



North Carolina
Total Retirement Plans

Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA



MEMORANDUM

TO: Local Governmental Employees' Retirement System (LGERS) Board of Trustees
 FROM: Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel
 DATE: July 30, 2020
 RE: Status and Needs Report for the Firefighters' and Rescue Squad Workers' Pension Fund

This annual report, as required by G.S. 58-86-11, informs the LGERS Board of Trustees regarding the status and needs of the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF).

Actuarial Valuation of the FRSWPF

The FRSWPF, as required by law, performs an annual actuarial valuation to monitor and adjust the plan's progress toward its funding goals. The primary purpose of the valuation is to measure the pension benefit and other financial obligations promised to current and former state and local governmental employees for the purposes of determining an appropriate contribution strategy that achieves, to the greatest extent possible, the three most important goals of any pension funding policy: funding adequacy, intergenerational equity, and contribution stability.

As is best practice, the funding goal for the FRSWPF is to accumulate 100% of the present value of actuarial accrued liabilities, and to reduce any unfunded actuarial liabilities expeditiously and in accordance with the amortization policy adopted by the Local Governmental Employees' Retirement System's Board of Trustees. The tables below depict the progress toward the plan's funding goals over the past five years, as well as the contributions appropriated to that end.

Funding Progress of the FRSWPF

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio
12/31/2018	\$429,031,975	\$473,960,565	90.5%
12/31/2017	418,265,538	469,919,266	89.0%
12/31/2016	402,431,609	452,065,480	89.0%
12/31/2015	393,387,721	440,800,424	89.2%
12/31/2014	380,885,154	418,915,121	90.9%

Contribution rates are set according to the State Contribution Rate Stabilization Policy (SCRSP) adopted by the Board of Trustees on January 26, 2017. Under the SCRSP, recommended state contributions must be the greater of (1) the prior year's appropriation plus \$350,000, and (2) the actuarially determined contribution.

Five-Year Actuarially Determined Contributions & Appropriations

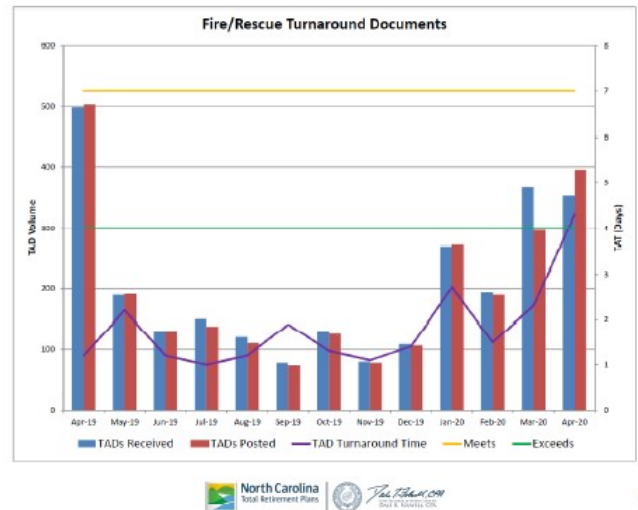
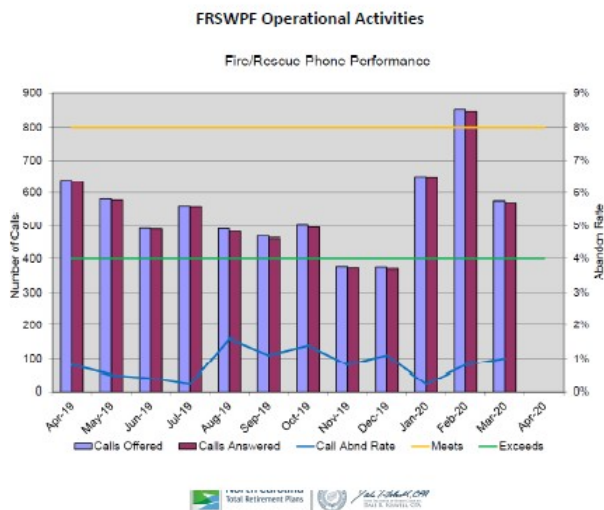
Fiscal Year Ending	Actuarially Determined Contribution (ADC)	Final Appropriation	% of ADEC Contributed
6/30/2021	\$14,845,609	\$19,002,208*	128.0%*
6/30/2020	14,323,684	18,652,208	130.2%
6/30/2019	14,544,083	18,302,208	125.8%
6/30/2018	14,287,301	17,952,208	125.7%
6/30/2017	17,705,208	17,602,208	99.4%

