North Carolina Firefighters’ and Rescue Squad Workers’ Pension Fund

Principal Results of Actuarial Valuation as of December 31, 2023

Michael Ribble, FSA, EA, MAAA, FCA
Elizabeth Wiley, FSA, EA, MAAA, FCA

October 24, 2024, Board of Trustees Meeting

Gallagher

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Valuation input

Membership data

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology

The table below provides a summary of the membership data used in this valuation compared to the prior valuation.

Number as of	12/31/2023	12/31/2022
Active members	25,621	25,263
Lapsed members	18,773	18,005
Disabled members eligible for deferred pensions	99	111
Retired members and survivors of deceased members killed in the Line of Duty currently receiving benefits	15,263	15,014
Total	59,756	58,393

The number of fully active members increased by 1.4% from the previous valuation date.

The number of retired members increased by 1.7% from the previous valuation date.

A detailed summary of the membership data used in this valuation is provided in Section 2 and Appendix A.

Valuation results

Net actuarial gain or loss

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology

The table below provides a reconciliation of the prior year's unfunded actuarial accrued liability to the current year's unfunded actuarial accrued liability.

(in millions)		
Unfunded actuarial accrued liability (UAAL) as of 12/31/2022	$	(20.4)
Normal cost and administrative expense during 2023		8.3
Reduction due to actual contributions during 2023		(22.2)
Interest on UAAL, normal cost, and contributions		(1.4)
Asset (gain) / loss		4.4
Actuarial accrued liability (gain) / loss		(1.3)
Impact of assumption changes		0.0
Impact of legislative changes		14.2
Unfunded actuarial accrued liability (UAAL) as of 12/31/2023	$	(18.4)

During 2023, the UAAL decreased by $22.2 million due to SCRSP contributions.

The UAAL increased by $14.2 million due to the increase in monthly benefit from $170 to $175 per month and the increase in employee contributions from $10 to $15 per month effective January 1, 2025.

Additionally, the UAAL increased due to the asset loss of $4.4 million.

A detailed summary of the net actuarial gain or loss is provided in Section 4.

Valuation results (continued)

Employer contributions

Actuarial Value of Assets	Actuarial Accrued Liability	Net Actuarial Gain or Loss	Funded Ratio	Employer Contributions

The table below provides a reconciliation of the actuarially determined employer contribution.

Fiscal year ending June 30, 2025 Preliminary ADEC (estimated based on December 31, 2022 valuation)	$	2,350,959
Impact of Legislative Changes		0
Fiscal year ending June 30, 2025 Final ADEC	$	2,350,959
Change Due to Demographic (Gain)/Loss		(98,856)
Change Due to Payoff of Unfunded Liability Base established in June 30, 2012, valuation		(494,704)
Change Due to Investment (Gain)/Loss		701,071
Change Due to Contributions Greater than ADEC		(1,560,169)
Impact of Plan Changes		764,829
Impact of Assumption Changes		0
Impact of Direct Rate Smoothing		180,832
Fiscal year ending June 30, 2026 Preliminary ADEC (estimated based on December 31, 2023 valuation)	$	1,843,962

The change in the ADEC due to investment loss is based on the actuarial value of assets return of 5.65%, which was less than the 6.50% assumed return.

Change due to Contributions Greater than ADEC is due to application of the SCRSP.

A detailed summary of the actuarially determined employer contribution rates is provided in Section 5.

Valuation results (continued)

State Contribution Rate Stabilization Policy

Benefit Enhancements	Additional Disclosures	Projections

- Session Law 2016-108 requires that the Board develop a State Contribution Rate Stabilization Policy (SCRSP) for the FRSWPF
- Below is a summary of the SCRSP that the Board adopted on April 29, 2021
- State Contributions
  - Board will recommend to the General Assembly the higher of the underlying ADEC or $350,000 greater than the current year's recommendation
  - SCRSP Minimum Contribution Rate for FYE 2026 is $20,752,208 (Greater of ADEC of $1,843,962 and FYE 2025 recommendation of $20,402,208 plus $350,000)
- Board considerations for Benefit and Member Contribution Increases:
  - Recommended benefit increase is no greater than the CPI-U increase
  - Sufficient funding is available to meet the Benefit Improvement Funding Requirement (BIFR)
  - With a goal of a 50/50 split between member and state contributions toward the normal cost portion of the annual contribution, the Board will recommend that monthly member contributions be set at the $5 increment closest to a 50/50 share of the Fund's normal cost, along with any recommendation to provide a benefit increase.
  - See next slides for metrics the Board must use to recommend benefit and/or member contribution increases

A detailed summary of the actuarially determined employer contribution rates is provided in Section 5.

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Valuation results (continued)

State Contribution Rate Stabilization Policy (continued)

Benefit Enhancements	Additional Disclosures	Projections

Metrics the Board must consider to recommend a benefit increase to the General Assembly based on the results of the December 31, 2023 valuation:

- The most recent June-over-June increase in the CPI-U is 2.97%. Consequently, the maximum benefit improvement[1] is $5.
- The increase in the AAL and Normal Cost for certain proposed benefit improvements:

	$ Improvement				
	$1	$2	$3	$4	$5
Increase in AAL	$ 2,948,136	$ 5,896,272	$ 8,844,408	$ 11,792,544	$ 14,740,680
% increase in AAL	0.56%	1.13%	1.69%	2.25%	2.82%
Increase in Normal Cost	$ 38,819	$ 77,637	$ 116,456	$ 155,274	$ 194,093

- The BIFR for certain proposed benefit improvements:

	$ Improvement				
	$1	$2	$3	$4	$5
(1) Full Actuarial Cost of Proposed Benefit Improvement	$ 2,986,955	$ 5,973,909	$ 8,960,864	$ 11,947,818	$ 14,934,773
(2) FRSWPF Actuarial Accrued Liability as of 12/31/2023	523,078,443	523,078,443	523,078,443	523,078,443	523,078,443
(3) FRSWPF Actuarial Value of Assets as of 12/31/2023	541,506,390	541,506,390	541,506,390	541,506,390	541,506,390
(4) Underlying ADEC for FYE 6/30/2026	1,843,962	1,843,962	1,843,962	1,843,962	1,843,962
(5) Policy Contribution without Benefit Increase FYE 6/30/2026	20,752,208	20,752,208	20,752,208	20,752,208	20,752,208
(6) Total Adjustment (2)-(3)+(4)-(5), only if less than $0	(37,336,193)	(37,336,193)	(37,336,193)	(37,336,193)	(37,336,193)
BIFR: (1) + (6), not less than $0	$ -	$ -	$ -	$ -	$ -

- As the current member contribution rate is close to a 50% share of the normal cost, no benefit improvements will trigger a member contribution increase.
  - The $15 per month member contribution as of 1/1/2025 is sufficient to pay for the increase in normal cost for permissible improvement
  - This decreases the member percent share of total normal cost from 47.79% to 47.57% for a $1 improvement or from 47.79% to 46.69% for the maximum $5 improvement, inclusive of benefit and member contribution increases

[1]An increase in the monthly benefit, from the current $175 monthly benefit as of 1/1/2025, for participants who are already retired as well as those who retire in the future.

Valuation results (continued)

State Contribution Rate Stabilization Policy (continued)

Benefit Enhancements	Additional Disclosures	Projections

Metrics the Board must use in recommending benefit improvements and member contribution increases based on the December 31, 2023 valuation are as follows:

				$ Improvement		
	Valuation	$1	$2	$3	$4	$5
Total normal cost	7,308,484	7,347,303	7,386,121	7,424,940	7,463,758	7,502,577
Normal cost rate	335.51	337.30	339.08	340.86	342.64	344.42
Expense rate	41.11	41.11	41.11	41.11	41.11	41.11
Total normal cost rate	376.62	378.41	380.19	381.97	383.75	385.53
State's rate	196.62	198.41	200.19	201.97	203.75	205.53
Employee rate ($15 per month)	180.00	180.00	180.00	180.00	180.00	180.00
Employee rate as a % of the total rate	47.79%	47.57%	47.34%	47.12%	46.91%	46.69%
Increase in EE rate to get close to a 50/50						
State/EE split in the rate ($15 per month)		180.00	180.00	180.00	180.00	180.00
EE cont as a % of the total rate		47.57%	47.34%	47.12%	46.91%	46.69%

Key takeaways

- Key results of the December 31, 2023 valuation were:
  - Market value returns of 10.17% during calendar year 2023 compared to 6.5% assumed
  - Continuation of direct-rate smoothing of the change in the employer contribution rate due to the changes in assumptions and methods over a 5-year period
  - Employer contributions under the State Contribution Rate Stabilization Policy (SCRSP) significantly exceeded the actuarially determined employer contribution (ADEC)
  - Effective January 1, 2025:
    - Monthly benefits were increased from $170 to $175; and
    - Required monthly employee contributions increased from $10 to $15.
    - In total, these changes increased liabilities by $14.2 million.

