Osborn, Carreiro & Associates, Inc.
ACTUARIES • CONSULTANTS • ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501)376-8043 fax (501)376-7847

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Mr. Bruce Moore, City Manager
City of Little Rock
500 West Markham
Little Rock, AR 72201

RE: Mayor's Statutory Retirement Benefit

Dear Mr. Moore:

I am writing this letter to you at the request of the Retirement Board of Trustees to summarize the issues and inform you of their recommendations. This letter should summarize the key decisions that will have to be made by the Little Rock Board of Directors (Board) in regards to the retirement benefits due to the mayor based on the statutory authority of Arkansas Code Annotated §24-12-123. It is my intent that the remainder of this letter will be able to be used in Board communication concerning this issue as needed.

Background

Arkansas Code Annotated §24-12-123 describes the retirement benefit that is to be provided for mayors of cities of the first class. The eligibility for that benefit pertinent to the current situation is attaining age 60 with at least 10 years of service. The benefit payable is a lifetime monthly benefit at "the rate of one-half of the salary payable to the mayor at the time of retirement." The city provides various retirement plans for its employees. For department directors and above, including the mayor, there is a money purchase plan qualified under section 401(a) of the tax code. This plan receives employee and employer contributions. Current state law also provides in ACA §14-42-117 that a mayor may only receive a benefit from one employer provided plan for the same period of service. The elected official in this situation must choose which benefit to receive. The statutory benefit that Mayor Stodola would receive as a statutory benefit is more valuable than the balance in the 401(a) money purchase plan and we should assume he would elect the statutory benefit.

Board Decision 1 – How to Provide the Benefit

The benefit can be provided by the city using available pension (not distributed to the mayor) funds supplemented by general fund payments or by merging into the current defined benefit plan with a plan to fund the benefit. The first option would require a separate plan for this benefit. There would not be a formal plan document, but there would be separate accounting and valuation needed for this one person plan. The Retirement Trustees recommend the second option for the following reasons:

1. There would not be another plan to administer and report for accounting purposes.
2. The administration of benefits is already established for the plan.

3. As a stand-alone plan, we cannot justify the same assumptions for valuing the benefits. It is currently my estimation that we would need to assume a discount rate of 4.5% for the stand-alone plan compared to the 6.5% discount rate used in the existing plan. As shown in a table below, the value of the base benefit in a stand-alone plan would be about $890,000 compared with $770,000, a difference of at least $120,000 on the city's balance sheet.
4. The possible additional benefits (COLA and survivor) can be provided through the existing plan.

This would require an amendment to the existing pension plan which would be presented in the near future for adoption after the decision is made.

Board Decision 2 – What Additional Benefits to Provide

The basic benefit provided in ACA §24-12-123 as discussed in the Background section is a life annuity. This same section of code allows by approval of the governing board the addition of a cost of living increase (COLA) of up to 3% per year. The governing body can also approve the addition of a 50% survivor annuity, payable until death or remarriage of the spouse. If the Board choses to provide the benefits through the existing plan, as discussed above, the Board could still make these decisions and the benefit would be paid out as you decide. The Board could also approve a COLA in the same fashion as the COLA provided in the existing plan and one of several survivor options that are available in the existing plans. Please note that the provisions in the existing plan reduce the benefit to an equivalent amount depending on the option chosen. Also note that he survivor options in the existing plan do not have remarriage language in therm. The COLA in the existing plan is a variable amount which is calculated annually; it is 2/3 of the change in the CPI-U during the preceding 12 months.

If the Board decides to provide these additional benefits, the Retirement Trustees recommend that the Board provide the COLA and survivor benefits through the use of the structure of the existing plan.

Board Decision 3 – How to treat the Employee Account in the Money Purchase 401(a) Plan

The Money Purchase 401(a) plan that the mayor currently participates in has both city money and employee money. As noted above ACA §14-42-117 says that the elected official must choose which plan's benefits to receive. The city or employer money clearly stays with the city to provide the statutory benefits and if you choose to use the existing plan, would be transferred to that plan as part of the funding for the statutory benefits. As discussed in the attached letter from the retirement benefits attorney that serves the Retirement Trustees, it is not clear if the employee contribution balance should be treated as employee money to be distributed to the mayor or if it is considered part of the plan and is used to help fund the statutory benefits.

I have provided a table of values to assist the Board in understanding the effect of the various decisions. This table will also provide the value of the benefits described in the first two items.

As noted earlier, the values shown below are calculated using a discount rate of 4.5% for the stand-alone plan. The value of the benefits using the existing plan use the discount rate of 6.5%. All other equivalence assumptions used are the same as in the existing (DB14) plan.

Balance as of 6/30/2018 – Employer Account	$[redacted]
Balance as of 6/30/2018 – Employee Account	$[redacted]
Annual Statutory Benefit	$80,000

	Stand Alone Plan	Add to Existing Plan
Value of Base Statutory Benefit	$ 890,000	$ 770,000
Value of Base Statutory Benefit with 3% COLA	1,140,000	970,000
Value of Base Statutory Benefit with Survivor	1,020,000	870,000
Base Statutory Benefit with COLA and Survivor	1,370,000	1,130,000
Value of Base Statutory Benefit with DB14 COLA		890,000
Value of Base Statutory Benefit with Survivor		1,030,000
Value of Base Statutory Benefit with existing plan (DB14) COLA and Survivor provisions		890,000

I also looked at what would be the effect of the Board budgeting to pay off the unfunded value of these benefits over 10 years (this is not a suggested period, just an example). The factor to use for a 10 year payoff under the existing plan is 0.1235. So, if you wanted to know the annual cost of the Statutory Benefit with the DB14 COLA (value 890,000), it would be $[redacted] per year ((890,000-[redacted])*.1235) using the employer account only. Using the employer and employee accounts it would be $[redacted] per year ((890,000-[redacted]*.1235). Other combinations can be derived in a similar fashion.

I look forward to discussing these issues with you and the trustees.

Sincerely,

Jody Carreiro

Jody Carreiro, ASA, MAAA, EA
Actuary