

## MINUTES

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

MAY 15, 2014

The regular annual meeting of the Advisory Panel was called to order at 9:30 a.m., May 15, 2014, by the Chair, Steve Toole. The meeting was held in the Dawson Conference Room in the Albemarle Building, in Raleigh.

#### Members Present

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

#### Members Absent

There were no members absent.

#### Guest Present

The Guests present were: Bob Curran, with the North Carolina Department of Justice; Larry Langer and Michael Ribble, with Buck Consultants; Tim Bradley, with the North Carolina State Firemen's Association; Robert Poe, Gordon Joyner, and Joel Faircloth, with the North Carolina Association of Rescue and E.M.S.; and, Kiernan McGorty, with the Program Evaluation Division of the North Carolina General Assembly.

#### Department of State Treasurer Staff Present

The Staff present were: Jaclyn Goldsmith, Lisa Page, Meredith Rouse-Davis, David Starling, Christina Strickland, and Sam Watts.

#### Conflicts of Interest

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

#### Overview of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)

The Chair recognized David Starling, Director of Constituent Services, for a presentation on the FRSWPF. Mr. Starling reviewed the Retirement Handbook with the Panel Members focusing on the eligibility requirements, enrollment process, and benefit amount. Mr. Starling described the history of the FRSWPF and the progression of the benefit amount to the current amount of \$170.00 per month. He also provided detail on how benefits are paid, eligibility for

disability retirement status, and effects of annexation. Mr. Starling explained the option of purchasing credit for prior service.

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, prepared as of June 30, 2012, by Buck Consultants, for the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund

The Chair introduced Larry Langer and Michael Ribble with Buck Consultants to present the most recent actuarial valuation on the FRSWPF. Mr. Langer explained the valuation process, which involves the analysis of member data, asset data, benefit provisions, actuarial assumptions, and funding methodology to determine the actuarial value of assets, accrued liability, gains and losses, funded ratio, and employer contributions. Mr. Ribble stated that the market value return in 2012 was 2.2 percent and that the return rate for 2013 is significantly higher and those results will be presented at the scheduled upcoming Board of Trustees' meeting on October 23, 2014. Mr. Ribble also discussed how the 7.25 percent investment return assumption used by the Department is a long term assumption and should be achieved over time. The market value of return of 2.2 percent increased the Annual Required Contribution (ARC) to \$14.6 million. Mr. Langer stated to the Panel that the funded ratio of the system is 83.9 percent funded as of the 2012 valuation. Mr. Langer also informed the Panel that Buck Consultants is performing a data audit of the FRSWPF, which may result in altered assumptions and therefore a different funded ratio determination.

Presentation on the Report by the North Carolina General Assembly's Program Evaluation Division on the Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Kiernan McGorty, Principal Program Evaluator with the Program Evaluation Division (PED) of the North Carolina General Assembly, to present the PED's report, "Department of State Treasurer Should Strengthen Its Oversight of the Firefighters' and Rescue Squad Workers' Pension Fund." Ms. McGorty provided an explanation of the plan's revenues and expenditures and stated that the 80 percent funded ratio is considered an acceptable threshold for the plan. There were five findings in the report:

- 1) The State's ARC now exceeds the funds in the General Fund. Ms. McGorty stated that the amount of insurance premium tax proceeds going to the General Fund that allocates funding to the Pension Fund is financed less than the ARC requirement, leaving a \$2 million dollar gap
- 2) The Department operates with overly conservative actuarial assumptions. Ms. McGorty explained the Department's assumption that all current members will contribute in the future and receive benefits; and by doing so, has overstated its appropriation requests.

3) The Department failed to enforce timely payment of member contributions. Ms. McGorty explained the statutory changes from 2005 and 2009. She stated that the Department did not adhere to the 90-day deadline in the statute, and instead applied member contributions to the last delinquent payment.

4) The Department minimally enforced the prohibition against paying pension benefits to members who were still working as firefighters and rescue squad workers. Ms. McGorty explained that the Department did not adequately enforce the retirement eligibility requirements for this Fund.

5) The Department is taking action to resolve the administrative issues identified in the report. Ms. McGorty explained that the Department contracted with Buck Consultants to examine the work history of 1,000 members to develop a more probable lapse assumption, which is likely to result in a lower ARC. Ms. McGorty also stated that the report found that staff is currently manually matching service to member contributions because the Department's online retirement system, ORBiT, still automatically applies contributions to the last delinquent payment and that the Department contracted with a business analyst to determine the components needed to adapt ORBIT to better administer the FRSWPF.

Ms. McGorty discussed the PED's recommendations to the Department based on the findings in the report. The PED recommends building an appropriate lapse assumption into the State's ARC calculation, collecting timely member contributions, and enforcing the prohibition against in-service distributions.

#### Department's Response to Findings in the Report

The Chair recognized Sam Watts, Policy Development Analyst, to present the Department's response to the PED's report. Mr. Watts stated that the Department appreciated the transparency of this process and the collaborative efforts with PED during this review. The Department disagrees with two of the findings in the final report. The Department differs with the statement in the report that the Department's failure to enforce the timely payment of member contributions has cost the Pension Fund at least \$508,361 from years 2005 to 2012. The Department acknowledges that payments were not collected in a timely manner from years 2009 to 2012, but does not agree with the losses stated by the PED. The Department also disagrees with the finding that the Department did not adequately enforce the retirement eligibility requirements for this Fund. Mr. Watts stated that the Department supports an age 55 in-service distribution for both volunteer and paid firefighters and rescue squad workers because it is more administratively efficient and would offer an equal eligibility requirement between retiring paid and retiring volunteer firefighters and rescue squad workers.