Key takeaways (continued)

- When compared to the December 31, 2022 actuarial valuation, the previous resulted in:
  - A lower funded ratio (103.5% in the December 31, 2023 valuation compared to 104.1% in the December 31, 2022 valuation)
  - A lower actuarially determined employer contribution ($1,843,962 for fiscal year ending June 30, 2026 compared to $2,350,959 for fiscal year ending June 30, 2025)
- Recommended contribution under the State Contribution Rate Stabilization Policy (SCRSP) of $20,752,208 for FYE 2026, which is the greater of:
  - The ADEC of $1,843,962 and
  - The FYE 2025 recommendation of $20,402,208, plus $350,000

Key takeaways (continued)

FRSWPF is well funded compared to its peers. This is due to:

- Stakeholders working together to keep FRSWPF well-funded since inception
- A history of appropriating and contributing the recommended contribution requirements
- Implementation of SCRSP, which provides additional funding
- Assumptions that in aggregate are more conservative than peers
- A funding policy that aggressively pays down unfunded liability over a 12-year period
- Modest changes in benefits when compared to peers

Continued focus on these measures will be needed to maintain the solid status of FRSWPF well into the future.

Certification

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: fund experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. Such changes in law may include additional costs resulting from future legislated benefit improvements or cost-of-living pension increases or supplements, which are not anticipated in the actuarial valuation. Because of limited scope, Gallagher performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information. Information contained in our report for plan years from December 31, 2017, to December 31, 2020, is based on valuations performed by the prior actuarial firm.

The purpose of this presentation is to provide a summary of the actuarial valuation results to the Board at the October 24, 2024 meeting attended by the actuaries. Use of this report for any other purposes may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of this presentation for that purpose. This presentation should not be provided without a copy of the full valuation report. Because of the risk of misinterpretation of actuarial results, you should ask Gallagher Benefit Services, Inc. (hereinafter “Gallagher”) to review any statement you wish to make on the results contained in this presentation. Gallagher will not accept any liability for any such statement made without prior review.

This presentation is considered part of the annual actuarial valuation report. Please see below for full description of data, actuarial assumptions and methods, plan provisions, and other applicable disclosures.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. We are Fellows of the Society of Actuaries, Enrolled Actuaries, Members of the American Academy of Actuaries, and Fellows of the Conference of Consulting Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. We are available to discuss this report with you at your convenience.

Michael A. Ribble, FSA, EA, MAAA, FCA

Elizabeth A. Wiley, FSA, EA, MAAA, FCA

Appendix

Supplemental information

Valuation input (continued)

Market value

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology

The table below provides details of the Market Value of Assets for the current and prior year's valuations.

Asset data as of	12/31/2023	12/31/2022
Beginning of year market value of assets	$ 473,505,227	$ 538,379,184
Employer contributions	19,789,708	19,702,208
Employee contributions	2,382,786	2,467,349
Benefit payments other than refunds	(30,894,371)	(30,415,565)
Refunds	(176,639)	(215,355)
Administrative expenses	(937,323)	(890,168)
Investment income	47,652,752	(55,522,426)
Net increase / (decrease)	37,816,913	(64,873,957)
End of year market value of assets	$ 511,322,140	$ 473,505,227
Estimated net investment return on market value (annualized)	10.17%	(10.40)%

FRSWPF assets are held in trust and are invested for the exclusive benefit of plan members.

Incoming contributions currently cover over 69% of the outgoing benefit payments and administrative expenses.

Over the long term, benefit payments and administrative expenses not covered by contributions are expected to be covered with investment income, illustrating the benefits of following actuarial pre-funding since inception.

A detailed summary of the market value of assets is provided in Section 3.

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North Carolina Firefighters' and Rescue Squad Workers' Pension Fund

Report on the Actuarial Valuation
Prepared as of December 31, 2023

October 2024

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October 16, 2024

Board of Trustees
Local Governmental Employees'
Retirement System of North Carolina
3200 Atlantic Avenue
Raleigh, NC 27604

Members of the Board:

We submit herewith our report on the annual valuation of the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund (referred to as "FRSWPF") prepared as of December 31, 2023. The report has been prepared in accordance with North Carolina General Statute 58-86-1 through 58-86-101. Information contained in our report for plan years from December 31, 2017, to December 31, 2020, is based on valuations performed by the prior actuarial firm.

The primary purpose of the valuation report is to determine the required member and employer contribution rates, to describe the current financial condition of FRSWPF, and to analyze changes in such condition. Use of this report for any other purposes or by anyone other than North Carolina Retirement Systems Division (RSD) or Department of State Treasurer staff may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. The attached pages should not be provided without a copy of this cover letter. Because of the risk of misinterpretation of actuarial results, you should ask Gallagher to review any statement you wish to make on the results contained in this report. Gallagher will not accept any liability for any such statement made without prior review.

The valuation is based upon membership data and financial information as furnished by RSD and the Financial Operations Division and as summarized in this report. Although we reviewed for reasonableness and consistency with the prior valuation, these elements have not been audited by Gallagher and we cannot certify as to the accuracy and completeness of the data supplied. Sometimes assumptions are made by Gallagher to interpret membership data that is imperfect. The valuation is also based on benefit and contribution provisions as presented in this report. If you have reason to believe that the plan provisions are incorrectly described, that important plan provisions relevant to this valuation are not described, or that conditions have changed since the calculations were made, you should contact the authors of this actuarial report prior to relying on this information.

The valuation is further based on the actuarial valuation assumptions, approved by the Board of Trustees, as presented in this report. We believe that these assumptions are reasonable and comply with the Actuarial Standards of Practice ("ASOPs") 27 and 35. In our professional judgement, the combined effect of the assumptions is expected to have no significant bias. We prepared this valuation in accordance with the requirements of this standard and in accordance with all applicable ASOPs.

The assumptions used for the December 31, 2023, actuarial valuation are based on the experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021. All assumptions are discussed annually with the appropriate parties, and actuarial gain/loss experience is reviewed during each valuation, to see if any changes are needed. The economic assumptions with respect to investment yield and inflation have been based upon a review of the existing portfolio structure as well as recent and anticipated experience. All assumptions represent an estimate of future experience.

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ASOPs 27 and 35 ask the actuary to disclose the information and analysis used to support the actuary's determination that the assumptions selected by the plan sponsor do not significantly conflict with what, in the actuary's professional judgment, are reasonable for the purpose of the measurement. In the case of the Board's selection of the investment return assumption, the signing actuaries have used economic information and tools provided by Gallagher's Financial Risk Management ("FRM") practice. A spreadsheet tool created by the FRM team converts averages, standard deviations, and correlations from Gallagher's Capital Markets Assumptions ("CMA") that are used for stochastic forecasting into approximate percentile ranges for the arithmetic and geometric average returns. It is intended to suggest possible reasonable ranges for the investment return assumption without attempting to predict or select a specific best estimate rate of return. It takes into account the duration (horizon) of investment and the target allocation of assets in the portfolio to various asset classes. Based on the actuaries' analysis, including consistency with other assumptions used in the valuation, the percentiles generated by the spreadsheet described above, and review of actuarial gain/loss analysis, the actuaries believe the assumptions, in the actuaries' professional judgment, are reasonable for the purpose of the measurement.

Where presented, references to "funded ratio" and "unfunded actuarial accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented may be appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities. In various places in the report the results also show funded ratios and unfunded liabilities based upon varying sets of assumptions as well as market values of assets as that is required for certain disclosure information required per accounting rules or statutes. Where this has been done it has been clearly indicated.

Actuarial Standard of Practice No. 56 ("ASOP 56") provides guidance to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating models. In addition to the spreadsheet model discussed above, Gallagher uses third-party software in the performance of annual actuarial valuations and projections. The model is intended to calculate the liabilities associated with the provisions of the Plan using data and assumptions as of the measurement date under the accounting rules specified in this report. The output from the third-party vendor software is used as input to an internally developed model that applies applicable accounting rules to the liabilities derived and other inputs, such as Plan assets and contributions, to generate many of the exhibits found in this report. Gallagher has an extensive review process whereby the results of the liability calculations are checked using detailed sample output, changes from year to year are summarized by source, and significant deviations from expectations are investigated. Other accounting outputs and the internal model are similarly reviewed in detail and at a high level for accuracy, reasonability, and consistency with prior results. Gallagher also reviews the third-party model when significant changes are made to the software. The review is performed by experts within the company who are familiar with applicable accounting rules as well as the manner in which the model generates its output. If significant changes are made to the internal model, extra checking and review are completed. Significant changes to the internal model that are applicable to multiple clients are generally developed, checked and reviewed by multiple experts within the company who are familiar with the details of the required changes.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: fund experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. Such changes in law may include additional costs resulting from future

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legislated benefit improvements or cost-of-living pension increases or supplements, which are not anticipated in the actuarial valuation. Because of limited scope, Gallagher performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. We are Fellows of the Society of Actuaries, Enrolled Actuaries, Members of the American Academy of Actuaries, and Fellows of the Conference of Consulting Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. We are available to discuss this report with you at your convenience.

Respectfully submitted,

Buck Global, LLC (Buck),
Gallagher Benefit Services, Inc. (hereinafter “Gallagher”)

Michael A. Ribble	Elizabeth A. Wiley
Michael A. Ribble, FSA, EA, MAAA, FCA	Elizabeth A. Wiley, FSA, EA, MAAA, FCA
Principal, Retirement Actuary	Director, Retirement Actuary

Table of Contents

Executive Summary

Overview

The North Carolina Retirement Systems Division (RSD) was established in 1941 to provide retirement benefits for public servants in the State of North Carolina. Today, under the management of the Department of State Treasurer, RSD administers seven public pension plans (defined benefit plans), three supplemental retirement plans (voluntary defined contributions plans), a health trust fund, a disability income plan, death benefit funds and a number of other benefit programs. As of December 31, 2023, the RSD defined benefit plans cover over one million current and prior public servants of the state of North Carolina. During the fiscal year ending June 30, 2024, RSD paid over $7.8 billion in pensions to more than 360,000 retirees. And as of June 30, 2024, RSD's defined benefit plan assets were valued at over $122 billion.

