2017. 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.

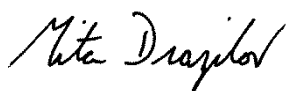
The actuarial methods and assumptions used in the valuation are summarized in Section D of this report. The assumptions are established by the Retirement Board after consulting with the actuary. The actuarial assumptions used for the valuation produce results which, individually and in the aggregate, are reasonable.

The cooperation of the administrative staff in furnishing the materials required for this valuation is hereby acknowledged with appreciation.

This report has been prepared by individuals 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 and in conformance with Title 24 of the Arkansas Code.

Mita D. 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, FCA, MAAA



David L. Hoffman

MDD/DLH:ah

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.....”

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, 2017 valuation.

Assumption Changes. The economic assumptions were updated for the June 30, 2017 valuation. In particular, the investment return assumption was changed from 7.50% to 7.15%. An experience study is scheduled to be performed prior to the June 30, 2018 valuation.

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

ASPRS Status. Based upon the results of the June 30, 2017 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. On a funding value of assets basis, the System has a 71% funded ratio. On a market value of assets basis, the System has a 69% funded ratio.

Employer Contribution Rates. Based upon experience through June 30, 2017, the State Police contribution rate will be 52.01% of covered payroll for the fiscal year beginning July 1, 2017.

Other Observations

General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the System's contribution allocation procedure, if all actuarial assumptions are met (including the assumption of plan earning 7.15% on the actuarial value of assets), it is expected that:

- 1) The total employer contribution rate as a percentage of pay will decrease to the level of the Tier 2 normal cost as time passes and Tier 1 members terminate employment and are replaced;
- 2) The unfunded actuarial accrued liabilities will be fully amortized after 22 years; and
- 3) The funded status of the plan will increase gradually towards a 100% funded ratio.

Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

- 1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.
- 2) The measurement is dependent upon the actuarial cost method which, in combination with the amounts of future contributions will most certainly differ from those assumed in this report due to future actual experience differing from assumed experience based upon the actuarial assumptions. A funded status measurement in this report of 100% is not synonymous with no required future contributions. If the funded status were 100%, the plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).
- 3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

SECTION A

VALUATION RESULTS

Computed Actuarial Accrued Liabilities as of June 30, 2017

Actuarial Present Value of	(1) Total Present Value	(2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1) - (2)
Future benefits to be paid to current retirees, beneficiaries, future beneficiaries of current retirees, and current DROP members (not including DROP reserve)	\$324,999,814	\$ 3,666,956	\$321,332,858
Age and service benefits based on service likely to be rendered by present active members (including DROP reserve)	145,924,335	44,677,908	101,246,427
Separation benefits likely to be paid present active and inactive members	11,281,505	6,210,578	5,070,927
Disability benefits likely to be paid present active members	7,735,287	4,665,117	3,070,170
Death-in-service benefits likely to be paid on behalf of present active members	1,896,490	740,751	1,155,739
Total	\$491,837,431	\$59,961,310	\$431,876,121
Valuation assets			305,845,907
Unfunded actuarial accrued liabilities			\$126,030,214

Amortization of Unfunded Actuarial Accrued Liabilities (UAAL) June 30, 2017

Description	Remaining Years	Amount
Active Member UAAL		
Act 1071 of 1997#	22	\$ 97,640,165
Remainder - Tier One	22	22,715,991
- Tier Two	22	5,674,058
Total Active		126,030,214
Total UAAL		\$126,030,214

See page G-1.

Computed Employer Contribution Rates as of June 30, 2017 Expressed as Percents of Active Member Payroll

Contributions Expressed as Percents of Covered Payroll*			
Contributions for	Tier 1	Tier 2	Weighted Average
Normal Cost			
Age and Service Annuities	17.96 %	17.64 %	17.69 %
Separation Benefits	2.28 %	2.26 %	2.27 %
Disability Benefits	1.64 %	1.80 %	1.78 %
Death-in-Service Annuities	0.33 %	0.28 %	0.29 %
Administrative Expenses	0.70 %	0.70 %	0.70 %
Total	22.91 %	22.68 %	22.73 %
Unfunded Actuarial Accrued Liabilities@	98.63 %	1.84 %	29.28 %
Total Computed Employer Contribution Rate	121.54 %	24.52 %	52.01 %

* Covered payroll includes all active members, including DROP participants. Valuation payroll totals \$29,076,764.

@ Unfunded actuarial accrued liabilities were amortized over a closed 22 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 \$				
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	47.35%
2015@	558	53,637	(0.4)%	0.2 %	24	48.51%
2016	554	53,156	(0.9)%	0.8 %	23	46.57%
2017	528	55,070	3.6 %	1.7 %	22	47.44%
2017@	528	55,070	3.6 %	1.7 %	22	52.01%
10-Year Average			2.1 %	1.6 %		

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

@ After changes in actuarial assumptions and/or methods.