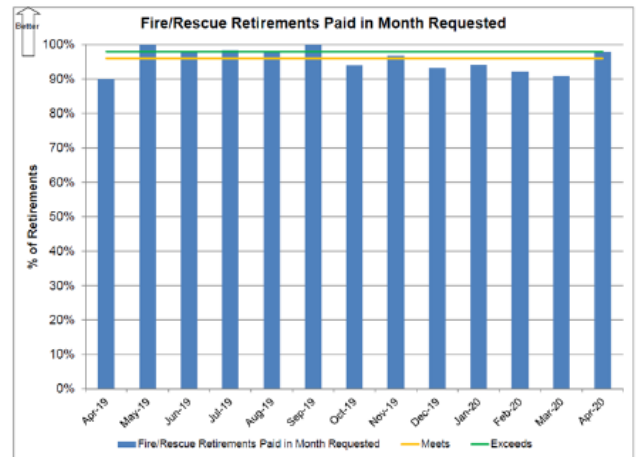
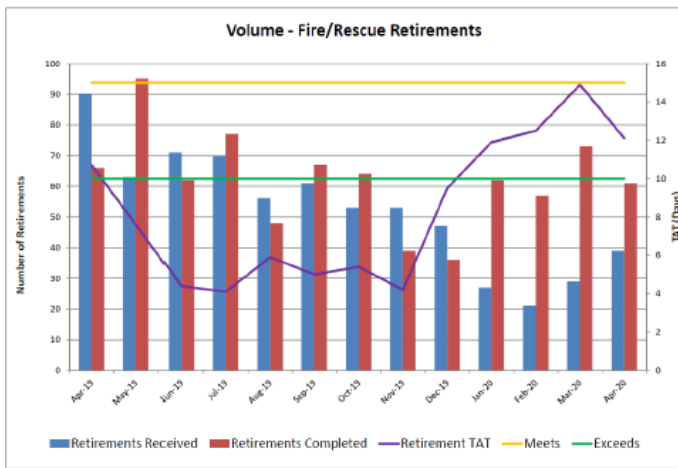
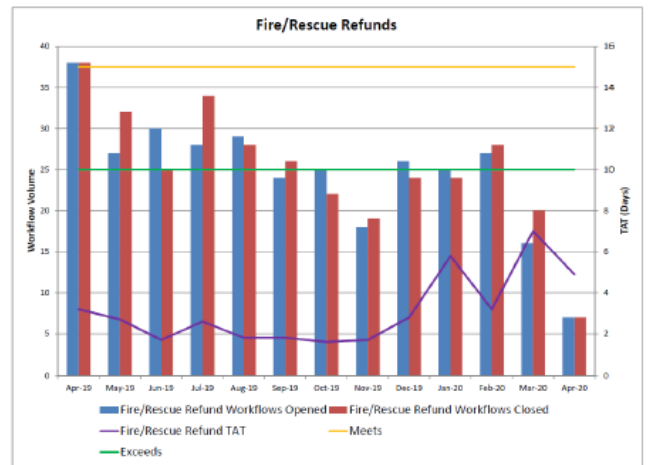
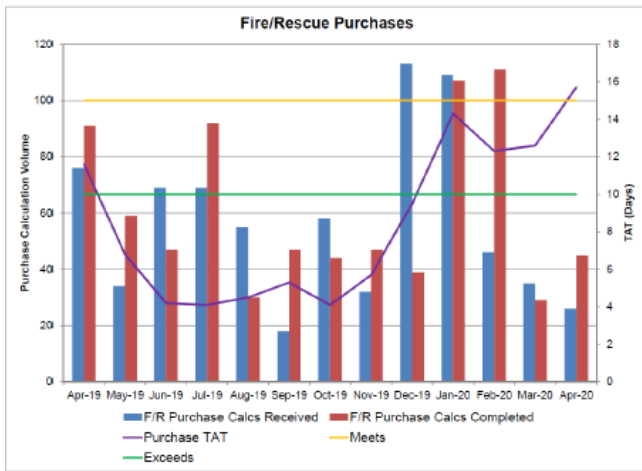
The LGERS Board of Trustees has recommended an appropriation of \$19,002,208 for FYE 2021 in accordance with the State Contribution Rate Stabilization Policy, or SCRSP (equal to the FYE 2020 appropriation plus \$350,000). This would exceed the actuarially determined contribution of \$14,845,609.