Under the supplemental retirement plans, the amount of contributions in any given year is defined by law. The amount of benefits derived is dependent on the investment returns the individual achieves. Conversely, under the pension plans, the amount of the benefit paid to a member upon retirement, termination, death or disability is defined by law. The amount of contributions needed to fund these benefits cannot be known with certainty. In North Carolina, like other states, these contributions are paid during a public servant's career so that upon retirement, termination, death, or disability, there are funds available to pay these benefits. These amounts are determined through an actuarial valuation. Actuarial valuations are performed for each of the pension plans administered by RSD and the results are contained in actuarial valuation reports like this.

The Firefighters' and Rescue Squad Workers' Pension Fund ("FRSWPF") provides benefits to all paid and volunteer certified firefighters and rescue squad workers. FRSWPF has over $511 million in assets and over 59,000 members as of December 31, 2023. This actuarial valuation report is our annual analysis of the financial health of FRSWPF. This report, prepared as of December 31, 2023, presents the results of the actuarial valuation of the Retirement System.

Purpose

An actuarial valuation will be performed on FRSWPF annually as of the end of the calendar year. The actuary determines the amount of contributions to be made to FRSWPF during each member's career that, when combined with investment return, will be sufficient to pay for retirement benefits.

In addition, the annual actuarial valuation is performed to:

- Determine the progress on funding FRSWPF,
- Explore why the results of the current valuation differ from the results of the valuation of the previous year, and
- Satisfy regulatory and accounting requirements.

A detailed summary of the valuation process and a glossary of actuarial terms are provided in the supplementary document, "State of North Carolina Retirement Systems Actuarial Valuation Report Process and Actuarial Terms Glossary" dated October 2024.

Executive Summary (continued)

Actuarial Comments and Observations

Membership

As with any estimate, the actuary collects information that we know now. Under the actuarial valuation process, current information about FRSWPF members is collected annually by RSD staff at the direction of the actuary. Membership data will assist the actuary in estimating benefits that could be paid in the future. Information about benefit provisions and assets held in the trust as of the valuation date is also collected.

The member information the actuary collects includes data elements such as current service, salary and benefit group identifier for members that have not separated service, and actual benefit amounts and form of payment for members that have separated service. Data elements such as gender and date of birth are used to determine when a benefit might be paid and for how long.

The table below provides a summary of the membership data used in this valuation compared to the prior valuation.

Number as of	12/31/2023	12/31/2022
Active members	25,621	25,263
Lapsed members	18,773	18,005
Disabled members eligible for deferred pensions	99	111
Retired members and survivors of deceased members killed in the Line of Duty currently receiving benefits	15,263	15,014
Total	59,756	58,393

The total number of fully active members increased approximately 1.4% overall from the previous valuation date. The number of retired members increased 1.7% from the previous valuation date.

Members who are not in receipt of benefits and who have not received a refund of employee contributions are split into active members and lapsed members. Lapsed members include members who did not contribute or accrue a year of service in the past year. The return to service assumption assumes that a lapsed member returns to active service at a rate based on the number of years that the member has been lapsed.

The number of retired members and the benefits paid to these members has been increasing steadily, as expected based on plan assumptions.

A detailed summary of the membership data used in this valuation is provided in Section 2 and Appendix A of this report.

Executive Summary (continued)

Assets

FRSWPF assets are held in trust and are invested for the exclusive benefit of plan members. The market value of assets is $511 million as of December 31, 2023 and $474 million as of December 31, 2022. The estimated net investment return for the market value of assets for calendar year 2023 was 10.17%.

Market value returns during 2023 were higher than the 6.50% assumed rate of return, resulting in a lower required contribution and higher funded ratio than anticipated.

The actuarial value of assets smooths investment gains and losses. The actuarial value of assets is $541.5 million as of December 31, 2023 and $522.1 million as of December 31, 2022. The market value of assets is less than the actuarial value of assets, which is used to determine employer contributions. This indicates that overall, there are unrecognized asset losses to be recognized in future valuations.

Lower than expected market returns in 2022, partially offset by higher than expected market returns in 2020, 2021 and 2023, resulted in an actuarial value of asset return for calendar year 2023 of 5.65% and a recognized actuarial asset loss of $4.4 million during 2023. After recognizing this loss, the assets at actuarial value were $18.4 million more than the actuarial accrued liability as of December 31, 2023.

Based on historical market returns, the current asset allocation, the current investment policy, and the expectation of future asset returns, as reviewed in the last experience study, the 6.50% discount rate used in this valuation is reasonable and appropriate.

A detailed summary of asset information is provided in Section 3 of this report.

Benefit Provisions

Many public sector retirement systems in the United States have undergone pension reform where the benefits of members (active or future members) have been reduced. Because of the well-funded status of the Retirement System due to the legislature contributing the actuarially required contribution, benefit cuts have not been needed in North Carolina as they have been in most other states. However, if North Carolina's investment policy shifts substantively, the system should review likely impacts of the shift and consider corresponding changes to actuarial assumptions, funding policy and/or benefit levels.

Session Law 2024-29 enacted legislation that increased the monthly benefit from $170 to $175 and the required monthly employee contribution from $10 to $15. Subsequently, Session Law 2024-42 made such legislative changes effective January 1, 2025. These legislative changes have been reflected in this valuation.

A detailed summary of the benefit provisions is provided in Appendix B of this report.

Actuarial Assumptions

Actuarial assumptions bridge the gap between the information that we know with certainty as of the valuation date (age, gender, service, and benefits of the members) and what may happen in the future. The actuarial assumptions of the Retirement System are reviewed at least every five years. Based on this review, the actuary will make recommendations on the demographic and economic assumptions.

Demographic assumptions describe future events that relate to people such as retirement rates, termination rates, disability rates, and mortality rates. Economic assumptions describe future events that relate to the Retirement System's assets such as the interest rate and the real return.

The assumptions used for the December 31, 2023 actuarial valuation are based on the experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

The assumptions and methods were not changed since the prior valuation.

Executive Summary (continued)

Funding Methodology

When compared to other public sector retirement systems in the United States, the funding policy for FRSWPF is quite aggressive in that the policy pays down the unfunded actuarial accrued liability over a much shorter period of time (12 years) compared to most other public sector retirement systems. As such it is a best practice in the industry.

A detailed summary of the actuarial methods is provided in Appendix C of this report.

Liabilities

The actuarial accrued liability (AAL) increased from $501.8 million to $523.1 million during 2023. FRSWPF is an open plan, which means that new members enter the plan each year. In an open plan, liabilities are expected to grow from one year to next as more benefits accrue and the membership approaches retirement. The AAL was $1.3 million, or 0.2%, less than the expected AAL as a result of demographic experience. In addition, the AAL increased by $14.2 million as a result of benefit changes described in Session Law 2024-29, as amended by Session Law 2024-42.

A detailed summary of the AAL is provided in Section 4 of this report.

Funded Ratio

The funded ratio is a measure of the progress that has been made in funding the plan as of the valuation date. It is the ratio of how much money the Retirement System actually has in the fund to the amount the FRSWPF should have in the fund.

The ratio of assets to liabilities shows the health of the plan on an accrued basis. The funded ratio on an actuarial basis decreased from 104.1% as of December 31, 2022 to 103.5% at December 31, 2023.

Unfunded Actuarial Accrued Liability

The unfunded actuarial accrued liability (UAAL) is the portion of actuarial accrued liability that is not covered by the assets of the Retirement System. The actuarial value of assets basis is used for computing contributions to alleviate contribution volatility. The difference in the actuarial accrued liability and the actuarial value of assets is the amount of unfunded actuarial accrued liability to be paid off over a 12-year period.

The UAAL increased from $(20.4) million as of December 31, 2022 to $(18.4) million as of December 31, 2023. A detailed reconciliation of the UAAL can be found in Section 4 of this report.

Contributions

The December 31, 2022 valuation suggested that the preliminary total employer contribution be set at $2,350,959 for the fiscal year ending June 30, 2025 subject to the SCRSP (which would suggest a contribution of at least $20,402,208) and the impact of any future legislative changes effective during that fiscal year. As a result of the December 31, 2023 valuation, the preliminary actuarially determined employer contribution is $1,843,962 for the fiscal year ending June 30, 2026, subject to the SCRSP (which would suggest a contribution of at least $20,752,208) and the impact of any future legislative changes effective during that fiscal year.

Based on the December 31, 2022, valuation, the current SCRSP minimum contribution rate for FYE 2025 of $20,402,208 appears to provide sufficient funding to meet the Benefit Improvement Funding Requirement (BIFR) required in the funding policy to account for the potential impact of Session Law 2024-29 and Session Law 2024-42. In other words, no additional funding beyond the current SCRSP minimum contribution rate is required for FYE 2025. The SCRSP minimum contribution rate for FYE 2026 is determined on the basis of this December 31, 2023, valuation, which reflect such benefit improvements.