“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

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; and
- 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)	(2)	(3)		(1)	(2)	(3)	Total
	Active	Retirees	Active Member					
	Members	and	(Employer Financed					
Contr.	Benef.	Portion)	Assets					
(\$ in Millions)								
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	237.17	144.19	259.46	100%	100%	15%	68%
2015*	0.37	252.79	145.80	274.83	100%	100%	15%	69%
2016	0.57	260.49	147.68	297.91	100%	100%	19%	71%
2017	0.57	268.79	147.20	305.85	100%	100%	25%	73%
2017@	0.57	277.14	154.17	305.85	100%	100%	18%	71%

After legislated changes in benefit provisions.

@ After changes in actuarial assumptions and/or methods.

* (1) was estimated based on reported member contribution balances on data received by the actuary from ASPRS.

Comments

Experience

The System recognized a small actuarial gain this year. On a funding value of assets basis, the funded status increased to 71% (see page A-5). On a market value of assets basis, the funded status is 69% (up from 67% last year). As of June 30, 2017, unrecognized cumulative investment losses totaling \$6.3 million remain to be recognized in the next three years (see page B-14). If there are no new gains to offset scheduled investment recognition during this coming period and based upon a 22-year amortization period, the employer contribution rate would be expected to increase by approximately 1.5% 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:

	Employer Accum. Account Before Transfers	Transfers as of July 1, 2017 (from) to:		Employer Accum. Account After Transfers
		Deferred Annuity Account	Retirement Reserve Account	
Total	\$ 38,096,454	\$896,557	\$28,077,619	\$ 9,122,278

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 52.01% of covered payroll for the year beginning July 1, 2017.

SECTION B

VALUATION DATA

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 $\frac{1}{2}$ of 1% for each month retirement precedes Normal Retirement Age. The reduction for Tier Two is equal to $\frac{3}{4}$ 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, 2017

by Type of Benefit Being Paid

Type of Benefit Being Paid	Number	Annual Pensions	Actuarial Accrued Liability
Age & Service Retirees			
Life	81	\$ 2,698,616	\$ 27,044,257
B-50	344	16,005,721	196,459,552
B-75	2	65,124	945,322
Totals	427	18,769,461	224,449,131
Beneficiaries of Age & Service Retirees			
B-50	103	2,294,181	22,546,719
B-75	2	26,521	355,364
Totals	105	2,320,702	22,902,083
Total Age & Service Retirees	532	21,090,163	247,351,214
Disability Retirees			
Life	23	425,796	5,134,266
B-50	28	920,544	10,983,167
B-75	1	4,164	73,238
Totals	52	1,350,504	16,190,671
Beneficiaries of Disability Retirees	1	7,140	77,944
Total Disability Retirees and Beneficiaries	53	1,357,644	16,268,615
Death-in-Service Beneficiaries	28	491,004	5,648,515
QDRO Alternate Payees	37	607,318	7,872,816
Total Retirees and Beneficiaries	650	23,546,129	277,141,160
DROP Participants (excluding DROP reserve)	59	3,281,616	44,191,698
Total Retirees, Beneficiaries and DROP Participants	709	\$ 26,827,745	\$ 321,332,858

Also included in the valuation were 80 inactive members eligible to receive vested deferred benefits, commencing at normal retirement age, totaling \$913,112 annually.

Retirees, Beneficiaries and DROP Participants by Attained Ages as of June 30, 2017

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			3	\$ 25,620	1	\$ 972		
40-44			3	27,180				
45-49	6	\$ 67,933	11	231,768	1	15,552		
50-54	26	846,982	6	127,008	1	2,100	27	\$ 1,416,768
55-59	48	1,720,456	1	40,524	3	56,412	31	1,764,636
60-64	118	4,459,778	10	306,768	3	57,540	1	100,212
65-69	130	4,710,060	12	400,716	6	107,688		
70-74	123	5,105,136	5	155,208	6	92,868		
75-79	52	2,230,368	1	36,168	3	99,024		
80-84	43	1,689,708	1	6,684	1	11,628		
85-89	16	637,956			3	47,220		
Over 90	7	229,104						
Totals	569	\$21,697,481	53	\$1,357,644	28	\$491,004	59	\$3,281,616

Retirees, Beneficiaries and DROP Participants in Actuarial Valuations Comparative Statement

June 30	Number			Annual Pensions		
	Retirees & Beneficiaries	DROP Participants	Total	Retirees & Beneficiaries	DROP Participants	Total
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
2015	622	56	678	21,868,359	3,126,156	24,994,515
2016	634	58	692	22,852,121	3,434,940	26,287,061
2017	650	59	709	23,546,129	3,281,616	26,827,745

Schedule of Average Benefit Payments (Voluntary Retirements Still Receiving Benefits as of June 30, 2017)