FRSWPF Operational Activities

The charts below demonstrate the volume of member inquiries and requests, indicating operational workload, as well as various metrics relating to staff performance in responding to inquiries and processing member requests. Member retirements, service purchases, refunds of contributions, and member phone calls received by the call center are among the principal services provided; as indicated in the charts below, the Retirement Systems' Division staff routinely meet or exceed operational goals.

Operational Metrics and Goals





Needs of the FRSWPF

Funding Policy

- Policy Recommendation:** The Department of State Treasurer should recommend that the General Assembly increase the member contributions requirement whenever benefit increases are granted.
 - Rationale:** Increasing member contributions whenever benefit increases are granted would offset a portion of the costs of any benefit increases and minimize the impact such increases have on the plan's unfunded liability. This would also distribute funding costs more equitably between members and the state.

Investment Policy

2. **Policy Recommendation:** The Department of State Treasurer should seek an IRS letter of determination for the Firefighters' and Rescue Squad Workers' Pension Fund and seek to modify or enact any necessary technical changes to the general statutes pursuant to the requirements of said determination.
 - **Rationale:** It is best practice for pension plans to have an up-to-date letter of determination, particularly regarding the manner in which investments are represented and traded, as well as with regard to the way the features and financial figures of the plan are disclosed for purposes of SEC-regulated disclosures for the state's general obligation and other bonds.

Benefit Policy

3. **Policy Recommendation:** The Department of State Treasurer should monitor the Gross Insurance Premiums Tax to identify opportunities to recommend benefit increases for members without adversely affecting the funded status of the plan or requiring excessive funding from the General Fund.
 - **Rationale:** Evaluate the possibility of formula-driven benefit enhancements tied to inflation and growth in the economy. SCRSP adopted January 2017 describes conditions and metrics that LGERS Board will use for recommending benefit increases.
4. **Policy Recommendation:** The General Assembly should modify state law to allow firefighters and rescue squad workers to receive increased service credit or pension benefits if they maintain dual membership in multiple departments (e.g., membership as both a volunteer firefighter and a paramedic/EMS technician).
 - **Rationale:** Currently, members who serve at more than one fire department or rescue squad agency concurrently receive the same amount of service credit as members who serve at only one department or agency. Providing increased service credit or pension benefits to members maintaining dual memberships would provide additional incentive to those public safety workers who serve the state to be rewarded for their additional service.
5. **Policy Recommendation:** The General Assembly should establish a tiered benefit structure for firefighters and rescue squad workers who continue to serve after attaining 20 years of service in a manner similar to the benefit structure of the National Guard Pension Fund. For each additional year of service in excess of 20 years, increase a member's benefit by a fixed dollar amount, up to a specified maximum benefit amount.
 - **Rationale:** A tiered benefit structure would provide incentive for members to continue working or volunteering as a firefighter or rescue squad worker after they have attained 20 years of service.
6. **Policy Recommendation:** To the extent allowable under federal law, the General Assembly should modify state law such that, when a participating department or squad contributes to the FRSWPF on behalf of their members, these contributions are refunded directly to such department or squad when applicable, potentially only in the years prior to a vesting period (i.e. refund contributions to the department or squad for members who have not yet attained five years of service, but refund contributions to members once they have attained five years of service).
 - **Rationale:** This would ensure that members who separate from service shortly after enrolling in the FRSWPF, or who provide relatively few years of service during their career, cannot receive a refund