Executive Summary (continued)

The actuarially determined employer contribution is the amount needed to pay for the cost of the benefits accruing and to pay off the unfunded actuarial accrued liability over a 12-year period, offset for the $15 monthly contribution the members make until they attain 20 years of service. The 12-year period is a relatively short period for public sector retirement systems in the United States, with the funding period for most of these systems much longer. The shorter period results in higher contributions and more benefit security.

A detailed summary of the actuarially determined employer contributions rates is provided in Section 5 of this report.

Risk

Actuarial Standard of Practice No. 51 ("ASOP 51") requires certain disclosures of potential risks to the plan and provides useful information for intended users of actuarial reports that determine plan contributions for evaluate the adequacy of specified contribution levels to support benefit provision.

Measuring pension obligations and actuarially determined contributions requires the use of assumptions regarding future economic and demographic experience. Whenever assumptions are made about future events, there is risk that actual experience will differ from expected. Actuarial valuations include the risk that actual future measurements will deviate from expected future measurements due to actual experience that is different than the actuarial assumptions.

The primary areas of risk in the actuarial valuation are:

- Investment Risk – the potential that investment returns will be different than expected.
- Longevity and Other Demographic Risks – the potential that morality or other demographic experience will be different than expected.
- Interest Rate Risk – To the extent market rates of interest affect the expected return on assets, there is a rick of change to the discount rate which determines the present value of liabilities and actuarial valuation results.
- Contribution Rick – The potential that actual contributions are different than the actuarially determined contributions.

Annual actuarial valuations are performed for RSD which re-measure the assets and liabilities and compute a new actuarially determined contribution. RSD also has experience studies performed every five years to analyze the discrepancies between actuarial assumptions and actual experience and determine if the actuarial assumptions need to be changed. Annual actuarial valuations and periodic experience studies are practical ways to monitor and reassess risk.

Key Takeaways

The actuarial valuation is performed each year to replace the estimates the actuary assumed for the prior valuation with the actual events that happened. This past year, as expected, some of the assumptions used in the prior valuation were not realized. Key results of the December 31, 2023 valuation were:

- Market value returns of 10.17% during calendar year 2023 compared to 6.50% assumed
- Continuation of direct-rate smoothing of the change in the employer contribution rate due to the changes in assumptions and methods over a 5-year period
- Employer contributions under the State Contribution Rate Stabilization Policy (SCRSP) significantly exceeded the actuarially determined employer contribution (ADEC)

Executive Summary (continued)

- Recommended contribution under SCRSP of $20,752,208 for FYE 2026, which is the greater of:
  - The ADEC of $1,843,962 and
  - The FYE 2025 recommendation of $20,402,208, plus $350,000

In addition, effective January 1, 2025, the following benefit improvements are effective, and have been reflected in this valuation:

- Monthly benefits were increased from $170 to $175; and
- Required monthly employee contributions were increased from $10 to $15.
- In total, these changes increased liabilities by $14.2 million.

When compared to the December 31, 2022 actuarial valuation, the above resulted in:

- A lower funded ratio (103.5% in the December 31, 2023 valuation compared to 104.1% in the December 31, 2022 valuation)
- A lower actuarially determined employer contribution ($1,843,962 for fiscal year ending June 30, 2026 compared to $2,350,959 for fiscal year ending June 30, 2025)

FRSWPF is well funded compared to its peers. This is due to:

- Stakeholders working together to keep FRSWPF well-funded
- A history of appropriating and contributing a minimum of the recommended contribution requirements
- Implementation of SCRSP, which provides additional funding
- Assumptions that in aggregate are more conservative than peers
- A funding policy that aggressively pays down unfunded liability over a 12-year period
- Modest changes in benefits when compared to peers

Continued focus on these measures will be needed to maintain the solid status of FRSWPF well into the future.

This report, prepared as of December 31, 2023, presents the results of the annual valuation of the system. The principal results of the valuation and a comparison with the preceding year's results are summarized in the following table.

Section 1: Principal Results

This report, prepared as of December 31, 2023, presents the results of the actuarial valuation of the system. The principal results of the valuation and a comparison with the preceding year's results are summarized below.

Table 1: Summary of Principal Results

Valuation results as of	12/31/2023	12/31/2022
Active Members		
Non-lapsed Members	25,621	25,263
Lapsed Members	18,773	18,005
Retired Members and Survivors of Deceased Members Killed in the Line of Duty Currently Receiving Benefits		
Number	15,263	15,014
Annual Allowances	$ 31,136,520	$ 30,628,183
Number of Deferred Members	99	111
Assets		
Actuarial Value (AVA)	$ 541,506,390	$ 522,126,681
Market Value	$ 511,322,140	$ 473,505,227
Actuarial Accrued Liability (AAL)	$ 523,078,443	$ 501,766,052
Unfunded Accrued Liability (AAL-AVA)	$ (18,427,947)	$ (20,360,629)
Funded Ratio* (AVA/AAL)	103.5%	104.1%
Results for Fiscal Year Ending	**6/30/2026**	**6/30/2025**
Actuarially Determined Employer Contribution (ADEC)		
Normal Cost	$ 4,483,526	$ 5,526,195
Accrued Liability	(2,458,732)	(2,813,572)
Total	$ 2,024,794	$ 2,712,623
Total Based on Direct Rate Smoothing	$ 1,843,962	$ 2,350,959
Impact of Legislative Changes	Not Final	Not Final**
Final ADEC	Not Final	Not Final**
SCRSP Minimum Contribution Rate	$ 20,752,208	$ 20,402,208
Appropriations Act for Fiscal Year Ending	**6/30/2026**	**6/30/2025**
Legislative Appropriation	Not Final	Not Final

* The Funded Ratio on a Market Value of Assets basis is 97.8% as of December 31, 2023.

** Session Law 2023-134, enacted in 2023, established an appropriation for fiscal year ending June 30, 2025. However, it remains possible that an adjustment for the second year of the budget biennium will be enacted.

Section 2: Membership Data

The RSD provided membership data as of the valuation date for each member of the Retirement System. The membership data assists the actuary in estimating benefits that could be paid in the future. The tables below provide a summary of the membership data used in this valuation. Detailed tabulations of data are provided in Appendix A.

Table 2: Summary of Member Data

Number as of	12/31/2023	12/31/2022
Active members	25,621	25,263
Lapsed members	18,773	18,005
Disabled members eligible for deferred pensions	99	111
Retired members and survivors of deceased members killed in the Line of Duty currently receiving benefits	15,263	15,014
Total	59,756	58,393

Table 3: Active Member Data

	Member Count	Average Age	Average Service
Lapsed Members	18,773	42.65	5.90
Active Members	25,621	39.61	11.13
Total	44,394	40.89	8.92

The table above includes members who are not in receipt of benefits and who have not received a refund of employee contributions. Lapsed members include members who did not contribute or accrue a year of service in the past year.

Table 4: Data for Members Currently Receiving Benefits

Member Count	Average Age	Annual Retirement Allowances*
15,263	69.25	$ 31,136,520

Table 5: Data for Disabled Members Eligible for Deferred Pensions

Member Count	Average Age	Annual Retirement Allowances*
99	51.77	$ 201,960

* Does not reflect the increase in monthly benefits from $170 per month to $175 per month effective January 1, 2025.

Section 3: Asset Data

Assets are held in trust and are invested for the exclusive benefit of FRSWPF members. The tables below provide the details of the market value of assets for the current and prior years' valuations.

Table 6: Market Value of Assets

Asset Data as of	12/31/2023	12/31/2022
Beginning of Year Market Value of Assets	$ 473,505,227	$ 538,379,184
Employer Contributions	19,789,708	19,702,208
Employee Contributions	2,382,786	2,467,349
Benefit Payments Other than Refunds	(30,894,371)	(30,415,565)
Refunds	(176,639)	(215,355)
Administrative Expenses	(937,323)	(890,168)
Investment Income	47,652,752	(55,522,426)
Net Increase/(Decrease)	37,816,913	(64,873,957)
End of Year Market Value of Assets	$ 511,322,140	$ 473,505,227
Estimated Net Investment Return on Market Value (Annualized)	10.17%	(10.40)%

Table 7: Allocation of Investments by Category of the Market Value of Assets

Category	12/31/2023	12/31/2022
Allocation by Dollar Amount		
Public Equity	$ 193,064,611	$ 158,533,849
Fixed Income (LTIF)	128,981,675	109,807,697
Cash and Receivables	59,730,368	75,936,806
Other*	129,545,486	129,226,875
Total Market Value of Assets	$ 511,322,140	$ 473,505,227
Allocation by Percentage of Asset Value		
Public Equity	37.8%	33.5%
Fixed Income (LTIF)	25.2%	23.2%
Cash and Receivables	11.7%	16.0%
Other*	25.3%	27.3%
Total Market Value of Assets	100.0%	100.0%

* Real Estate, Alternatives, Inflation and Credit

Section 3: Asset Data (continued)

In order to reduce the volatility that investment gains and losses can have on the required contributions and funded status of FRSWPF, the Board adopted an asset valuation method to determine the Actuarial Value of Assets used for funding purposes. The table below provides the calculation of the Actuarial Value of Assets at the valuation date.

