

**Board Adoptions Prior to Decisions:**  
**Discount Rate of 7.25%**  
**Mortality Improvement Scale of MP-2015**  
**Employer Contribution Rate Stabilization Policy - Yes**

## **Decisions on Local Governmental Employees' Retirement System (LGERS)**

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of 6.39 percent is lower than the current employer contribution rate of 6.67 percent. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 5.47 percent for general employees and firefighters and 7.09 percent for law enforcement officers, less than the current employer contribution rate of 6.67 percent for general employees and firefighters and 7.15 percent for law enforcement officers for fiscal year ending 2016. Therefore, the LGERS Board of Trustees can decrease the employer contribution rate by 1.20 percent of payroll for general employees and 0.06 percent of payroll for law enforcement officers, or \$56.7 million to meet this ARC for fiscal year ending 2017.

However, the Board adopted a five-year Employer Contribution Rate Stabilization Policy on January 21, 2016. Under this policy, the contributions for general employees will be set at 7.25% of payroll for fiscal year ending 2017 and will increase each fiscal year by 0.25% per year for five years, with the following additional adjustments, if applicable:

- (1) if the underlying ARC for a given fiscal year is 50% higher than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases 0.50%;
- (2) if the underlying ARC for a given fiscal year is 50% lower than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal year decreases 0.50%;
- (3) Law Enforcement rates will be 0.75% higher than General Employee rates;
- (4) if the General Assembly grants any additional COLA beyond the amount of COLA approved by the Board, increases the multiplier for active employees, or changes the benefit structure in a way that has a cost to the system, the schedule of contributions for the current and future fiscal years will be increased by the cost of the additional COLA, increased multiplier or other benefit enhancement; and
- (5) The cost of any allowable COLA granted by the Board under the authority allowed by statute will not impact the scheduled contribution rates.

The Employer Contribution Rate Stabilization Policy results in an initial recommended contribution rate for General Employees of 7.25% of payroll and an initial recommended contribution rate for Law Enforcement Officers of 8.00% of payroll for fiscal year ending 2017.

## Three Policy Options for Consideration by the Board of Trustees

### Option One – Increase Employer Contribution Rate to Fund the ARC Based on Approved Employer Contribution Rate Stabilization Policy:

Increase the employer contribution rate of 6.67 percent for general employees and firefighters to 7.25 percent and the employer contribution rate of 7.15 percent for law enforcement officers to 8.00 percent in accordance with the Employer Contribution Rate Stabilization Policy. The additional cost to employers for fiscal year ending 2017 would be \$36.0 million.

### Option Two – Increase Employer Contribution Rate to Fund the ARC Based on Approved Employer Contribution Rate Stabilization Policy and Grant a 0.105% COLA:

Increase the employer contribution rate of 6.67 percent for general employees and firefighters to 7.25 percent and the employer contribution rate of 7.15 percent for law enforcement officers to 8.00 percent in accordance with the Employer Contribution Rate Stabilization Policy and concurrently grant a 0.105% COLA. Given investment gains in 2014, this is the maximum amount of COLA that the Board may grant under the authority allowed by statute. The additional cost to employers for fiscal year ending 2017 would be \$36.0 million.

*Any additional COLA must be granted by the General Assembly. See the included chart below for the cost of an additional COLA.*

### Option Three – Recommend an Increase to Employer Contribution Rate to Fund the ARC Based on Approved Employer Contribution Rate Stabilization Policy, Increase Multiplier for Active Employees, and Include a Corresponding Increase for All Beneficiaries:

Increase the employer contribution rate of 6.67 percent for general employees and firefighters to 7.25 percent and the employer contribution rate of 7.15 percent for law enforcement officers to 8.00 percent in accordance with the Employer Contribution Rate Stabilization Policy and concurrently recommend the General Assembly grant a 0.01 percent accrual rate increase with an equivalent increase to all beneficiaries. The additional funds would cover the ARC and increase benefits for current active employees. The accrual rate would increase from 1.85 percent to 1.86 percent with a corresponding 0.54 percent increase to all beneficiaries. **Staff recommends against this option at this time because it further widens the benefits gap between the state and local systems.** The total amount to be funded over time for the increased multiplier for current employees and corresponding COLA to all beneficiaries is the increase in liability of \$151.8 million. The additional cost for future hires is 0.07 percent of pay.