	Years Credited Service				
	10-14	15-19	20-24	25-29	30+
Retirement Effective Dates July 1, 2016 to June 30, 2017					
Average Monthly Benefit	\$ 805.00	\$ 1,107.00		\$ 2,847.00	\$ 4,290.00
Average Monthly FAS	1,971.96	3,285.00		4,693.58	4,865.95
Number of Active Retirees	4	1		1	11
Retirement Effective Dates July 1, 2015 to June 30, 2016					
Average Monthly Benefit	495.00	903.00			3,447.25
Average Monthly FAS	2,823.75	2,550.17			4,646.77
Number of Active Retirees	1	1			4
Retirement Effective Dates July 1, 2014 to June 30, 2015					
Average Monthly Benefit			2,153.00		4,314.29
Average Monthly FAS			4,094.17		5,750.73
Number of Active Retirees			2		7
Retirement Effective Dates July 1, 2013 to June 30, 2014					
Average Monthly Benefit	308.33		1,442.00	2,623.00	2,308.67
Average Monthly FAS	1,465.50		4,227.00	4,104.75	4,483.19
Number of Active Retirees	3		1	1	3
Retirement Effective Dates July 1, 2012 to June 30, 2013					
Average Monthly Benefit					3,345.00
Average Monthly FAS					5,314.47
Number of Active Retirees					3
Retirement Effective Dates July 1, 2012 to June 30, 2017					
Average Monthly Benefit	580.00	1,005.00	1,916.00	2,735.00	3,862.14
Average Monthly FAS	1,888.51	2,917.58	4,138.44	4,399.17	5,062.88
Number of Active Retirees	8	2	3	2	28

Schedule of New Retirees and DROP Participants During the Period of July 1, 2016 to June 30, 2017*

Retirees and DROP Participants

	Age & Service	Disability
Number	27	4
Average Age	54.78	40.00
Average Credited Service	26.44	11.00
Average Monthly Benefit	\$ 3,451.37	\$ 1,666.75

Retirees Only

	Age & Service	Disability
Number	17	4
Average Age	55.71	40.00
Average Credited Service	27.29	11.00
Average Monthly Benefit	\$ 3,197.88	\$ 1,666.75

** From either active or inactive status the prior year.*

Active Members as of June 30, 2017 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	12							12	\$ 451,342
25-29	47	9						56	2,189,311
30-34	35	35	11					81	3,709,669
35-39	22	17	32	2				73	3,632,295
40-44	4	16	24	30	4	1		79	4,550,458
45-49	4	13	16	41	22	1		97	5,759,280
50-54	1	3	11	18	24	4		61	3,794,602
55-59		2	1	2	1	1		7	438,749
60		1	1					2	99,802
61	1							1	125,331
66									
Base Totals	126	96	96	93	51	7		469	\$24,750,839
DROP									
Participants							59	59	4,325,925
Grand Totals	126	96	96	93	51	7	59	528	\$29,076,764

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

	<u>Average</u>
Age:	41.7 years
Service:	13.8 years
Salary:	\$55,070

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
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
2015	558	41.0	13.0	53,637
2016	554	40.9	13.1	53,156
2017	528	41.7	13.8	55,070

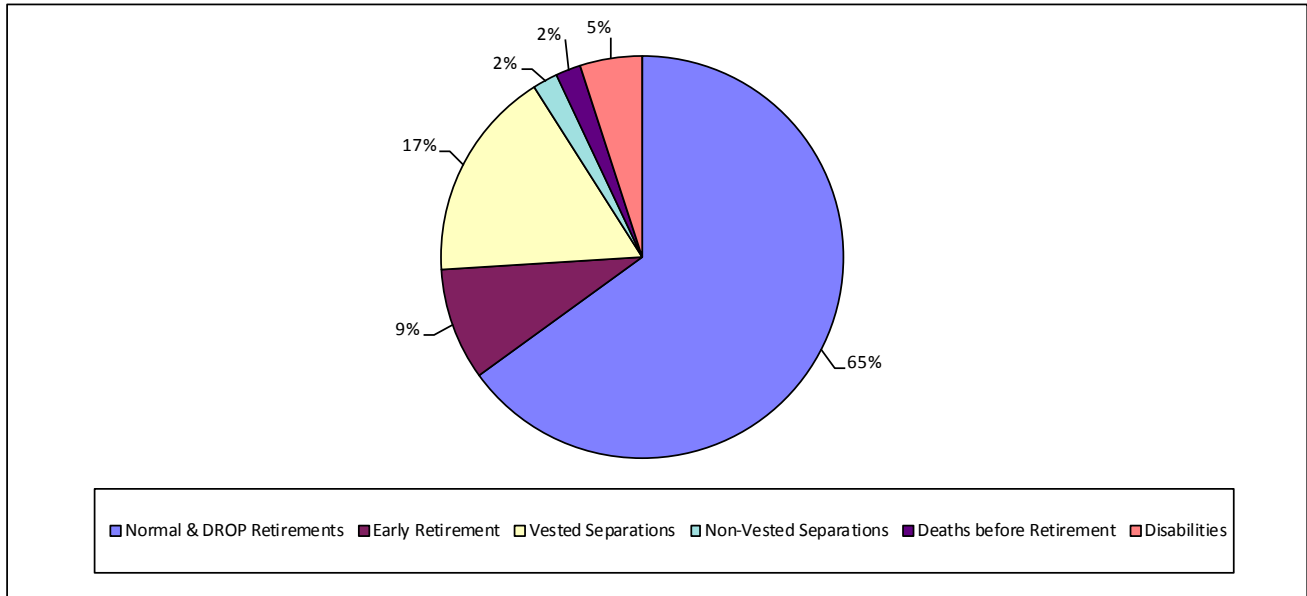
Includes DROP participants.