Table 8: Actuarial Value of Assets

Asset Data as of		12/31/2023
Beginning of Year Actuarial Value of Assets	$	522,126,681
Beginning of Year Market Value of Assets	$	473,505,227
Contributions		22,172,494
Benefit Payments, Refunds and Administrative Expenses		(32,008,333)
Net Cash Flow		(9,835,839)
Expected Investment Return		30,463,207
Expected End of Year Market Value of Assets		494,132,595
End of Year Market Value of Assets		511,322,140
Excess of Market Value over Expected Market Value of Assets		17,189,545
80% of 2023 Asset Gain/(Loss)		13,751,636
60% of 2022 Asset Gain/(Loss)		(54,130,760)
40% of 2021 Asset Gain/(Loss)		6,369,156
20% of 2020 Asset Gain/(Loss)		3,825,718
Total Deferred Asset Gain/(Loss)		(30,184,250)
Preliminary End of Year Actuarial Value of Assets		541,506,390
Final End of Year Actuarial Value of Assets (not less than 80% and not greater than 120% of Market Value)		541,506,390
Estimated Net Investment Return on Actuarial Value		5.65%

Commentary: The actuarial value of assets smooths investment gains/losses on the market value of assets over a five-year period resulting in less volatility in the actuarially determined employer contribution. The asset valuation recognizes asset returns in excess of or less than the expected return on the market value of assets over a five-year period.

Continued recognition of the 2022 asset loss resulted in a lower than expected return on the actuarial value of assets for calendar year 2023 of 5.65% and a recognized actuarial asset loss of $4.4 million during 2023.

Section 3: Asset Data (continued)

The valuation assumes that the funds will earn a 6.50% asset return in all future years. The table below provides a history of the Actuarial Value and Market Value of Asset returns.

Table 9: Historical Asset Returns

Year	Actuarial Value of Asset Return	Market Value of Asset Return
2014	7.42%	6.24%
2015	5.87%	0.35%
2016	5.33%	6.24%
2017	6.54%	13.33%
2018	5.08%	(1.40%)
2019	6.19%	14.87%
2020	8.80%	11.22%
2021	9.18%	9.72%
2022	4.56%	(10.40%)
2023	5.65%	10.17%
10-Year Average	6.45%	5.76%
10-Year Range	4.62%	25.27%

Commentary: The average investment return recognized for purposes of determining the annual change in contribution each year is the actuarial value of assets return. Currently, the average actuarial return over the last 10 years of 6.45% compares with an average market return of 5.76%. But the range of returns on market value is markedly more volatile, 25.27% versus 4.62%. This results in much lower actuarially determined employer contribution volatility using the actuarial value of assets versus market, while ensuring that the actuarial needs of FRSWPF are met.

Section 4: Liability Results

Using the provided membership data, benefit provisions, and actuarial assumptions, future benefit payments of FRSWPF are estimated. These projected future benefit payments are discounted into today's dollars using the assumed rate of investment return assumption to determine the Present Value of Future Benefits. The Present Value of Future Benefits is allocated to past, current, and future service, respectively known as the actuarial accrued liability, normal cost and present value of future normal costs. The table below provides these liability numbers for the current and prior years' valuations.

Table 10: Liability Summary

Valuation Results as of	12/31/2023	12/31/2022
(a) Present Value of Future Benefits		
(1) Active Members*	$ 271,850,518	$ 259,946,460
(2) Members Currently Receiving Benefits and Members with Deferred Benefits	304,315,997	292,774,098
(3) Total	$ 576,166,515	$ 552,720,558
(b) Present Value of Future Normal Costs		
(1) Employee Future Normal Costs	$ 26,422,528	$ 18,240,313
(2) Employer Future Normal Costs	26,665,544	32,714,193
(3) Total	$ 53,088,072	$ 50,954,506
(c) Actuarial Accrued Liability: (a3) - (b3)	$ 523,078,443	$ 501,766,052
(d) Actuarial Value of Assets	$ 541,506,390	$ 522,126,681
(e) Unfunded Accrued Liability: (c) - (d)	$ (18,427,947)	$ (20,360,629)

* Includes present value of future members for lapsed members whose service did not increase during 2023.

The table below provides an allocation of the total present value of future benefits by funding source.

Table 11: Funding Allocation

	12/31/2023	12/31/2022
Allocation by Dollar Amount		
Assets (Actuarial Value)	$ 541,506,390	$ 522,126,681
Future Employee Contributions	26,422,528	18,240,313
Future Normal Contributions	26,665,544	32,714,193
Present Value of Funded Benefits	$ 594,594,462	$ 573,081,187
Present Value of Unfunded Benefits	(18,427,947)	(20,360,629)
Total Present Value of Benefits	$ 576,166,515	$ 552,720,558
Allocation by Percentage of PVB		
Assets (Actuarial Value)	94.0%	94.5%
Future Employee Contributions	4.6%	3.3%
Future Normal Contributions	4.6%	5.9%
Present Value of Funded Benefits	103.2%	103.7%
Present Value of Unfunded Benefits	(3.2%)	(3.7%)
Total Present Value of Benefits	100.0%	100.0%

Section 4: Liability Results (continued)

The table below provides a reconciliation of the prior year's unfunded actuarial accrued liability to the current year's unfunded actuarial accrued liability.

Table 12: Reconciliation of Unfunded Actuarial Accrued Liability (in millions)

(in millions)		
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2022	$	(20.4)
Normal Cost and Administrative Expenses during 2023		8.3
Reduction due to Actual Contributions during 2023		(22.2)
Interest on UAAL, Normal Cost, and Contributions		(1.4)
Asset (Gain)/Loss		4.4
Actuarial Accrued Liability (Gain)/Loss		(1.3)
Impact of Assumption Changes		0.0
Impact of Legislative Changes		14.2
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2023	$	(18.4)

Commentary: During 2023, the UAAL is greater than expected due to an asset loss during the year that increased the UAAL by $4.4 million and legislative changes that increased the UAAL by $14.2 million, offset by a gain of $22.2 million due to SCRSP contributions, which exceeded the actuarially determined contribution and a demographic experience gain of $1.3 million.

Section 5: Actuarially Determined Employer Contribution

The actuarially determined employer contribution (ADEC) consists of a normal cost contribution and an accrued liability contribution. The normal cost contribution is the employer's portion of the cost of benefits accruing during the year after reducing for the member contribution. The accrued liability contribution is the payment toward the unfunded actuarial accrued liability in order to pay off the unfunded actuarial accrued liability over 12 years.

The ADEC is compliant with the definition of a reasonable actuarially determined contribution under ASOP 4. When determining the smoothing period for the actuarial value of assets and the amortization period for the unfunded actuarial accrued liability, the following items were considered: (i) the balance among benefit security, intergenerational equity, and stability of actuarially determined contributions, (ii) the timing and duration of expected benefit payments, and (iii) the nature and frequency of plan amendments. Plan amendments are amortized over periods appropriate for the nature of the change or are funded at the time of the change based on decisions by the plan sponsor.

The State Contribution Rate Stabilization Policy (SCRSP) adopted by the Board of Trustees on April 29, 2021, requires that recommended contributions for a given fiscal year will be the greater of:

(1) The underlying actuarially determined employer contribution rate for the fiscal year, or

(2) The appropriation that the Board recommended for the current fiscal year plus $350,000

Appendix E contains a full description of the SCRSP policy.

The table below provides the calculation of the actuarially determined employer contribution for the current and prior years' valuations.

Table 13: Calculation of Actuarially Determined Employer Contribution (ADEC) Payable per Active Member

Valuation Date	12/31/2023	12/31/2022
ADEC for Fiscal Year Ending	6/30/2026	6/30/2025
Normal Cost Rate Calculation		
(a) Total Normal Rate	$ 335.51	$ 326.26
(b) Employee Normal Cost	$ 180.00	$ 120.00
(c) Employer Normal Cost: (a) - (b)	$ 155.51	$ 206.26
(d) Expenses Rate*	$ 41.11	$ 39.60
(e) Total Normal Cost Rate: (c) + (d)	$ 196.62	$ 245.86
Accrued Liability Rate Calculation		
(f) Total Annual Amortization Payments**	$ (2,458,732)	$ (2,813,572)
(g) Active Member Count***	22,803	22,477
(h) Accrued Liability Rate: (f) / (g)	$ (107.82)	$ (125.18)
Total ADEC (e) + (h)	$ 88.80	$ 120.68

* Based on actual expenses during the previous year.

** See Table 17 for more detail.

*** The active member count reflects the number of currently active or lapsed members who are expected to accrue additional benefits in the next year.

Section 5: Actuarially Determined Employer Contribution (continued)

Table 14: Actuarially Determined Employer Contribution (ADEC)

The tables below provide the calculation of the actuarially determined employer contribution (ADEC) for the current and prior years' valuations.

Valuation Date		12/31/2023		12/31/2022
ADEC for Fiscal Year Ending		6/30/2026		6/30/2025
(a) Current Active Member Count*		22,803		22,477
(b) Normal Cost Rate	$	196.62	$	245.86
(c) Normal Cost Contribution: (a) x (b)	$	4,483,526	$	5,526,195
(d) Accrued Liability Contribution		(2,458,732)		(2,813,572)
(e) Total ADEC: (c) + (d)	$	2,024,794	$	2,712,623
(f) ADEC: Direct Rate Smoothing	$	1,843,962	$	2,350,959
Impact of Legislative Changes		N/A		0
Final ADEC		N/A	$	2,350,959
SCRSP Minimum Contribution	$	20,752,208	$	20,402,208

* The active member count reflects the number of currently active or lapsed members who are expected to accrue additional benefits in the next year.