of contributions made on their behalf by their employer. This ensures that a given fire department or rescue squad agency's funds are either retained by the agency or refunded only to those members who provide a significant amount of service to the state over the course of their career.

Administrative Policy

- 7. Policy Recommendation:** The General Assembly should require automatic expulsion of active members following delinquency in submitting member contributions, or in the event of a lapse in service of a specified amount of time. In conjunction, the Department should institute a policy to allow members to request a leave of absence to avoid automatic expulsion.

 - **Rationale:** Due to the timing and inconsistency of the submission of member contributions to the FRSWPF, it is often difficult to determine which members have simply neglected to submit their contributions in a timely manner but continued to serve as a firefighter or rescue squad worker, and which members have separated from service, either temporarily or permanently. An automatic expulsion and member leave of absence policy would provide incentive to members to submit their contributions in a timely manner, as well as improve the accuracy of the assumptions used to determine funding costs.

- 8. Policy Recommendation:** Allow participating members to submit contributions online.

 - **Rationale:** This will reduce the Retirement Systems' Division's operational workload by reducing the volume of paperwork and the time and manpower required to receive, process, and record receipt of member contributions.

- 9. Policy Recommendation:** The Department of State Treasurer should electronically notify participating departments and squads of delinquent contributions.

 - **Rationale:** Late submission of member contributions is very common in the FRSWPF due to the nature of the accrual of service, among other factors. This hinders the ability of the pension fund to generate investment returns on such funds, in addition to reducing the accuracy of the pension plan's member data and, consequently, the accuracy of the actuarially determined contribution required of the state each year. Electronic notifications in the event of delinquency will improve member and employer compliance with required contribution deadlines, improving both the potential to generate investment returns on these funds as well as enhancing the accuracy of actuarial assumptions used to determine funding costs.

- 10. Policy Recommendation:** The Department of State Treasurer should issue electronic notices reminding members and employers to submit required member contributions by the appropriate submission deadlines.

 - **Rationale:** Late submission of member contributions is very common in the FRSWPF due to the nature of the accrual of service, among other factors. This hinders the ability of the pension fund to generate investment returns on such funds, in addition to reducing the accuracy of the pension plan's member data and, consequently, the accuracy of the actuarially determined contribution required of the state each year. Electronic notifications reminding members and departments or squads to submit contributions in a timely manner will improve compliance with contribution deadlines, thereby improving both the potential to generate investment returns on these funds and enhancing the accuracy of actuarial assumptions used to determine funding costs.

