

Decisions on Local Governmental Employees' Retirement System (LGERS)

Issue: Valuation report shows that the new Annual Required Contribution (ARC) of 6.52% is lower than the current employer contribution rate of 7.07%. Therefore, the LGERS Board of Trustees can decrease the employer contribution rate by 0.55% of payroll, or \$30.9 million to meet the new ARC for fiscal year ending 2016.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of 6.94% based on the December 31, 2012 valuation. In January 2014, the Board of Trustees adopted a rate of 7.07% for fiscal year ending 2015. In October 2014, Buck reported an ARC for fiscal year ending 2016 of 6.52% based on the December 31, 2013 valuation. This valuation reflected higher than assumed market returns for 2013 and little to no payroll increases during 2013.

Four Policy Options for Consideration by the Board of Trustees

Option One –No Change to Current Employer Contribution Rate:

Leave the employer contribution rate at 7.07% and direct the actuaries and staff to review a policy shift to a level employer contribution rate that will be applicable for longer than the current one-year period. This option would promote stability in the rate structure.

Option Two– Decrease the Employer Contribution Rate:

Decrease the employer contribution rate of 7.07% by 0.55% to cover the ARC. The new employer rate would be 6.52%, which would save employers an additional \$30.9 million during fiscal year ending 2016.

Option Three – Decrease the Employer Contribution Rate to Fund the ARC and a Grant a .625% COLA:

Decrease the employer contribution rate of 7.07% by 0.40% to 6.67% which would cover the ARC and allow the Board to grant a 0.625% COLA. Given investment gains in 2013, this is the maximum amount of COLA that the Board may grant under the authority allowed it by statute.

Option Four–Decrease the Employer Contribution Rate to Fund the ARC, Recommend an Increase to the Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries (including COLA for Retirees):

Recommend the legislature decrease the employer contribution rate of 7.07% by 0.22%. This decrease would cover the ARC and provide enough additional funds to grant a 0.01% accrual rate increase with an equivalent increase for all beneficiaries (including a COLA for retirees). The additional funds would cover the ARC and increase benefits for current active employees. The additional cost for future hires is 0.07% of pay. The accrual rate would increase from 1.85% to 1.86% with a corresponding 0.54% increase to all beneficiaries. **Staff recommends against this Option.** The total amount to be funded over time for the increased multiplier is the increase in liability of \$147.8 million.

Decisions on the Firefighters' and Rescue Squad Workers' Pension Fund

Issue: The estimated Annual Required Contribution (ARC) of \$13,240,552 is less than the appropriation for fiscal year ending 2015 of \$13,900,000. Therefore, the allocated state budget could decrease by \$659,448 to meet the new ARC.

What is the reason for the difference? The preliminary ARC for fiscal year ending June 30, 2015 was estimated to be \$15,100,000 based on the June 30, 2012 valuation. Based on the findings of Phase One of the audit of the census data for lapsed members, the ARC was estimated to decrease by \$2,200,000. The impact of legislative changes increased the ARC by \$1,000,000. As such, the final ARC for fiscal year ending June 30, 2015 was \$13,900,000. The appropriation for fiscal year ending 2015 was set by the legislature at \$13,900,000. To cover the estimated ARC for fiscal year ending 2016, the LGERS Board of Trustees could recommend that the legislature decrease the employer contribution by \$659,448.

Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend no change to Current Employer Contribution:

Recommend the legislature leave the employer contribution at \$13,900,000 and direct that \$659,448 be used to by the Retirement Systems Division to fund the audit of the census data for lapsed members and to pay for contractor costs for improvements to the administration of this pension fund the recommended by the General Assembly's Program Evaluation Division .

Option Two– Decrease the Employer Contribution:

Recommend the legislature decrease the employer contribution to \$13,240,552 for fiscal year ending 2016 to cover the estimated ARC.

Option Three – Recommend an Increase to Employer Contribution to Fund the ARC and a \$10 Increase to Monthly Benefit:

Recommend the legislature increase the employer contribution to \$17,053,312 for fiscal year ending 2016. This would cover the ARC and a \$10 increase to the monthly benefit. **Staff recommends against this Option.**

Decisions on the Register of Deeds' Supplemental Pension Fund

Issue: The estimated Annual Required Contribution (ARC) of \$0, which is more than the 1.5% of monthly receipts collected pursuant to Article 1 of Chapter 161 of the General Statutes. Additionally, the fund is over funded with a funded ratio of 192.8%. Therefore, the monthly benefit amount can be increased.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of \$0 based on the December 31, 2012 valuation. The Fund collects employer contributions of 1.5% of monthly receipts pursuant to Article 1 of Chapter 161 of the General Statutes. In October 2014, Buck reported an ARC for fiscal year ending 2016 of \$0 based on the December 31, 2013 valuation. The ARC is less than \$0, based on a 30-year amortization of the unfunded accrued liability, which is not allowed under GASB 25/27. Therefore, the accrued liability contribution was set such that the total employer ARC equals \$0.

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend no change to Current Benefit Structure:

Recommend no change to the current benefit structure.

Option Two– Recommend an Increase in the Maximum Monthly Benefit:

Recommend the legislature increase the maximum monthly benefit from \$1,500 to \$1,550 for future and current members in receipt of benefits. While the increase in the maximum monthly benefit increases the ARC, the ARC is still less than \$0 based on a 30-year amortization of the unfunded accrued liability, which is not allowed under GASB 25/27. Therefore, the accrued liability contribution is set such that the total employer ARC equals \$0.

**SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2015 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Local Governmental Employees'	Decrease normal rate ¹ by 0.55% for a savings in the first year to employers of \$30,862,233	Increases equal to 0.55% of members covered payroll
Firefighters' and Rescue Squad Workers' Pension Fund ²	Decrease employer contribution by \$659,448.	Increases equal to \$659,448.
Register of Deeds' Supplemental Pension Fund	No change to employer contributions.	Increases equal to \$949,968 ³ .

FOOTNOTES:

¹The current normal employer contribution rates are 7.07% for General Employees and 7.55% for Law Enforcement Officers. The total estimated payroll for the 2014 Session of the General Assembly was \$5,611,315,000.

²The total appropriated employer contribution for fiscal year ending June 30, 2015 is \$13,900,000.

³The total ARC for fiscal year ending 2016 is less than \$0 based on a 30-year amortization of the unfunded accrued liability, which is not allowed under GASB 25/27. Therefore, the accrued liability contribution was set such that the total employer ARC equals \$0. Based on the December 31, 2013 valuation, the actual ARC was equal to \$(949,968).

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2016 BUDGET**

	<u>Percentage Payroll¹</u>	<u>Local Funding²</u>
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2014 payable beginning July 1, 2015 and prorated percentage to 2014-15 Beneficiaries	0.24% ³	\$ 13,467,156
<u>Enhance Benefit Structure</u>		
Each 0.01% increase in the defined benefit formula accrual rate from current 1.85% with a 0.54% increase to all Beneficiaries	0.33% ⁴	\$ 18,517,340

FOOTNOTES:

¹Employer normal rates of contribution are 7.07% for General Employees and 7.55% for Law Enforcement Officers of covered members' payroll with variable rates for accrued liabilities.

²Assumes total covered payroll of \$5,611,315,000.

³The total amount to be funded over time is the increase in liability of \$107.5 million.

⁴The total amount to be funded over time is the increase in liability of \$147.8 million. The additional cost for future hires is 0.07% of pay.