## Operations Update

The Chair recognized David Starling, Director of Constituent Relations, to provide an update on FRSWPF Operations. Mr. Starling informed the Panel that 2014 was the first time that the Department received more than 1,400 Turn-Around-Documents (TAD) packets by the March 31 deadline in the statute. Mr. Starling mentioned that achieving this accomplishment required a tremendous amount of work from the firefighter and rescue squad worker associations and departments. Mr. Starling stated that there are currently daily challenges within FRSWPF Operations, noting that retirement processing time is ranging from 45 to 60 days and prior service purchase processing is ranging from 60 to 75 days. Mr. Starling mentioned that the timeframes are due to staff manually processing retirements and prior service purchases until ORBiT is rebuilt to better administer the FRSWPF. Mr. Starling stated that the staffing challenges are being addressed by cross-training, filling vacancies, and utilizing temporary employees.

## Tour of the Retirement Systems Division (RSD)

The Chair and RSD staff gave a tour of the RSD operations related to the FRSWPF. The Advisory Panel toured the Imaging Section where staff explained the process for receipt of external mail and scanning of members' communications to their individual files for processing. The Advisory Panel also toured the Member Services area and were shown where members can visit the office to speak with a counselor about their account. The tour concluded with a stop at the section that handles the FRSWPF administration.

## Presentation by Buck Consultants on Data Audit Project

The Chair recognized Larry Langer and Michael Ribble for a presentation on the findings and recommendations for Statement One for the Data Audit Project for the Fund. RSD retained Buck Consultants to perform a valuation data audit for the approximately 40,000 members of the Firefighters' and Rescue Squad Workers' Pension Fund to assess the ability to create a lapse assumption that would reduce both future liabilities and the State's contribution requirement to the Plan. Under current assumptions, Buck Consultants assumes that all lapsed members will return to active roster service and ultimately become vested in their benefit. Mr. Langer presented the findings of the first groupings of data sampled, and found that:

### Group one:

- Members who had service in the year of hire, then lapsed, then returned to service in 2004-2006 had a population of approximately 1,400 members.
- 69 of the 1,400 members were reviewed. It was found that although service was generally correct, service in 2004-2006 was not properly allocated to the appropriate year in many cases
- 34 of the 69 members had a lapse of 10 years or more.

- Subject to a full audit, Buck will assume 50 percent of this population will not return and become vested.

Group two:

- Members who only had service in their year of hire (2011 or prior) was approximately 2,400.
- 50 of the 2,400 members were reviewed.
- It was found that 27 out of the 50 were not on the roster in their year of hire and should never have been credited with service.
- Subject to a full audit, Buck will assume 50 percent of this population will not return and become vested.

Group three:

- Members who had a lapse of more than 6 years and returned to work totaled approximately 575 members.
- 117 members were reviewed.
- It was found that 75 out of the 117 members did not actually return to service after more than 6 years lapse.
- Subject to a full audit, Buck will assume 65 percent of this population will not return to become vested.

Given these findings on the probabilities of members returning after lapse and being vested in their benefit, Buck Consultants expects to remove, based on the preliminary audit, at least 2,500 members who are not expected to return to active membership. This could result in a cost savings of \$2.2 million for the 2014-2015 contribution projections, including a \$1.7 million reduction from the current appropriation, pending the actual results of the full audit. Lastly, Buck Consultants recommended: 1) reviewing the entire lapsed population, 2) sending letters to multiple populations to encourage members over the age of 65 to apply for return of contributions, and 3) performing a death search on the entire lapsed population. Members of the Advisory Panel noted their comfort with Buck's conclusions and estimated the full review will conclude the new assumptions are still on the conservative side.

Plan of Work and Timeline for redevelopment of ORBiT record keeping software

The Chair gave a presentation on the ORBIT Project Review for the FRSWPF. Mr. Toole updated the Panel on the project scope to plan, redesign, and rebuild the Fire and Rescue system in a manner that complies with North Carolina State Statutes and enables the RSD to streamline the administration of the Fund. Mr. Toole described the timeline of the project, stating that its approximate total project hours are 22,700 and described the current resources dedicated to the project. Mr. Toole reported that requirements for enrollment were completed and 75 percent of the requirements for the TAD have been completed. The Panel discussed expectations for ORBiT access once the project has been implemented.

## Status and Needs Report

The Panel discussed status and needs and compartmentalized them by process/operations, policies, and communications. The Panel identified the following needs.

**Process/Operations:** Develop an ability to identify inactive members and remove them from the TADs, perform service audits on member accounts, develop a certification validation by Department, access for employers to enter TADs electronically, and develop member statements.

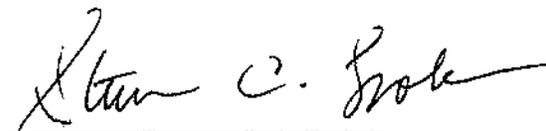
**Policy:** Create a vesting period for members so that non-vested members' contributions can be paid to their departments, continue to fully fund the pension fund, define training hours, and evaluate current line-of-duty benefit arrangements.

**Communications:** Train RSD personnel to accurately answer questions, communicate to each department all that has been done by the RSD, electronic notification of departments when contributions are delinquent, communication to general membership on status of projects – more presence at regional meetings, educate members on complexity of administration, and issue reminders of contributions due to departments.

The Advisory Panel is scheduled to meet prior to July 1 to review and approve the Annual Report on the Status and Needs of the FRSWPF for delivery to the Board of Trustees' for the Local Governmental Employees' Retirement System at its July 17 meeting.

## Adjournment

There being no further business, Debra Poe moved for adjournment of the meeting, which was seconded by Rick McIntyre and carried. The meeting adjourned at 1:03 p.m.

  
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CHAIR