

## MINUTES

### ADVISORY PANEL FOR THE FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

JUNE 6, 2016

The annual meeting of the Advisory Panel for the Firefighters' and Rescue Squad Workers' Pension Fund ("Panel") was called to order at 9:30 a.m., June 6, 2016, by the Chair, Steve Toole. The meeting was held in the Dogwood Conference Room in Raleigh.

#### Members Present

The Panel members present were: Steve Toole, Ken Mullen, Gary Whitman, Rick McIntyre, Kevin Gordon, and Dean Coward.

#### Members Absent

The Panel member absent was Debra Poe.

#### Guests Present

The guests present were: Larry Langer and Michael Ribble with Buck Consultants, and Ed Brinson with the North Carolina State Firemen's Association.

#### Department of State Treasurer Staff Present

The staff members present were: Donna Boyette, Nick Byrne, Thomas Causey, Linda Enderlin, Lisa Page, David Starling, Christina Strickland, and Sam Watts.

#### Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of Panel members. There were no ethics conflicts identified by the panel members.

#### Approval of Minutes

It was moved by Gary Whitman, seconded by Ken Mullen, and carried that the Panel approve the minutes from the June 29, 2015 meeting.

#### Operations Update

The Chair recognized Thomas Causey, Deputy Director of Operations, and Donna Boyette, Firefighters' and Rescue Squad Workers' Pension Fund Coordinator, for an update on operations. Ms.

Boyette presented that the 2015 Rosters were successfully uploaded into ORBiT on January 31, 2016. She reported that the team generated 1,516 turnaround documents out to agencies in mid-February. 146 were not generated due to posting of 2015 contributions for those agencies. She stated that after the posting of contributions, those agencies were issued an updated turnaround document. She also presented that 85 percent of the fire & rescue departments submitted contributions in advance of the March 31<sup>st</sup> deadline. She reported that agencies that submitted contributions after the deadline were given three choices: 1) post money to accounts to apply as contributions for future years; 2) purchase the 2015 contributions; or 3) have the funds returned. She stated that there were no exceptions granted in 2016.

Ms. Boyette gave an update on the staffing for the Fund. She reported that the team has been fully staffed since April of 2015. The staff consists of four full-time permanent employees, one temporary employee answering incoming member calls full-time, and one additional temporary staff member who was brought on board in October of 2015 to work on a special project to be discussed during the Status and Needs update agenda item later in the meeting.

Ms. Boyette presented the metrics for the Fund. She reported that purchase calculation requests have increased from a monthly average of 44 requests to a monthly average of 75 requests. Ms. Boyette stated that the turnaround time for purchase calculations has decreased from 133.1 days to 13.4 days. She reported that call volume has decreased from a monthly average of 875 calls to 660 calls over the past year. She reported that abandonment rates have decreased from 11.3 percent to 5.9 percent since April of last year. Ms. Boyette reported that the turnaround-document timeframe for retirement has decreased from 101.2 days to 12.9 days and retirements paid on time in the month requested has increased to 98.9 percent (up from 35.3 percent last year).

Ms. Boyette reported that the first issue of the annual Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) eNewsletter was launched on January 5, 2016. The FRSWPF eNewsletter covered topics such as important dates/deadlines, retirement benefits, and the line of duty death benefit. She stated that the FRSWPF eNewsletter is currently issued annually, but the goal is to expand to issuing semi-annually.

### Legislation Update

The Chair recognized Sam Watts, RSD Policy Analyst, to give an update on legislation affecting the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Watts reported on the Retirement Technical Corrections Act (Senate Bill 886), which would clarify service purchases for the Fund. Mr. Watts presented the Retirement Systems Administrative Changes Bill (House Bill 1134 and Senate Bill 887), which makes two policy changes related to the Fund. The bill would allow members of the Fund to designate beneficiaries for the return of contributions upon the death of the member and it creates a benefit enhancement that would provide a survivorship benefit if a member dies in the line of duty.

### ORBiT Project Update

The Chair recognized David Starling, Constituent Relations Director, and Linda Enderlin, Business Systems Manager, to give an update on progress made towards automation of the Fire & Rescue

Pension Fund administration. Efforts continue to plan, design, build, test, and implement a Fire and Rescue Pension Fund module within ORBiT, its online recordkeeping platform. The goal is to enhance ORBiT self-service to be more customer friendly for participating members. These enhancements include providing members with the ability to view fully credited service and contributions paid to date, and allowing members to perform service purchase estimates. Additionally, ORBiT fire and rescue department self-service capabilities will be available to process member contributions and provide departments with the ability to contribute using EFT. The roster process will be enhanced to provide more information, including beginning and end dates of service. RSD is continuing its efforts to enhance the integrity of member/department data.

RSD has identified 17 separate business requirements for implementation. Requirements have been completed on 10 of the 17. One of the 17 requirements (maintain agency) has been fully implemented to date.

#### December 31, 2014 Actuarial Valuation

The Chair recognized Larry Langer and Michael Ribble, with Buck Consultants, to give a presentation on the December 31, 2014 actuarial valuation for the Fund. Mr. Langer presented the key results of the December 31, 2014 actuarial valuation. He reported that the market value return of 6.24 percent was lower than the 7.25 percent assumed. No significant legislation was signed into law. Adjustments were made to the actuarial assumptions intended to estimate the impact of a full audit of the census data for lapsed members, including the development of the appropriate lapse assumption based on the full audit. There were no significant changes in funding methodology from the prior year's valuations.

