

RETIREMENT SYSTEMS DIVISION

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EXECUTIVE DIRECTOR

July 2, 2018

TO: Board of Trustees of the Local Governmental Employees' Retirement System
FROM: Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel
Re: Annual Report to the Board of Trustees of the NC Local Governmental Employees' Retirement System Regarding the Status and Needs of the NC Firefighters' and Rescue Squad Workers' Pension Fund

The Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel (Advisory Panel) met on June 7, 2018, at 1:00 p.m. for an extensive review of the Firefighters' and Rescue Squad Workers' Pension Fund (Fund). All members were present. At the meeting, the Advisory Panel's agenda items included the following:

- Legislative Update
- Update of Retirement Systems Division (RSD) Operations
- Live Demo of electronic Turn Around Documents (TADs)
- Review of the Financial Soundness of the Fund

As annually required by statute, the Advisory Panel is pleased to submit the following 2018 Annual Report to the Board of the Trustees of the North Carolina Local Governmental Employees' Retirement System regarding the status and needs of the Fund.

STATUS OF THE FUND

LEGISLATION

Edgar Starnes, Senior Policy Advisor and Legislative Liaison, and Sam Watts, Policy Development Analyst, provided the Advisory Panel with a legislative update. Mr. Watts updated the Advisory Panel on the Agency's Financial Accountability, Integrity, and Recovery Act (FAIR). Mr. Watts shared the act is designed to provide tools to collect money owed to the Retirement Systems.

Mr. Watts updated the Advisory Panel on the Agency's Retirement Complexity Reduction Act, which simplifies service purchases, sunsets benefit options 4, 6-2, and 6-3.

Mr. Watts referred the Advisory Panel to the bill descriptions for detail on agency bills Administrative Changes Retirement System and Retirement Technical Corrections Act.

OPERATIONS UPDATE

Donna Boyette, Firefighters' and Rescue Squad Workers' Pension Fund Coordinator, updated the Advisory Panel on the overall operations team and metrics. Ms. Boyette presented the metrics

for the Fund, which continue to be met or exceeded. The team has five full-time permanent employees; one full-time temporary employee supporting Operations; and, two full-time temporary employees assigned to the lapsed service project.

Ms. Boyette updated the Advisory Panel on the lapsed service project, which completed May 31, 2018. The team began contacting the 15,177 lapsed members May 8, 2017. By December 2017, 10,065 lapsed members remained. The team continues efforts to make contact with all remaining lapsed members. The Advisory Panel was reminded that the lapsed members have been removed from our assumptions in our annual actuarial valuations as a result of the audit previously completed by Conduent. We will not see any significant increase in our funding status as a result of refunding the remaining lapsed members. Ms. Boyette highlighted the January 2018, 3rd edition, member newsletter. Ms. Boyette recognized Mr. James Rose, Fund Support Specialist, who demonstrated the new electronic submission Turnaround Documents (TADs), which is scheduled for launch late 2018. The new TAD process will automate contribution submissions, enrollment, ease payment submission processes and provide online training and phone support. The online TAD process was favorably received by the Panel.

TURN AROUND DOCUMENTS

Mr. James Rose, Fund Support Specialist, demo'd the new electronic submission for all Turnaround Documents (TADs), which is scheduled for launch late 2018. The new TAD process will automate contribution submissions, enrollment, ease payment submission processes and provide online training and phone support.

DECEMBER 31, 2016, ACTUARIAL VALUATION

Patrick Kinlaw, FSA, updated the Advisory Panel on the December 31, 2016, actuarial valuation for the Fund. Mr. Kinlaw presented the key results of the December 31, 2016 actuarial valuation. He reminded the Panel under the actuarial valuation process, current information about members is collected annually by the Retirement Systems staff. This membership data assists the actuary in estimating benefits that could be paid in the future, which is reported annually in October through the actuarial valuation process.

Mr. Kinlaw shared data for active and lapsed members; members' currently receiving benefits; and disabled members eligible for deferred pensions. He reported on the \$383,865,563 market value of assets for the Fund, which experienced a 6.24% net investment return on an annualized market value, below our assumed rate of return of 7.25%. Mr. Kinlaw reported a net investment return of over 13% in 2017, which will assist in making up for years past where the return assumption was not achieved. Mr. Kinlaw highlighted the allocation of investments, which is managed by IMD, with the majority of assets in public equity and fixed income. He reminded the Panel how 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. Mr. Kinlaw shared that since 2006 the Fund has earned an actuarial value of asset return of 6.57% and a market value of asset return of 5.45%.

Mr. Kinlaw highlighted the actuarially determined employer contribution payable per active member for fiscal year ending June 30, 2019 of \$626.28, which consists of \$240.77 for normal cost and \$385.51 for accrued liability. He reminded the Panel we use a 12-year amortization

schedule for accrued liability. He presented that as a result of the recently adopted funding policy (state contribution rate stabilization policy), the total actuarially determined employer contribution for fiscal year ending June 30, 2019 is \$18,302,208.

Mr. Kinlaw highlighted the Fund is 89% funded.

NEEDS OF THE FUND

The Advisory Panel identified the following needs of the fund:

Actuarial

- Continue to seek full funding of the ARC
- Continue to aggressively reduce liabilities
- Maintain a conservative funding policy and appropriate balance on benefits
- Strive to reach a 100% funding status for the fund

Process/Operations

- Continue efforts to complete the ORBiT redesign
- Continue to improve data integrity
- Continue achieving operational goals
- Develop member statements
- Continue to improve Departments' access to service/credit information about each department and its members.
- Continue efforts to reconcile the various member contribution amounts over time and various laws to ensure accuracy of data for members as they near retirement
- Electronic submission of the TADs and contributions – hierarchy of active, inactive, deceased, disabled, and retired members of TAD screen.
- Continue to promote the \$170 benefit in the Fire & Rescue Newsletter to attract and retain members
- Seek feedback from departments, which can be incorporated into process improvements
- Encourage departments to timely report death of a member
- Remind members who are 55 years of age and paid-in-full of their ability to start collecting benefits

Policy/Legislative

- Continue to monitor the Gross Premium Tax since, as the ARC is reduced, there may be an opportunity to increase benefits to the members
- With more and more career firefighters and rescue squad workers consider a tiered benefit for increased benefit for years exceeding 20
- Consider an incentive program to attract and retain members
- Continue to monitor for felony forfeitures to ensure compliance with the statute
- Seek legislation for a vesting period for employer paid contributions on behalf of a member who requests a refund. All member contributions should be returned to the member. All employer paid contributions should be returned to the employer during the vesting period. Vesting period should be at least 5 to 10 years for refund of employer contributions.

The Retirement Systems Division will evaluate the needs of the Fund as shared by the Advisory Panel and incorporate those needs into the ongoing project, where applicable.