Tier One and Tier Two Participants as of June 30, 2017

	No.	Group Averages		
		Age	Service	Pay
Tier One	58	49.6 yrs.	22.1 yrs.	\$67,533
Tier One - DROP	59	55.7	34.4	73,321
Tier Two	411	38.6	9.6	50,691
Total	528	41.7	13.8	\$55,070

Development of Present Population June 30, 2017

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 469 active members (not in the DROP). Eventually, 2% of the population is expected to terminate covered employment prior to retirement and forfeit eligibility for a monthly benefit. 91% 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. Seven percent (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			\$ 569,087
MDA Interest Reserve			(31,300)
Employers Accumulation Account			9,122,278
Retirement Reserve Account			277,141,160
DROP Reserve			9,026,368
Deferred Annuity Account			3,696,429
Misc. Reserve Accounts			1,095
Total	\$232,868,297	\$66,656,820	\$299,525,117
Funding Value Adjustment	4,914,151	1,406,639	6,320,790
Valuation Assets	\$237,782,448	\$68,063,459	\$305,845,907

* Fund balances for Tier One and Tier Two were estimated based on the July 1, 2016 to June 30, 2017 employer contributions and benefit payments.

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

Revenues & Expenditures

Assets Beginning of Year - Market Value		\$272,920,012
Revenues:		
Member Contributions		0
Employer Payroll Contributions ^{&}		
Tier One		1,619,049
Tier Two		4,544,852
Employer Supplemental Contributions		6,693,915
Other Sources*		7,103,250
Investment Income		32,803,469
Other		0
Total Revenue		52,764,535
Expenditures:		
Retirement Benefits Paid		
Tier One		21,949,904
Tier Two		249,744
DROP Benefits Paid		
Tier One		2,432,139
Tier Two		0
Refund of Member Contributions		0
Administrative Expenses		208,424
Investment Expenses		1,319,219
Other		0
Total Expenditures		26,159,430
Assets End of Year - Market Value		\$299,525,117

& 22% of payroll.

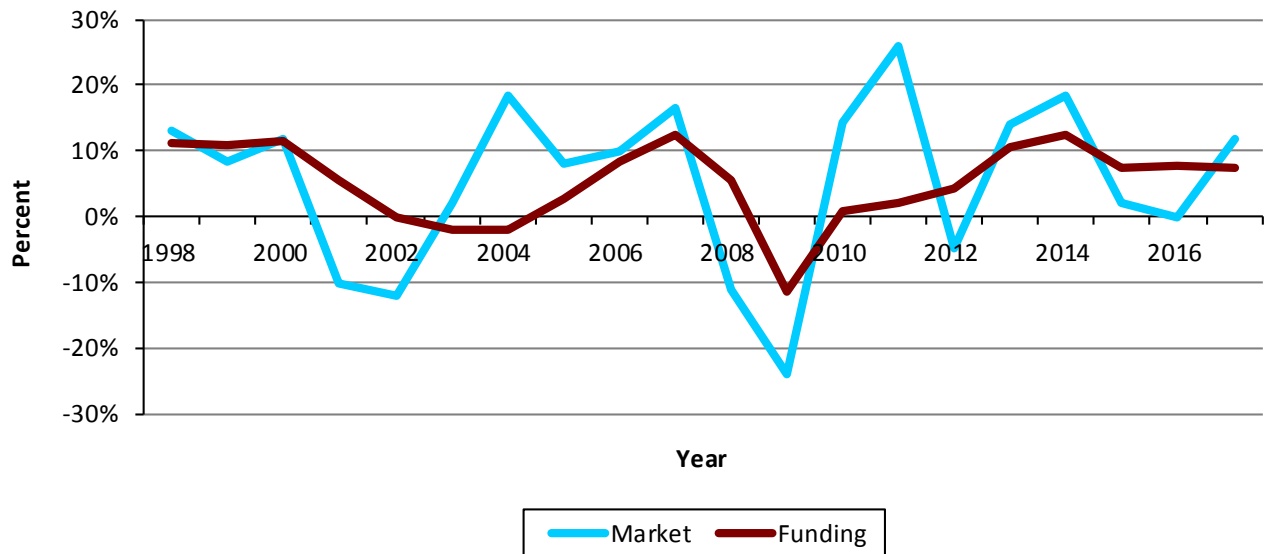
* Includes court fees, drivers' license reinstatement fees, motor vehicle title fees and other items.