When compared to the December 31, 2013 valuation, the deviations resulted in a higher funded ratio of 90.9 percent in the December 31, 2014 valuation, compared to 88.3 percent in the December 31, 2013 valuation; and, a lower employer required contribution of \$12,830,706 for fiscal year ending June 30, 2017, compared to \$13,240,552 for fiscal year ending June 30, 2016. Mr. Langer stated that the Fund continues to be well-funded compared to its peers.

#### Results of the Experience Investigation

Larry Langer and Michael Ribble, with Buck Consultants, gave a presentation on the Investigation of Demographic and Economic Experience Five-Year Period from January 1, 2010 through December 31, 2014 for the Firefighters' and Rescue Squad Workers' Pension Fund. The Experience Review resulted in proposed changes to the demographic assumptions, economic assumptions and funding methods.

Key takeaways from the Experience Review is the fact that there were fewer deaths (mortality) experienced, resulting in a significant increase in costs. The Experience Review also showed a slight decrease in costs for disability retirement and a slight decrease in the asset valuation method by implementing the five-year smoothing approach.

Actuarial Data Audit of the Fund

Larry Langer and Michael Ribble, with Buck Consultants, gave a presentation to the Advisory Panel on their progress towards completion of the actuarial data audit of the Fund. Mr. Langer stated the requirements to be eligible for a benefit, which are that a Firefighters’ & Rescue Squad Workers’ Pension Fund member must have completed 20 years of roster service and 20 years of contributions. Many members leave before meeting the requirements to be eligible for a retirement benefit. These members are called “lapsed” members. A “deeper dive” research project was initially requested in order to assess the ability to create a lapse assumption that would reduce both future liabilities and the State’s ongoing contribution requirement to the Plan.

Mr. Langer and Mr. Ribble reported that Buck Consultants reviewed 13,565 records as of the 2013 actuarial valuation. Buck Consultants found 10,735 with actual lapses (breakdown as follows contains duplicates); 2005 members had lapses and returned to active service somewhere in the roster service history; 342 members had multiple returns from lapses; 3,391 members had lapses of 8 or more years; 7,060 members currently lapsed less than 8 years; and the remaining 2,830 members had updated data and no lapse in service.

Mr. Langer and Mr. Ribble shared their general observations regarding the data on the likelihood that members would return after a lapse. Buck Consultants reviewed lapses by age and by roster service and found return from lapse experience is relatively uniform across member ages and roster service at the start of lapse. Buck Consultants reviewed lapses up to 10 years and indicated that very few members returned after 8 years of lapse, so the lapse assumption was consolidated to 0% after 8 years. As a result of completing the Data Audit, Buck Consultants recommended changing assumptions to better align with past experience and shared the net financial impact of the revised lapse assumption.

	Lapse = 1	Lapse = 2	Lapse = 3	Lapse = 4	Lapse = 5	Lapse = 6	Lapse = 7	Lapse = 8
Return to Work Assumption	42.00%	23.00%	14.00%	10.00%	6.00%	4.50%	3.00%	0.00%

	Experience Investigation*	Revised Lapse Assumption
Normal Cost	\$7,084,000	\$6,018,000
Accrued Liability	\$10,518,000	\$8,275,000
Annual Required Contribution	\$17,602,000	\$14,293,000
Impact of Lapse Assumption		\$(3,309,000)

Mr. Langer and Mr. Ribble recommended the appropriate next steps to the RSD as follows:

- Encourage application for return of contributions for lapsed members over age 65

- Encourage application for return of contributions for lapsed members who receive return of contributions in other North Carolina administered plans
- Encourage application for return of contributions for lapsed members that are not expected to return to service after confirming they have not yet returned to service (since 2012)
- Perform death search on all lapsed population and contact survivors of deceased active members to encourage application for return of contributions
- Set final fiscal assumptions
  - Estimate impact on FYE 2017 required contribution
  - Incorporate assumptions into actuarial valuation at December 31, 2015
- Load updated information into ORBiT

The Chair shared that the Data Audit project costs exceeded \$900,000 and will return annual savings in excess of \$3 million.

### Needs of the Fund

The Chair and Ms. Boyette led a discussion with the Advisory Panel on identifying the following needs of the Fund:

#### Actuarial

- Continue to seek full funding of the ARC
- Continue to aggressively reduce liabilities
- Maintain a conservative funding policy and appropriate balance on benefits
- Strive to reach a 100% funding status for the Fund

#### Process/Operations

- Continue efforts to complete the ORBiT redesign
- Continue to improve data integrity
- Continue the positive momentum towards achieving operational goals
- Member account information will be available online when re-write of ORBiT is complete
- Continue to improve Departments' access to service/credit information about each department and its members
- Continue efforts to reconcile the various member contribution amounts over time and various laws to ensure accuracy of data for members as they near retirement
- Reorder of TADs - Electronic submission of TADs and contributions with Active and Inactive displayed separately on the screen

#### Policy/Legislative

- Continue to monitor the Gross Premium Tax since, as the ARC is reduced, there may be an opportunity to increase benefits to the members
- With more and more career firefighters and rescue squad workers, consider a tiered benefit for increased benefit for years exceeding 20
- The efforts of RSD staff and the strong results should be shared with the legislators

- Consider an incentive program to attract and retain members
- Continue to monitor for felony forfeitures to ensure compliance with the statute

The Chair indicated the Retirement Systems Division will evaluate the needs of the Fund as shared by the Advisory Panel and incorporate those needs into the ongoing project, where applicable.

#### Adjournment

There being no further business, Kevin Gordon moved for adjournment of the meeting, which was seconded by Rick McIntyre and carried unanimously. The meeting was adjourned at 11:49 a.m.

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CHAIR