The table below provides a reconciliation of the actuarially determined employer contribution (ADEC).

Table 15: Reconciliation of the Change in the ADEC

Fiscal year ending June 30, 2025 Preliminary ADEC (estimated based on December 31, 2022 Valuation)	2,350,959
Impact of Legislative Changes	0
Fiscal year ending June 30, 2025 Final ADEC	2,350,959
Change Due to Demographic (Gain)/Loss	(98,856)
Change Due to Payoff of Unfunded Liability Base established in June 30, 2012, valuation	(494,704)
Change Due to Investment (Gain)/Loss	701,071
Change Due to Contributions Greater than ADEC	(1,560,169)
Impact of Plan Changes	764,829
Impact of Assumption Changes	0
Impact of Direct Rate Smoothing	180,832
Fiscal year ending June 30, 2026 Preliminary ADEC (estimated based on December 31, 2023 Valuation)	1,843,962

Section 5: Actuarially Determined Employer Contribution (continued)

Amortization methods determine the payment schedule for the unfunded actuarial accrued liability. FRSWPF adopted a 12-year closed amortization period for fiscal year ending 2012. A new amortization base is created each year based on the prior years' experience. The tables below provide the calculation of the new amortization base and the amortization schedule for the current year's valuation.

Table 16: Calculation of the New Amortization Base

Calculation as of			12/31/2023		12/31/2022
(a)	Unfunded Actuarial Accrued Liability	$	(18,427,947)	$	(20,360,629)
(b)	Prior Years' Outstanding Balances	$	(24,936,181)	$	(21,737,983)
(c)	New Amortization Base: (a) - (b)	$	6,508,234	$	1,377,354
(d)	New Amortization Payment	$	849,544	$	179,791

Table 17: Amortization Schedule for Unfunded Actuarial Accrued Liability

Date Established		Original Balance		12/31/2023 Outstanding Balance		Annual Payment Effective July 1, 2025
June 30, 2011	$	8,122,313	$	520,279	$	-
June 30, 2012		3,813,072		707,997		-
December 31, 2012		(11,374,070)		(4,770,829)		(1,519,055)
December 31, 2013		(4,939,476)		(2,577,193)		(657,787)
December 31, 2014		14,577,214		8,995,927		1,935,502
December 31, 2015		5,571,626		3,931,066		737,095
December 31, 2016		5,881,084		4,632,868		775,156
December 31, 2017		(1,528,072)		(1,323,076)		(201,047)
December 31, 2018		(1,522,520)		(1,427,319)		(199,673)
December 31, 2019		(8,622,566)		(8,645,228)		(1,125,535)
December 31, 2020		(24,765,426)		(26,447,555)		(3,232,723)
December 31, 2022		1,377,354		1,466,882		179,791
December 31, 2023		6,508,234		6,508,234		849,544
Total			$	(18,427,947)	$	(2,458,732)

Commentary: This is the payment schedule for the unfunded actuarial accrued liability of FRSWPF.

Section 5: Actuarially Determined Employer Contribution (continued)

The table below provides a history of the actuarially determined employer contribution and the corresponding appropriated rate.

Table 18: History of Actuarially Determined Employer Contributions and Appropriated Rates

Valuation Date	Fiscal Year Ending	Preliminary ADEC	Subsequent Changes to ADEC	Final ADEC	Appropriated Rate
12/31/2023	6/30/2026	$ 1,843,962	Not Final	Not Final	Not Final
12/31/2022	6/30/2025	2,350,959	-	Not Final	Not Final
12/31/2021	6/30/2024	3,253,378	-	3,253,378	20,052,208
12/31/2020	6/30/2023	13,086,519	-	13,086,519	19,702,208
12/31/2019	6/30/2022	15,182,523	-	15,182,523	19,352,208

Appendix A: Detailed Tabulations of Member Data

Table A-1: The Number of Active and Lapsed Members Distributed by Age and Service as of December 31, 2023

	Years of Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	Total
Under 25	508	2,072	240	0	0	0	0	0	0	0	2,820
25 to 29	611	2,615	1,817	259	0	0	0	0	0	0	5,302
30 to 34	705	2,429	1,900	1,365	234	1	0	0	0	0	6,634
35 to 39	590	2,061	1,512	1,282	1,149	188	1	0	0	0	6,783
40 to 44	363	1,613	1,196	936	986	861	107	3	0	0	6,065
45 to 49	269	1,222	954	799	746	954	591	119	1	0	5,655
50 to 54	214	1,081	803	631	646	1,036	812	571	78	1	5,873
55 to 59	121	709	562	443	396	327	138	93	39	1	2,829
60 to 64	78	362	293	268	230	113	20	13	3	3	1,383
65 to 69	33	144	137	105	119	35	9	1	0	1	584
70 & Up	35	126	111	83	73	31	2	3	2	0	466
Total	3,527	14,434	9,525	6,171	4,579	3,546	1,680	803	123	6	44,394

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-2: The Number of Active and Lapsed Members Distributed by Age as of December 31, 2023

Age	Active Members Number	Lapsed Members Number
18	9	
19	139	
20	270	9
21	385	48
22	467	92
23	517	128
24	522	234
25	594	252
26	590	339
27	702	403
28	719	482
29	718	503
30	713	492
31	722	546
32	758	570
33	801	574
34	838	620
35	804	613
36	767	565
37	766	600
38	779	556
39	780	553
40	716	511
41	758	540
42	711	524
43	693	485
44	634	493
45	649	500
46	620	530
47	669	510
48	565	502
49	627	483
50	661	480
51	658	507
52	648	529
53	696	552
54	611	531
55	402	467
56	262	317
57	225	272

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-2: The Number of Active and Lapsed Members Distributed by Age as of December 31, 2023 (continued)

Age	Active Members Number	Lapsed Members Number
58	208	266
59	159	251
60	170	209
61	141	169
62	116	165
63	99	127
64	82	105
65	67	89
66	73	60
67	38	68
68	45	50
69	51	43
70	30	42
71	36	30
72	20	33
73	27	25
74	23	17
75	21	19
76	10	14
77	10	8
78	7	8
79	6	6
80	3	15
81	7	6
82	3	7
83	2	5
84		5
85	1	2
86		6
87		3
88		1
89	1	2
90		1
91		1
92		2
93		1
Total	25,621	18,773

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-3: The Number of Active and Lapsed Members Distributed by Service as of December 31, 2023

Service	Active Members Number	Lapsed Members Number
0	787	2,740
1	1,914	2,960
2	1,542	2,278
3	1,393	1,792
4	1,216	1,339
5	1,256	1,077
6	1,392	847
7	1,152	669
8	1,026	578
9	1,039	490
10	977	444
11	1,065	392
12	797	319
13	844	279
14	804	250
15	737	217
16	942	180
17	710	151
18	728	140
19	647	126
20	645	189
21	542	256
22	514	215
23	435	168
24	451	131
25	292	102
26	316	85
27	255	79
28	255	68
29	174	54
30	179	54
31	186	31
32	126	33
33	109	15
34	59	11
35	52	8
36	30	4
37	21	2
38	4	
39	2	
41	2	
42	3	
48	1	
Total	25,621	18,773

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-4: The Number and Annual Retirement Allowances of Retired Members Distributed by Age as of December 31, 2023

Age	Number	Allowances*
55	258	$ 526,320
56	513	1,046,520
57	518	1,056,720
58	497	1,013,880
59	547	1,115,880
60	610	1,244,400
61	576	1,175,040
62	606	1,236,240
63	621	1,266,840
64	562	1,146,480
65	624	1,272,960
66	531	1,083,240
67	626	1,277,040
68	556	1,134,240
69	634	1,293,360
70	599	1,221,960
71	590	1,203,600
72	543	1,107,720
73	534	1,089,360
74	483	985,320
75	442	901,680
76	449	915,960
77	464	946,560
78	325	663,000
79	340	693,600
80	324	660,960
81	334	681,360
82	232	473,280
83	223	454,920
84	200	408,000
85	169	344,760
86	130	265,200
87	113	230,520
88	127	259,080
89	101	206,040
90	76	155,040
91	59	120,360
92	34	69,360
93	33	67,320
94	23	46,920
95	10	20,400
96	9	18,360
97	8	16,320
98	5	10,200
99	1	2,040
100	1	2,040
101	1	2,040
102	2	4,080
Total	15,263	$ 31,136,520

* Does not reflect the increase in monthly benefits from $170 per month to $175 per month effective January 1, 2025.

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-5: The Number and Annual Retirement Allowances of Disabled Members Eligible for Deferred Pensions Distributed by Age of December 31, 2023

Age	Number	Allowances*
35	1	$ 2,040
38	3	6,120
39	1	2,040
40	3	6,120
41	3	6,120
42	1	2,040
43	2	4,080
44	2	4,080
45	5	10,200
46	2	4,080
48	8	16,320
49	5	10,200
50	4	8,160
51	3	6,120
52	8	16,320
53	11	22,440
54	14	28,560
55	5	10,200
56	2	4,080
58	1	2,040
59	3	6,120
60	1	2,040
61	2	4,080
62	1	2,040
63	1	2,040
65	1	2,040
68	1	2,040
70	1	2,040
72	2	4,080
73	1	2,040
75	1	2,040
Total	99	$ 201,960

* Does not reflect the increase in monthly benefits from $170 per month to $175 per month effective January 1, 2025.