Development of Funding Value of Assets

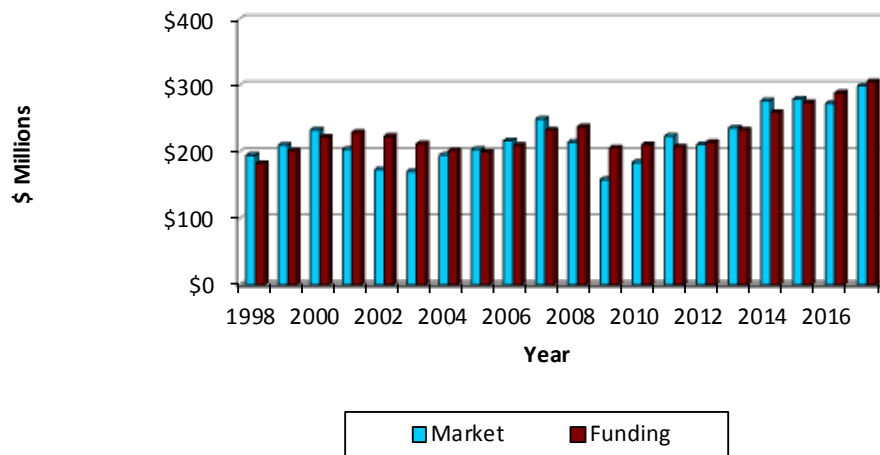
Valuation Date June 30:	2015	2016	2017	2018	2019	2020
A. Funding Value Beginning of Year	\$259,458,978	\$274,826,888	\$289,236,857			
B. Market Value End of Year	279,657,570	272,920,012	299,525,117			
C. Market Value Beginning of Year	277,201,968	279,657,570	272,920,012			
D. Non-Investment Net Cash Flow	(3,479,857)	(6,527,513)	(4,879,145)			
E. Investment Return:						
E1. Market Total: B-C-D	5,935,459	(210,045)	31,484,250			
E2. Assumed Rate	7.75%	7.50%	7.50%	7.15%		
E3. Amount for Immediate Recognition	19,974,904	20,370,185	21,512,002			
E4. Amount for Phased-In Recognition	(14,039,445)	(20,580,230)	9,972,248			
F. Phased-In Recognition of Investment Return:						
F1. Current Year: 0.25xE4	(3,509,861)	(5,145,058)	2,493,062			
F2. First Prior Year	6,138,050	(3,509,861)	(5,145,058)	\$ 2,493,062		
F3. Second Prior Year	3,084,165	6,138,050	(3,509,861)	(5,145,058)	\$ 2,493,062	
F4. Third Prior Year	(6,839,491)	3,084,166	6,138,050	(3,509,862)	(5,145,056)	\$ 2,493,062
F5. Total Recognized Investment Gain (Loss)	(1,127,137)	567,297	(23,807)	(6,161,858)	(2,651,994)	2,493,062
G. Funding Value End of Year:						
G1. Preliminary Funding Value End of Year: A+D+E3+F5	274,826,888	289,236,857	305,845,907			
G2. 130% of Market Value Corridor	363,554,841	354,796,016	389,382,652			
G3. 70% of Market Value Corridor	195,760,299	191,044,008	209,667,582			
G4. Funding Value End of Year	274,826,888	289,236,857	305,845,907			
H. Difference Between Market & Funding Values	4,830,682	(16,316,845)	(6,320,790)			
I. Recognized Rate of Return	7.3%	7.7%	7.5%			
J. Market Value Rate of Return	2.2%	(0.1%)	11.6%			
K. Ratio of Funding Value to Market Value	98.3%	106.0%	102.1%			

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



SECTION C

RESULTS OF GAIN/LOSS ANALYSIS

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**.

The Arkansas State Police Retirement System had a small aggregate gain during the 2016-2017 observation year. Details are shown on pages C-2 to C-6.