- 11. Policy Recommendation:** The Department of State Treasurer should regularly seek feedback from participating departments and squads regarding contribution and data submission processes and incorporate this input into process improvements.
- **Rationale:** Seeking feedback from participating departments and squads regarding current contribution submission processes may help to identify particular areas of confusion, difficulty, or recurring compliance failures. Identifying such obstacles may facilitate the development of process improvements that simplify processes and increase compliance.
- 12. Policy Recommendation:** The Department of State Treasurer should notify members when they meet the retirement eligibility requirements and send periodic reminders encouraging eligible members to apply for retirement.
- **Rationale:** Ensure that members begin receiving their pension benefits as soon as they are eligible to do so. Eligibility notifications and reminders will allow members to receive all of the pension benefits to which they may be entitled.
- 13. Policy Recommendation:** The Department of State Treasurer should notify inactive members who are approaching age 55 (i.e. age 53, 54) with less than 20 years of service and have not contributed to the Pension Fund in the last calendar year and are not paid in full.
- **Rationale:** This process will identify members who may have left their departments or are no longer in fire or rescue service without realizing they have not fully met all the eligibility requirements to begin receiving a pension at age 55. This notification will advise them beforehand so they would still have an opportunity to serve the remaining years needed to fulfill the 20 year requirement.
- 14. Policy Recommendation:** The Department of State Treasurer should communicate to members who are accruing roster service, though no contributions are currently being received on behalf of these members.
- **Rationale:** This would help identify members where a discrepancy exists in reporting of their roster service and the remittance of contributions. For example, inconsistency with SSN reporting or a member receiving roster credit with more than one department, though neither department is currently submitting contributions.
- 15. Policy Recommendation:** The Department of State Treasurer should better communicate the “Balance not yet applied” category for contributions.
- **Rationale:** Since this is an important part of the newer format for reporting contributions, a better understanding of what “Balance not yet applied” is essential for participants. Even though this topic is included in the on-line training materials, more communication involving this subject is needed. Also, inclusion of this information in the periodic newsletters would be helpful as well, perhaps in a glossary of terms section.
- 16. Policy Recommendation:** The Department of State Treasurer should communicate to members who are being removed from their department’s contribution list.
- **Rationale:** This notification would provide the member with options regarding their status such as continuing to participate with another Fund department, requesting a refund of contributions or leaving their monies in the Fund.

Appendix

History of Completed Policy Recommendations

1. **Policy Recommendation:** The Local Governmental Employees' Retirement System Board of Trustees should maintain a conservative funding policy that includes specific parameters for recommending improvements to benefit structure and inflation protection adjustments.
 - **Outcome:** LGERS Board of Trustees adopted the State Contribution Rate Stabilization Policy (SCRSP) in January 2017. This policy requires stable increases in contribution rates, often in excess of the actuarially determined contribution. It also requires the Board of Trustees consider a number of factors when evaluating whether to recommend a benefit enhancement to the General Assembly, including: changes in the CPI; growth of insurance premium tax revenue; undistributed gains available to offset the costs of benefit increases; and the impact of any benefit increases on the plan's unfunded liability and on progress toward the Board's funding goals.
2. **Policy Recommendation:** The Department of State Treasurer should campaign to encourage lapsed members older than age 65 to apply for return of contributions.
 - **Outcome:** Lapsed members continue to be contacted by staff daily.
3. **Policy Recommendation:** The Department of State Treasurer should campaign to encourage lapsed members who received a return of contributions in another NC retirement system to apply for Fire and Rescue return of contributions.
 - **Outcome:** A new monthly report in Orbit identifies Fire and Rescue members who have requested a refund in another RSD account. We are sending out refund letters and forms to this population to encourage them to request their contributions if they will not meet the required 20 years of service to retire.
4. **Policy Recommendation:** The Department of State Treasurer should encourage lapsed members who are not expected to return to active employment to apply for return of contributions.
 - **Outcome:** Lapsed Service dedicated project ended 5/31/2018.
5. **Policy Recommendation:** The Department of State Treasurer should seek funding for Phase II of the data audit and ORBIT.
 - **Outcome:** Conduent data audit completed.
6. **Policy Recommendation:** The General Assembly should evaluate Survivor Benefit and Line-of-Duty Death Benefit (\$2400).
 - **Outcome:** A career ending injury or illness was previously worth more than the death of a public safety worker. Legislation enacted in 2016 to allow members to name beneficiaries and, in the case of line-of-duty deaths, elect to receive either a return of contributions or a lifetime monthly benefit, if there is only one eligible principal beneficiary.
7. **Policy Recommendation:** The Department of State Treasurer should endeavor to achieve operational metrics goals.
 - **Outcome:** RSD is currently meeting all operational metric goals.
8. **Policy Recommendation:** The Department of State Treasurer should develop Member Statements
 - **Outcome:** Members can now view their accounts online through ORBIT.
9. **Policy Recommendation:** The Department of State Treasurer should continue efforts to reconcile the various member contribution amounts and various laws to ensure accuracy of data for members as they near retirement.
 - **Outcome:** This project continues daily and is now the age 50 and older project.
10. **Policy Recommendation:** The Department of State Treasurer should increase communications to departments and members.