Prepared by Staff of the Retirement Systems Division,  
Office of the State Treasurer  
January 21, 2016

## **Board Adoptions Prior to Decisions:**

**Discount Rate of 7.25%**

**Mortality Improvement Scale of MP-2015**

**Employer Contribution Rate Stabilization Policy - No**

## **Decisions on Local Governmental Employees' Retirement System (LGERS)**

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of 6.39 percent is lower than the current employer contribution rate of 6.67 percent. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale, the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 5.47 percent for general employees and firefighters and 7.09 percent for law enforcement officers, less than the current employer contribution rate of 6.67 percent for general employees and firefighters and 7.15 percent for law enforcement officers for fiscal year ending 2016. **Therefore, the LGERS Board of Trustees can decrease the employer contribution rate by 1.20 percent of payroll for general employees and 0.06 percent of payroll for law enforcement officers, or \$56.7 million to meet this ARC for fiscal year ending 2017.**

## **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 6.67 percent for general employees and firefighters and 7.15 percent for law enforcement officers.

### Option Two – Decrease the Employer Contribution Rate to Fund the ARC Based on Approved Experience Study Assumptions:

Decrease the employer contribution rate of 6.67 percent for general employees and firefighters by 1.20 percent and the employer contribution rate of 7.15 percent for law enforcement officers by 0.06 percent to cover the ARC. The new employer rate would be 5.47 percent for general employees and firefighters and 7.09 percent for law enforcement officers, which would save employers an additional \$56.7 million during fiscal year ending 2017, but would require a rate increase the following year, estimated to be 5.92 percent for general employees and firefighters and 7.53 percent for law enforcement officers.

### Option Three – Recommend a Change to Employer Contribution Rate to Fund the ARC Based on Approved Experience Study Assumptions and Grant a 0.105% COLA:

Decrease the employer contribution rate of 6.67 percent for general employees and firefighters by 1.17 percent to 5.50 percent and the employer contribution rate of 7.15 percent for law enforcement officers by 0.03 percent to 7.12 percent to cover the ARC and grant a 0.105% COLA. Given investment gains in 2014, this is the maximum amount of COLA that the Board may grant under the authority allowed by statute. This would require a rate increase the following year, estimated to be 5.95 percent for general employees and firefighters and 7.56 percent for law enforcement officers.

*Any additional COLA must be granted by the General Assembly. See the included chart below for the cost of an additional COLA.*

Option Four – Recommend a Decrease to Employer Contribution Rate to Fund the ARC Based on Approved Experience Study Assumptions, Increase Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries:

Decrease the employer contribution rate of 6.67 percent for general employees and firefighters by 0.85 percent to 5.82 percent and increase the employer contribution rate of 7.15 percent for law enforcement officers by 0.29 percent to 7.44 percent. This increase would cover the ARC and provide enough additional funds to grant a 0.01 percent accrual rate increase with an equivalent increase to all beneficiaries. The additional funds would cover the ARC and increase benefits for current active employees. The accrual rate would increase from 1.85 percent to 1.86 percent with a corresponding 0.54 percent increase to all beneficiaries. **Staff recommends against this option at this time because it further widens the benefits gap between the state and local systems.** The total amount to be funded over time for the increased multiplier for current employees and corresponding COLA to all beneficiaries is the increase in liability of \$151.8 million. The additional cost for future hires is 0.07 percent of pay.

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

Issue: Based on assumptions adopted in 2010 and slightly modified in 2015, the most recent valuation report shows that the new Annual Required Contribution (ARC) of \$12,830,706 is lower than the appropriation for fiscal year ending 2016 of \$13,550,000. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2016 would be \$17,602,208, greater than the current state budget of \$13,550,000 for fiscal year ending 2016. Therefore, the allocated state budget will need to increase by \$4,052,208 to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015. Further adjustments to this estimated increase may be warranted when the data audit of this plan is complete.

### Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Employer Contribution to Fund the ARC Based on Approved Experience Study Assumptions:

Recommend that the General Assembly increase the employer contribution to \$17,602,208.

Option Two – Recommend an Increase to Employer Contribution to Fund the ARC Based on Approved Experience Study Assumptions and a \$10 Increase to Monthly Benefit:

Recommend that the General Assembly increase the employer contribution to \$21,753,908 for fiscal year ending 2016. This would cover the ARC based on the approved experience study and a \$10 increase to the monthly benefit. **Staff recommends against this option at this time due to the increased appropriation requirement.**



Prepared by Staff of the Retirement Systems Division,  
Office of the State Treasurer  
January 21, 2016

**SUMMARY OF ALTERNATIVES  
FOR PRESENTATION TO THE 2016 GENERAL ASSEMBLY**

<b><u>Retirement System</u></b>	<b><u>Employer Contributions</u></b>	<b><u>Enhance Benefits</u></b>
Local Governmental Employees'	Decrease employer contribution rate <sup>1</sup> by 1.20% for general employees and firefighters and by 0.06% for law enforcement officers for a savings in the first year to employers of \$56,748,960	Increases equal to 1.20% of covered members' payroll for general employees and firefighters and 0.06% of covered members' payroll for law enforcement officers
Firefighter's and Rescue Squad Workers' Pension Fund	Increase employer contribution by \$4,052,208.	No undistributed gain available for benefit enhancements

**FOOTNOTES:**

<sup>1</sup>The current normal employer contribution rates are 6.67% for General Employees and Firefighters and 7.15% for Law Enforcement Officers. The total estimated payroll for the 2015 Session of the General Assembly was \$5,726,580,000, which includes \$4,676,580,000 for General Employees and Firefighters and \$1,050,000,000 for Law Enforcement Officers.

<sup>2</sup>The total appropriated employer contribution for fiscal year ending June 30, 2016 is \$13,550,000.

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM  
COST OF CERTAIN BENEFIT CHANGES AFFECTING  
FISCAL YEAR ENDING JUNE 30, 2017 BUDGET**

	<u>Percentage Payroll<sup>1</sup></u>	<u>Local Funding<sup>2</sup></u>
<b><u>Benefit Changes</u></b>		
<b><u>Post-Retirement Increases</u></b>		
Each 1% increase to Beneficiaries as of July 1, 2015 payable beginning July 1, 2016 and prorated percentage to 2015-16 Beneficiaries	0.28% <sup>3</sup>	\$ 16,034,424
<b><u>Enhance Benefit Structure</u></b>		
Each 0.01% increase in the defined benefit formula accrual rate from current 1.85% with a 0.54% increase to all Beneficiaries	0.35% <sup>4</sup>	\$ 20,043,030

**FOOTNOTES:**

<sup>1</sup>Employer normal rates of contribution are 6.67% of covered members' payroll for General Employees and Firefighters and 7.15% of covered members' payroll for Law Enforcement Officers with variable rates for accrued liabilities.

<sup>2</sup>Assumes total covered payroll of \$5,726,580,000.

<sup>3</sup>The total amount to be funded over time is the increase in liability of \$121.5 million.

<sup>4</sup>The total amount to be funded over time is the increase in liability of \$151.8 million. The additional cost for future hires is 0.07 percent of pay.

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM  
COST OF COLA  
FOR CONSIDERATION BY THE BOARD OF TRUSTEES  
FOR FISCAL YEAR ENDING JUNE 30, 2017 BUDGET**

<b>COLA Granted by Board</b>	<b>Additional COLA Granted by General Assembly</b>	<b>Total COLA</b>	<b>Required Employer Contribution Rate</b>
0.000%	0.000%	0.000%	5.47%
0.105%	0.000%	0.105%	5.50%
0.105%	0.145%	0.250%	5.54%
0.105%	0.395%	0.500%	5.61%
0.105%	0.645%	0.750%	5.68%
0.105%	0.895%	1.000%	5.75%