Derivation of Experience Gain/Loss

Year Ended June 30, 2017

(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	\$ 119,502
(2) Normal cost from last valuation	6,202
(3) Employer contributions	19,961
(4) Interest accrual: $(1) \times 0.075 + ((2) - (3)) \times 0.0375$	8,447
(5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	114,190
(6) Change for revised actuarial assumptions and/or valuation methods	15,313
(7) Change from benefit changes	0
(8) Expected UAAL after changes: $(5) + (6) + (7)$	129,503
(9) Actual UAAL at end of year	126,030
(10) Gain/loss: $(8) - (9)$	\$ 3,473
<hr/>	
(11) Gain/loss as percent of actuarial accrued liabilities at start of year	0.8%

* *Unfunded actuarial accrued liability.*

Gains & Losses by Risk Area

During the Period July 1, 2016 to June 30, 2017

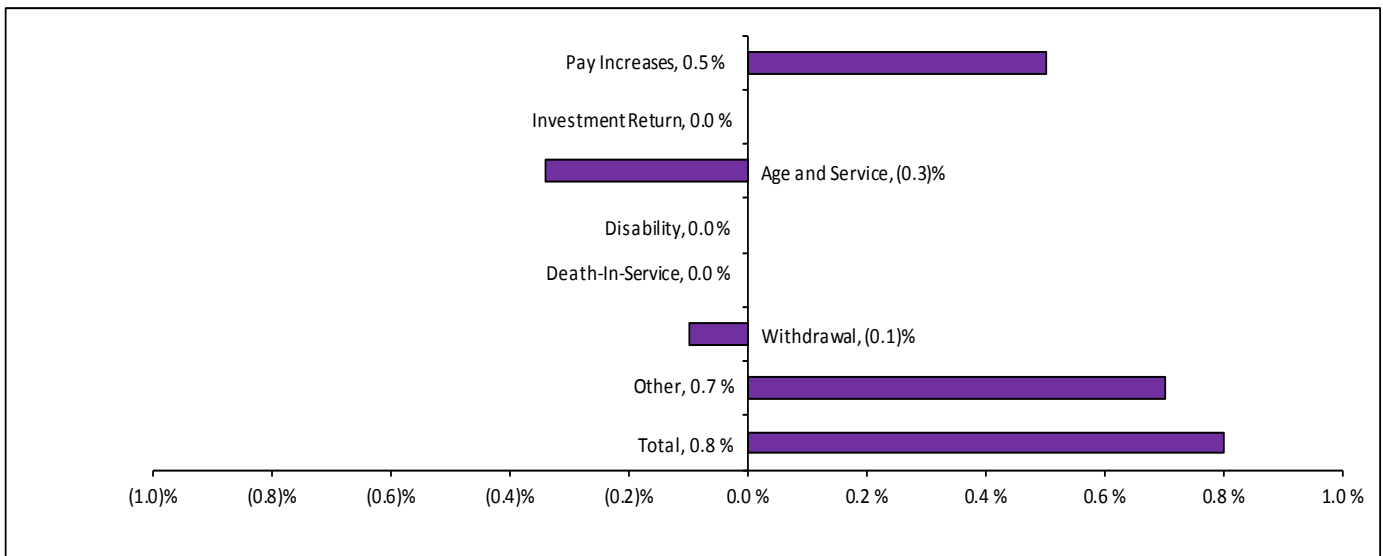
Type of Risk Area	Gain/Loss in Period	
	\$ Millions	Percent of Liabilities
ECONOMIC RISK AREAS		
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ 2.1	0.5 %
Investment Return. If there is greater recognized investment return than assumed, there is a gain. If less return, a loss.	0.0	0.0 %
NON-ECONOMIC RISK AREAS		
Age & Service Retirements. 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.	(1.4)	(0.3)%
Disability Retirements. If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.1	0.0 %
Death-in-Service Benefits. If there are fewer claims than assumed, there is a gain. If more, a loss.	0.0	0.0 %
Withdrawal. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(0.3)	(0.1)%
Actuarial Gain/Loss	\$0.5	0.1 %
Other. Gains and losses resulting from group size change, data adjustments, timing of financial transactions, and retiree mortality.	3.0	0.7 %
TOTAL GAIN (OR LOSS) DURING PERIOD	\$3.5	0.8 %

Gains & Losses by Risk Area Actuarial Gain/Loss Experience 2016-2017 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		Accrued Liability End of Year
	Pay Increases	Investments	Age & Service		Death-in-			Gain/Loss		
			Retirement	Disability	Service	Withdrawal	Other	Dollars	% of AAL	
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
2015@	1.1	(1.1)	(0.9)	0.1	0.0	0.0	2.6	1.8	0.5 %	399.0
2016	0.9	0.6	0.2	0.1	0.0	0.0	(1.8)	0.0	0.0 %	408.7
2017@	2.1	0.0	(1.4)	0.1	0.0	(0.3)	3.0	3.5	0.8 %	431.9

@ Revised actuarial assumptions and/or methods.