Appendix B: Summary of Main Benefit and Contribution Provisions

All regular and volunteer firefighters of the State of North Carolina whose qualifications are certified by their departments are eligible to be members of the Fund. All rescue squad workers who are members of rescue squads eligible for membership in the North Carolina Association of Rescue Squads, Inc. and meet training requirements are eligible to be members of the Fund. Credit for prior service (that is, service rendered prior to July 1, 1959) is granted to firefighters who were eligible on July 1, 1959 and became members on or before June 30, 1961. Credit may also be given for certain special purchased service.

Benefits

Service Retirement Pension

Condition for Pension

A member who retires after he or she attained age 55 and has credit for 20 years of service as a firefighter or rescue squad worker in North Carolina is entitled to a monthly pension.

Amount of Pension

The amount of the pension is equal to $170 per month ($175 effective January 1, 2025).

Deferred Early Retirement Pension

Condition for Pension

A member whose service is terminated after the member has credit for 20 years of service as a firefighter or rescue squad worker in North Carolina but before the member has attained age 55 is eligible to receive a deferred retirement pension, starting at age 55, provided the member continues to make regular contributions until age 55 or until the member has contributed for a total of 20 years, whichever event occurs earlier. Any member who is totally and permanently disabled while in the discharge of official duties and leaves service as a result of such disability is eligible for a deferred retirement pension commencing at age 55 without continuing to make contributions. Any member who becomes totally and permanently disabled for any cause, other than line of duty, after 10 years of credited service under the Pension Fund may continue to make monthly contributions until he or she has contributed for 240 months into the Fund and receive a pension upon attainment of age 55.

Amount of Pension

The deferred pension is $170 per month ($175 effective January 1, 2025)

Return of Contributions

Upon the death (not in the line of duty) or withdrawal of a member prior to retirement, the member's aggregate contributions are refunded in a lump sum.

Upon the death (not in the line of duty) of a retired member, the excess, if any, of his or her aggregate contributions over the total of the pension payments he or she has received is refunded.

Line of Duty Death Benefit

Upon the death (in the line of duty) of a retired or active member, an amount of $170 ($175 effective January 1, 2025) per month is payable to the member's beneficiary, if living, beginning the month following the month the member would have attained age 55, or if the member had already attained age 55, beginning the month following the member's death, payable until the beneficiary's death.

Appendix B: Summary of Main Benefit and Contribution Provisions (continued)

Contributions

By Members

Each member contributes $10 per month ($15 effective January 1, 2025) until retirement or until the member has contributed for a total of 20 years, whichever event occurs earlier.

By State

The State makes annual contributions sufficient, with the members' contributions, to meet the cost of the benefits under the Fund.

Changes Since Prior Valuation

Session Law 2024-29 enacted legislation that increased the monthly benefit from $170 to $175 and the required monthly employee contribution from $10 to $15. Subsequently, Session Law 2024-42 made such legislative changes effective January 1, 2025. These legislative changes have been reflected in this valuation.

Appendix C: Actuarial Assumptions and Methods

Assumptions are based on the experience investigation prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021 for use beginning with the December 31, 2020 annual actuarial valuation.

Interest Rate

6.50% per annum, compounded annually.

Price Inflation:

2.50% per annum, compounded annually.

Separations from Active Service

Representative values of the assumed annual rates of withdrawal and vesting, retirement, death, and disability are as follows:

Annual Rates of Withdrawal

	Service		
Age	<5	5-19	20+
< 55	0.030	0.015	1.000
55	0.100	0.075	0.000
> 55	0.000	0.000	0.000

Annual Rates of Retirement

	Service		
Age	<20	20	21+
55	0.000	0.850	0.850
56-79	0.000	0.750	0.600
80	1.000	1.000	1.000

Annual Rates of Base Mortality and Disability

	Base Mortality*		Disability
Age	Male	Female	Male
25	.00037	.00020	.0005
30	.00041	.00027	.0005
35	.00047	.00036	.0008
40	.00059	.00049	.0010
45	.00082	.00067	.0022
50	.00120	.00091	.0024
55	.00175	.00123	.0035
60	.00264	.00168	.0061
65	.00410	.00228	
70	.00766	.00454	
75	.01432	.00903	
79	.02361	.01566	

* Base mortality rates using Pub-2010 Safety Amount-Weighted mortality table

Appendix C: Actuarial Assumptions and Methods (continued)

Return to Service

The assumed rates in which a lapsed member returns to active service are based on the number of years that the member has been lapsed. These rates are as follows:

Number of Years Member has been Lapsed	Percentage of Members Assumed to Return to Active Service*	Number of Years Member has been Lapsed	Percentage of Members Assumed to Return to Active Service*
1 Year	42.0%	5 Years	6.0%
2 Years	23.0%	6 Years	4.5%
3 Years	14.0%	7 Years	3.0%
4 Years	10.0%	8 Years	0.0%

* Members who are assumed to return to service are assumed to do so at the valuation date. Members who are assumed to not return to service (and have not yet attained 20 years of service) are assumed to receive a refund of contribution at age 55.

Post-Retirement Mortality

Representative values of the assumed post-retirement mortality rates are based on the Pub-2010 Safety Retirees Amount-Weighted mortality table for healthy retirees and the Pub-2010 General Disabled Retirees Amount-Weighted mortality table for disabled retirees, prior to any mortality improvements, are as follows:

Annual Rate of Death after Retirement				
	Healthy Retirees		Disabled Retirees	
Age	Male	Female	Male	Female
55	.00327	.00279	.01818	.01587
60	.00549	.00482	.02280	.01833
65	.00957	.00832	.02677	.02051
70	.01711	.01438	.03353	.02450
75	.03085	.02483	.04344	.03239
80	.05571	.04287	.05921	.04678

Mortality Assumption

All mortality rates use Pub-2010 amount-weighted tables.

Mortality Projection

All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths After Retirement (Healthy at Retirement)

Mortality rates are based on the Safety Retirees Mortality table. Rates for all members are multiplied by 97% and Set Forward 1 year. Because the retiree tables have no rates prior to age 45, the Safety Mortality Table for Employees is used for ages less than 45.

Death After Retirement (Disabled Members at Retirement)

Mortality rates are based on the General Mortality Table for Disabled Retirees. Rates for all members are Set Back 3 years.

Appendix C: Actuarial Assumptions and Methods (continued)

Deaths After Retirement (Survivors of Deceased Members)

Mortality rates are based on the Below-Median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-Median Teachers Mortality Table for Employees is used for ages less than 45.

Deaths Prior to Retirement

Mortality rates are based on the Safety Mortality Table for all Employees.

Line of Duty Death Assumption

10% of pre-retirement deaths are assumed to be in the line of duty.

Marriage Assumption

90% of male members married and 50% of female members married with the male spouses three years older than female spouses.

Missing Gender Code

For members reported on the data without a gender code, we use the prior year's code where available or assign a code based on inspection.

Timing of Assumptions

All withdrawals, deaths, disabilities, and retirements are assumed to occur July 1 of each year. The timing of retirement changes from mid-year to beginning of year at and after the 100% retirement age.

Future Expenses

Equal to prior year actual administrative expenses added to Normal Cost.

Actuarial Cost Method

Entry age normal cost method. Under this method, the actuarial value of projected benefits for each individual participant is allocated as a level dollar amount over the working lifetime of the participant between the date of employment and assumed date of exit.

Amortization Period

12-year closed, level-dollar amount. The first amortization base was created for the contribution payable for fiscal year ending 2012.

Appendix C: Actuarial Assumptions and Methods (continued)

Asset Valuation Method

Actuarial value, as developed in Table 8. The actuarial value of assets is based upon a smoothed market value method. Under this method, asset returns in excess of or less than the expected return on market value of assets will be reflected in the actuarial value of assets over a five-year period. The Actuarial Value of Assets was reset to the market value of assets as of December 31, 2014. The calculation of the Actuarial Value of Assets is based on the following formula:

$MV - 80\% \times G/(L)_1 - 60\% \times G/(L)_2 - 40\% \times G/(L)_3 - 20\% \times G/(L)_4$

MV = the market value of assets as of the valuation date

$G/(L)_i$ = the asset gain or (loss) for the i-th year preceding the valuation date

Changes Since Prior Valuation

The assumptions and methods used for the December 31, 2023 actuarial valuation are based on the experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021. No changes have been made since the prior valuation.

Appendix D: Additional Disclosures

FRSWPF invests in a diversified portfolio with the objective of maximizing investment returns at a reasonable level of risk. However, Actuarial Standard of Practice No. 4 ("ASOP 4") requires the actuary to disclose a Low-Default-Risk Obligation Measure ("LDROM") of plan liabilities and provide commentary to help intended users of this report understand the significance of the measure with respect to funded status, contributions, and participant benefit security.

As of December 31, 2023 the LDROM is $728,958,529. The LDROM is to be based on "discount rates derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future." Please note that the interest rate used for the LDROM is based on 30-year Treasury rates as of the measurement and will therefore vary for different measurement dates. As of December 31, 2023 the 30-year Treasury rate used to calculate the LDROM is 4.03%. All other assumptions are the same as those used for funding purposes as shown in this report.

The LDROM shown here represents what the FRSWPF actuarial accrued liability would be if FRSWPF invested its assets solely in 30-year Treasury bonds. Consequently, the difference between the LDROM and the Actuarial Accrued Liability can be thought of as representing the expected taxpayer savings / (cost) from investing in the plan's diversified portfolio compared to investing only in 30-year Treasury bonds. It may also be thought of as the cost of reducing investment risk.