- **Outcome:** December 2018 newsletter was sent to 18,839 departments/agencies and members.
- 11. Policy Recommendation:** The Department of State Treasurer should identify and contact survivors of deceased active members to encourage application for return of contributions.
- **Outcome:** This is being addressed by the team daily. Monthly death matches are conducted to identify deceased members. Research is performed to locate next of kin. An obituary provides survivor information. Many attempts are made to try and reach these survivors including contacting funeral homes and churches.
- 12. Policy Recommendation:** The Department of State Treasurer should add History of Benefits to newsletter.
- **Outcome:** Published in the December 2016 newsletter.
- 13. Policy Recommendation:** The Department of State Treasurer should populate Turnaround Documents (TADs) with an up-to-date list of members who are actively serving.
- **Outcome:** TAD layout with actives at the top and in-actives at the bottom implemented in 2018.
- Policy Recommendation:** The Department of State Treasurer should encourage departments to promptly report the death of a member.
- 14. Policy Recommendation:** The Local Governmental Employees' Retirement System Board of Trustees should revise the language of the State Contribution Rate Stabilization Policy (SCRSP) to make the policy more transparent and provide clarity since this policy overlays the funding policy for legislative purposes.
- **Rationale:** This is a request from legislative central staff. The current wording of the SCRSP is ambiguous regarding the amortization of benefit increases in certain circumstances.
 - **Outcome:** Published in the December 2018 newsletter.
- 15. Policy Recommendation:** The Department of State Treasurer should improve integrity of member and department data.
- **Outcome:** Since 10/2015, more than 12,700 records have been refunded, retired, or deceased and removed from the active list in ORBIT. This work continues daily by staff.
- 16. Policy Recommendation:** The Department of State Treasurer should implement an active audit of service starting at age 53 to identify inaccuracies before members reach retirement age.
- **Outcome:** Age 53 and older project that began 11/1/2015 and continues daily with auditing member's service.
- 17. Policy Recommendation:** The Department of State Treasurer should communicate to each department/agency all that has been done by RSD on their behalf. Communicate to general membership on status of projects. Develop a means for educating members.
- **Outcome:** Newsletter was sent December 2018. Email sent to advise departments/agencies of changes in TAD document and member transfer process.
- 18. Policy Recommendation:** The Department of State Treasurer should enhance participating department or squad's access to information pertaining to contributions, service credit history, and other data associated with each department or squad's participating members.
- **Outcome:** The on-line contribution reporting will provide expanded access to departmental contribution and roster service data.
- 19. Policy Recommendation:** The Department of State Treasurer should undertake a full redesign of the Firefighters' and Rescue Squad Workers' Pension Fund online user functionality in ORBIT involving end-user testing and feedback throughout the development and implementation processes of such a redesign.

- **Outcome:** The re-design of on-line reporting functionality is being implemented. Pilot participation from departments and end-users have provided invaluable feedback.
- 20. Policy Recommendation:** Allow participating departments or squads to submit contributions online.
- **Outcome:** The contribution reporting system being implemented will accomplish this and allow departments to submit on-line contributions.
- 21. Policy Recommendation:** Department staff should endeavor to make available the most up-to-date forms following any revisions or changes.
- **Outcome:** Current versions of all forms for the Fund are available on the Department of State Treasurer website.
- 22. Policy Recommendation:** The General Assembly should eliminate the requirement for notarization of beneficiary form and allow electronic submission of beneficiary form during enrollment process. In place of notarization, the Department of State Treasurer should require member identity verification using member-selected security questions and answers.
- **Outcome:** Electronic submission of beneficiary forms is available for Fund members.