Investment Gain/Loss During the Period July 1, 2016 to June 30, 2017

	<u>\$ Millions</u>
1. Total Assets Beginning of Year - Funding Value	\$289.24
<hr/>	
2. Total Assets End of Year - Funding Value	
a. Actual	305.85
b. If net investment return had been 7.50%*	305.87
<hr/>	
3. Gain/Loss: 2(a) minus 2(b)	\$ (0.02)
<p>* "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).</p>	

**Salary Increases
by Age Group**
**Members Active Both Beginning and End of Year
During the Period of July 1, 2016 to June 30, 2017**

Age Groups	Expected Increase	Actual Increase
25- 29	8.2%	8.6%
30- 34	6.4%	4.9%
35- 39	5.2%	2.5%
40- 44	4.6%	2.3%
45- 49	4.3%	1.3%
50- 54	4.0%	2.0%
55- 59	3.8%	2.5%

Active Members who Separated from Active Membership During the Period from July 1, 2016 to June 30, 2017

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										0.7
25-29								0.6	3	3.0
30-34	1					0.1	2	2.7	3	2.0
35-39	1					0.2		1.8	1	0.8
40-44						0.3		1.5		0.1
45-49	2	0.4		0.1		0.6	2	1.1		0.1
50-54	10	9.9		0.1		0.3	1	0.1		
55-59	3	20.3								
60-64		1.0								
65										
Totals	17	31.6		0.2		1.5	5	7.8	7	6.7

A: Actual
E: Expected

* From active or DROP to retired status.

SECTION D

ACTUARIAL METHODS AND ASSUMPTIONS

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.

The actuarial assumptions used in the valuation are shown in this section. Assumptions were established based upon an Experience Study covering the period July 1, 2006 through June 30, 2012 (please see our report dated February 26, 2013). Economic assumptions have been subsequently updated based on the results of the Economic Assumption review performed for the Arkansas Public Employees Retirement System (please see our report dated May 17, 2017). The actuarial assumptions represent estimates of future experience.

Economic Assumptions

The investment return rate used in making the valuation was 7.15% per year, compounded annually (net after 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 3.25%, the 7.15% investment return rate translates to an effective assumed real rate of return of 3.90%. The wage inflation assumption was revised for the June 30, 2015 valuation and the investment assumption was revised for the June 30, 2017 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 3.25% recognizes wage inflation. The wage inflation assumption consists of 2.5% for price inflation and 0.75% for real wage growth. The pay increase assumption for individual active members was revised for the June 30, 2015 valuation.

Total active member payroll is assumed to increase 3.25% 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.

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.

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 7.15% 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	\$203.71	\$215.32	31.13	34.64
55	186.13	199.31	26.58	29.98
60	166.56	180.97	22.23	25.44
65	145.34	160.75	18.14	21.14
70	122.67	139.27	14.35	17.16
75	99.59	117.12	10.95	13.56
80	77.21	94.80	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 percentages shown for service based retirement (30 or more years) take precedence over the percentages 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%	3.25%	9.54%
25	0.02%	0.01%	0.09%	5.50%	5.39%	3.25%	8.64%
30	0.03%	0.01%	0.19%	5.50%	4.01%	3.25%	7.26%
35	0.04%	0.02%	0.31%	4.18%	2.29%	3.25%	5.54%
40	0.06%	0.04%	0.43%	2.64%	1.50%	3.25%	4.75%
45	0.08%	0.06%	0.55%	1.43%	1.10%	3.25%	4.35%
50	0.13%	0.09%	0.67%	0.55%	0.80%	3.25%	4.05%
55	0.22%	0.14%	0.79%	0.00%	0.60%	3.25%	3.85%

Miscellaneous and Technical Assumptions

June 30, 2017

Marriage Assumption:	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.
Pay Increase Timing:	Beginning of year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements are assumed to occur mid-year.
Eligibility Testing:	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.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and withdrawal decrements do not operate during the period a member is assumed to be eligible for an unreduced benefit.
DROP Participants:	For members participating in the DROP, reported payroll is multiplied by 3.7 to estimate present value of future salaries.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Tier One DROP Interest Credit:	Interest is assumed to be credited at 3.25%.
Tier Two DROP Interest Credit:	Interest is assumed to be credited at 3.25%.
Other Liability Adjustments:	Active member non-refund normal costs and actuarial accrued liabilities were increased by 1.5% to reflect non-reported reciprocal service.
Administrative Expenses	The normal cost was increased by 0.70% of payroll to fund administrative expenses.

SECTION E

FINANCIAL PRINCIPLES

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 ...