Actuaries play a role in helping determine funding methods and policies that can achieve affordable and appropriate contributions and risk management. The funded status based on actuarial accrued liability and the actuarially determined contributions are determined using the expected return on assets, which reflects the actual investment portfolio. Since the assets are not invested in an all-bond portfolio, the LDROM does not indicate FRSWPF funded status or progress, nor does it provide information on necessary plan contributions.

With respect to security of participant benefits, if this plan were to be funded on an LDROM basis, participant benefits currently accrued as of the measurement date may be considered more secure as investment risk may be significantly reduced. However, the assets being invested in a diversified portfolio does not mean the participant benefits are not secure. Security of participant benefits relies on a combination of the assets in the plan, the investment returns generated on those assets, and the promise of future contributions from the plan sponsors.

Appendix E: SCRSP Policy

Local Governmental Employees’ Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the Firefighters’ and Rescue Squad Workers’ Pension Fund

Policy Purpose

This policy provides for the continued operation of a State Contribution Rate Stabilization Policy (SCRSP) for the Firefighters’ and Rescue Squad Workers’ Pension Fund (FRSWPF). The SCRSP was first adopted by the Local Governmental Employees’ Retirement System (LGERS) Board of Trustees (Board) on January 26, 2017, as required by Section 5 of S.L. 2016-108. The 2017 version of the SCRSP provided that it would be in effect “until the next experience review and [would] then be reset based on the results of that review.” Having adopted the Experience Study of the 2015-2019 calendar years on January 28, 2021, which will be effective for plan funding purposes for fiscal years ending 2023 and later, the Board wishes to institute an SCRSP effective for contributions during the five fiscal years ending 2023 through 2027.

Policy Objectives

This policy establishes how the Board will develop an annual appropriation amount to recommend to the General Assembly to fund the FRSWPF, and the conditions under which the Board will consider or recommend benefit improvements for the FRSWPF.

Definitions

Actuarial Measurement: The result of an analysis by the Board’s consulting actuary, presented to the Board in a public report, based on actuarial assumptions and methods adopted by the Board for purposes of funding of the FRSWPF, without regard to any “direct rate smoothing” of changes in the Board’s assumptions and methods.

Benefit Improvement Funding Requirement: An amount equal to

(1) the Actuarial Measurement of the full increase in the FRSWPF actuarial accrued liability and normal cost expected from a proposed benefit increase, plus

(2) the FRSWPF actuarial accrued liability according to the most recently accepted valuation report of the consulting actuary, less

(3) the FRSWPF actuarial value of assets according to the most recently accepted valuation report of the consulting actuary, plus

(4) the Underlying ADEC for the upcoming fiscal year, less

(5) the Policy Contribution Without Benefit Increase for the upcoming fiscal year.

However, the Benefit Improvement Funding Requirement will be no less than $0, and no greater than the amount in part (1) of the definition prior to adjustment for parts (2) through (5). The intention of parts (2) through (5) is to provide for a possible reduction in the Benefit Improvement Funding Requirement if there is a funding surplus (parts (2) and (3)) or if the Board’s appropriation recommendation under this policy will exceed the Underlying ADEC (parts (4) and (5)).

Policy Contribution Without Benefit Increase: The State appropriation to be recommended by the Board under this policy, prior to any increase for the cost of benefit improvements that the Board may recommend under this policy.

Appendix E: SCRSP Policy (continued)
Local Governmental Employees' Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the Firefighters' and Rescue Squad Workers' Pension Fund (continued)

Target Member Contribution Rate: The member contribution rate that would result in the total member contributions being closest to 50% of the Actuarial Measurement of the FRSWPF normal cost for the upcoming fiscal year, subject to the constraint that the monthly member contribution rate should be a multiple of $5.

Underlying Actuarially Determined Employer Contribution (Underlying ADEC): The amount developed annually by the Board's consulting actuary, representing a funding requirement according to the Board's actuarial assumptions and methods before applying this policy.

Annual Appropriation Recommendation

Changes in the Underlying ADEC from year to year can result in roller-coaster appropriations which are difficult for budget and appropriation planning. In particular, "V"-shaped underlying ADEC patterns create incentives within the appropriations process for programs that compete with FRSWPF over a limited pool of revenue to increase their recurring funding requirements, even though a reduction to the FRSWPF would effectively be nonrecurring due to the "V" shape. To avoid a roller-coaster pattern, this policy provides for continuing the pattern of minimum recommended increases to the annual recommended appropriation. This may result in an appropriation recommendation exceeding the Underlying ADEC.

Accordingly, for each year that this policy is in effect, the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be the greater of:

(1) the appropriation that the Board recommended for the current fiscal year plus $350,000[1], or

(2) the Underlying ADEC for the upcoming fiscal year.

In developing Parts (1) and (2) of this definition, this policy provides the following guidance:

- In Part (1), the appropriation that was recommended for the current fiscal year should exclude any portion of the Board's recommendation specifically intended to cover a one-year payment of the costs of a benefit improvement, as described below under "Further Increase to Fund Benefit Improvement."
- In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (increased) to include the cost of any benefit improvements enacted by the General Assembly, for which the General Assembly did not appropriate funding during the current fiscal year at least equal to the Benefit Improvement Funding Requirement. This increase should be equal to the Benefit Improvement Funding Requirement, reduced for any funding appropriated by the General Assembly during the current fiscal year toward the enacted benefit improvement.
- In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (either increased or reduced) for the effect of any changes in actuarial assumptions or methods adopted by the Board that were not incorporated in the Board's recommendation for the current fiscal year. The adjustment should be equal to the Actuarial Measurement of the effect on the Underlying ADEC, except that it may include direct rate smoothing to the extent the Board adopted direct rate smoothing of the relevant assumption or method change for FRSWPF funding purposes.

[1] The amount of $350,000 was described in the initial SCRSP adopted January 2017 as "designed to mirror the estimated growth rate of the tax on gross property insurance as provided for under G.S. 105-228.5(d)(3). Currently the tax on premiums is 0.74% of 10% of the gross premiums for automobile physical damage coverage and 0.74% of 100% of the gross premiums for all other property coverage. Three other programs benefiting firefighters and rescue squad workers are paid for directly out of the proceeds of this tax, with the remainder being transferred to the General Fund to partially offset the cost of the FRSWPF."

Appendix E: SCRSP Policy (continued)

Local Governmental Employees' Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the Firefighters' and Rescue Squad Workers' Pension Fund (continued)

- In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (reduced) for the effect of any increase to member contributions ($15 per month as of January 2025) that was not incorporated in the Board's recommendation for the current fiscal year, but has since been enacted. The reduction should be equal to the Actuarial Measurement of the decrease in the State's share of FRSWPF normal cost that would have been incorporated in the Board's recommendation for the current fiscal year had it been enacted.
- In Part (2), the Underlying ADEC for the upcoming fiscal year should exclude any portion attributable to a one-year payment of costs of a benefit improvement.

Further Increase to Fund Benefit Improvement: The appropriation recommended by the Board for the upcoming fiscal year will be further adjusted if the Board recommends to the General Assembly a benefit improvement as described in Section V of this policy. Such adjustment will be at least equal to the Benefit Improvement Funding Requirement. It may be further increased by an amount to account for any prospective change to the statutory terms for tax on gross property insurance. Under such a recommendation, the full actuarial cost of any benefit improvement would be funded within one year through the upcoming year's appropriation, rather than amortized over multiple years.

The Policy Contribution Without Benefit Increase, added to the Benefit Improvement Funding Requirement associated with any benefit improvement enacted by the General Assembly effective for a fiscal year, will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) for the FRSWPF.

Recommended Increases to Benefit Formula

As of April 2021, the FRSWPF provides a pension equal to $170 per month, to be updated to $175 per month effective January 2025. This section of the policy describes the conditions under which the Board may consider a recommendation of an improvement to the formula for calculating FRSWPF benefits in any year. The intent of the policy is that the satisfaction of all of the conditions described below would not bind the Board to recommend a benefit improvement, but rather, would allow the Board to consider recommending a benefit improvement.

Under this policy, the Board may consider a recommendation to the General Assembly that the benefit amount be improved, provided that all of the following conditions are met:

1. The increase in the benefit amount is not greater than the most recent June-over-June one-year change in the Consumer Price Index for all Urban Consumers (CPI-U), U.S. City Average, all items, not seasonally adjusted, standard reference base, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.
2. The Benefit Improvement Funding Requirement is included in the appropriation recommended by the Board for the upcoming fiscal year.
3. Together with any recommended benefit improvement, the Board recommends to the General Assembly that the member contribution rate (which is $10 per month as of April 2021, to be updated to $15 per month effective January 2025) be increased or maintained at an amount at least equal to the Target Member Contribution Rate.
4. If there has been a change to the tax on gross property insurance from the statutory terms effective April 29, 2021, the Board has considered the anticipated effect on the funding of FRSWPF and recommends additional funding if necessary to account for the effect of this change.

Appendix E: SCRSP Policy (continued)

Local Governmental Employees’ Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the Firefighters’ and Rescue Squad Workers’ Pension Fund (continued)

Policy Effective Date

This policy will be effective through the fiscal year ending June 30, 2027. The Board may vote to extend it for any period of time.

Gallagher

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