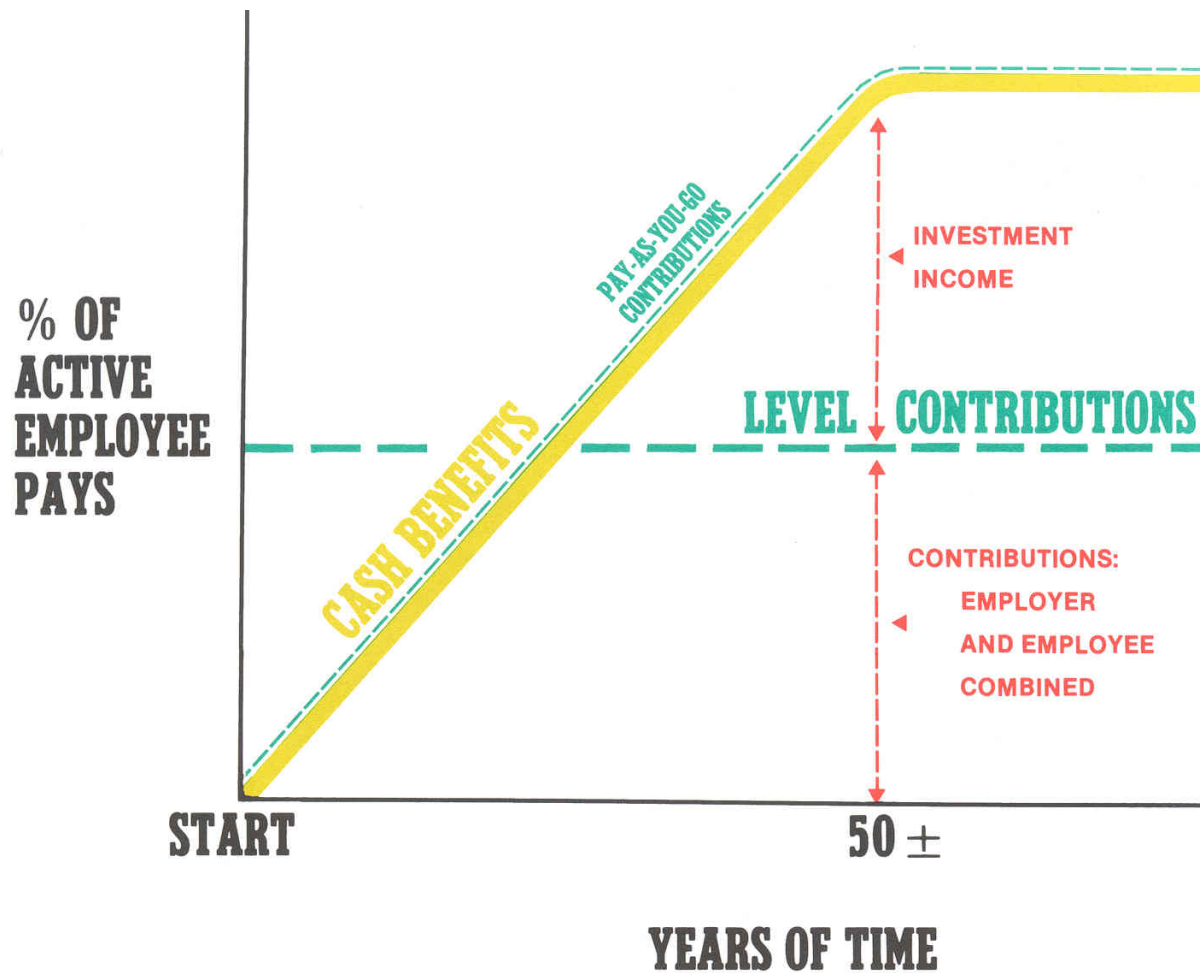
Interest on Unfunded Actuarial Accrued Liabilities (unfunded actuarial accrued liabilities are the difference between: the actuarial accrued liabilities for members' service already rendered; and the actuarial value of assets of ASPRS).

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.

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**

SECTION F

ADDITIONAL ACTUARIAL INFORMATION

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.

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)]
6/30/1998	\$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	381.86	122.40	67.9%	28.55	428.7%
6/30/2015 @	274.83	398.96	124.14	68.9%	29.93	414.8%
6/30/2016	289.24	408.74	119.50	70.8%	29.45	405.8%
6/30/2017	305.85	416.56	110.72	73.4%	29.08	380.8%
6/30/2017 @	305.85	431.88	126.03	70.8%	29.08	433.4%

After legislated changes in benefit provisions.

@ After changes in actuarial assumptions or methods.

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percent Contributed
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%
2015	14,171,551	139.60%
2016	14,285,512	138.00%
2017	14,122,584	141.34%

Supplementary Information

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	22-year closed
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.15%
Projected Salary Increases	3.25% - 10.25%
Including Wage Inflation at	3.25%
Cost-of-Living Adjustments	3.0% Annual compound increases
Retirees and Beneficiaries Receiving Benefits	650
Terminated Plan Members Entitled to but not yet Receiving Benefits	80
DROP Members	59
Active Plan Members	<u>469</u>
Total	1,258

SECTION G

APPENDIX I

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 9, 2017

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, 2017 Actuarial Valuation and the 2016/2017 Gain/Loss Analysis

Dear Gail:

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

Sincerely,

A handwritten signature in black ink that reads "David L. Hoffman". The signature is written in a cursive, flowing style.

David L. Hoffman

DLH:ah
Enclosures