

MINUTES

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

JUNE 3, 2015

The annual meeting of the Advisory Panel for the Firefighters' and Rescue Squad Workers' Pension Fund ("Panel") was called to order at 9:30 a.m., June 3, 2015, by the Chair, Steve Toole. The meeting was held in the Dawson Conference Room in the Albemarle Building in Raleigh. The Chair began the meeting with introductions of staff and Panel members.

Members Present

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

Member Absent

No members were absent.

Guests Present

The guests present were: Tim Bradley with the North Carolina State Firemen's Association; Robert Poe with the North Carolina Association of Rescue and E.M.S., Inc.; Larry Langer and Janie Shaw with Buck Consultants; and, Bob Curran with the Attorney General's Office.

Department of State Treasurer Staff Present

The Staff present were: Donna Boyette, Thomas Causey, Linda Enderlin, Jaclyn Goldsmith, Marni Schribman, 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.

Approval of Minutes

It was moved by Kevin Gordon, seconded by Rick McIntyre, and carried that the Panel approve the minutes from the June 25, 2014, meeting.

Presentation by the Consulting Actuary on the Principal Results of Actuarial Valuations, prepared as of December 31, 2013, by Buck Consultants for the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Larry Langer and Janie Shaw to present the Firefighters' and Rescue Squad Workers' Pension Fund actuarial valuation. Mr. Langer explained the valuation process and stated that shifting the valuation period from fiscal to calendar year resulted in an 18-month lag time that is reflected in the December 31, 2013 actuarial valuation. Mr. Langer stated that there are a few key takeaways from the valuation that the Panel should consider. First, the annualized market value returns of 12.42 percent were higher than the 7.25 percent assumed rate of return. Second, recent legislation allows for the in-service distribution of pensions allowed for all members after attaining age 55 and 20 years of service as eligible firefighters or eligible rescue squad workers. Third, adjustments made to the actuarial assumptions intended to estimate the impact of the full audit of the census data for lapsed members resulted in a higher funded ratio of 88.3 percent, compared to 83.9 percent in the June 30, 2012 valuation and a lower employer contribution of \$13,240,552 for fiscal year ending June 30, 2016, compared to the \$14,620,362 required contribution for fiscal year ending June 30, 2014. Ms. Shaw presented the membership data. Mr. Whithman asked to change the following statement in the slide "terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits" to "terminated members entitled to benefits but not yet receiving benefits." Mr. Langer answered that Buck Consultants will change the language and would update the presentation. Ms. Shaw explained the funding methodology and valuation results. Lastly, Mr. Langer presented that the Firefighters' and Rescue Squad Workers' Pension Fund is well-funded compared to its peers for several reasons. Since the inception of the Pension Fund, stakeholders have worked together to keep the Pension Fund well-funded. There have been modest changes in benefits when compared to peers. The funding policy aggressively pays down the unfunded liability over a 12-year period. The Panel agreed that the Status and Needs Report should include continuing to seek full funding of the Annual Required Contribution (ARC), continuing to aggressively reduce liabilities, to maintain a conservative funding policy, and continuing to strive to reach 100% funding status.

Legislation related to the 2015 Long Session of the General Assembly that affects the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Sam Watts, Policy Development Analyst for the Retirement Systems Division ("RSD"), to present an update on the 2015 Long Session of the North Carolina General Assembly and legislation pertaining to the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Watts stated that Senate Bill 99, "Fire, Rescue, & Safety Worker System Changes," would allow the Board of Trustees of the Local Governmental Employees' Retirement System to correct any error to a member's record that results from the submission of incorrect information and to adjust the payment in such a manner that the actuarial equivalent of the benefit to which a member or beneficiary was correctly entitled will be paid, if necessary and practicable. The bill would change the roster certification procedure under Governmental Accounting Standards Board (GASB) accounting standards. The bill would also remove the current requirement that surviving spouses prove that they have not re-married every year for four years after the member's line of duty death in order to remain eligible to receive a benefit

from a deceased member's service. The legislation would amend the line of duty \$50,000 death benefit so that it would be payable in a lump sum, instead of installments over 4 years. Mr. Watts reported that the bill has been heard in the Senate and is to be heard in the House. Mr. Watts also provided an update on the state budget related to the need for additional funds and budgetary flexibility for part-two of the data audit being conducted by Buck Consultants to establish a lapse estimate and for updating the Fire and Rescue module in ORBIT, RSD's online platform. Kevin Gordon suggested that RSD staff should continue to monitor the Gross Premium Tax because as the ARC is reduced there may be an opportunity to increase benefits to the members. The Panel agreed that the Status and Needs Report should include the importance of seeking funding for phase two of the data audit and ORBIT redesign, continuing to monitor the gross premium tax and continuing to evaluate opportunities to increase benefits to the members.

Operations Update

The Chair recognized Thomas Causey, RSD Deputy Director of Operations, and Donna Boyette, RSD Pension Fund Coordinator for the Firefighters' and Rescue Squad Workers' Pension Fund, for an update on operations. Mr. Causey stated that as of January 31, 2015, 1,688 rosters were uploaded into ORBIT and the Department has received more than 1,400 Turn-Around-Document packets from January to April this year. He updated that RSD is currently in compliance with the 48-hour depositing time for checks with Financial Operations Division. Mr. Causey stated that all staff vacancies have been filled since the last update given to the Panel in June 2014. He gave the following updates: incoming calls are at a 3.2 percent abandonment rate, 636 calls were received in April 2015, and calls wait times are currently 20 seconds. He stated that retirement processing metrics have improved significantly over the past year with 84.6 percent of retirements paid in month requested compared to 1.5 percent in April 2014, and that retirement applications are processed within 20.4 days of receipt compared to 243.8 days in May 2014. He also stated that retirement purchases are processed within 16.9 days of receipt compared to 154.7 days in May 2014. Lastly, Mr. Causey gave an update on a recent death match conducted by the division on retirement accounts and it was found that 160 current active status members in the Firefighters' and Rescue Squad Workers' Pension Fund were deceased. At the end of the presentation, Mr. Gordon stated that member statements would be helpful for members to track service throughout their career in order to confirm that service is accurate at the time the member applies for retirement. Mr. Whithman commented that member statements would also assist departments in validating records. Mr. Starling replied that the topic of member statements has been discussed internally and that RSD plans to address these issues in the ORBIT rewrite. The Panel identified the need for developing member statements, the need to improve departments' access to members' credit/service statuses and the need to communicate with lapsed members to encourage return of contributions.

Presentation by Buck Consultants on the Firefighters' and Rescue Squad Workers' Pension Fund Data Audit Project

Mr. Langer and Ms. Shaw gave a presentation on the second phase of the full data audit for the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Langer stated that the actuary had previously assumed that all lapsed members will return to active roster service and become vested in their benefit and that this assumption was due to the lack of readily available data. He stated that the full data audit will allow the actuaries to develop a more probable lapse assumption to determine the number of members who will not return to active roster service. Mr. Langer explained that of the 40,000 members of the Firefighters' and Rescue Squad Workers' Pension Fund, there are approximately 13,500 members who did not receive a year of service credit as of the June 30, 2012, actuarial valuation and that for purposes of the audit, Buck Consultants focused on this 13,500 population to determine the lapse assumption. He reported on the phase one results and stated that the team expected to remove at least 2,500 members from their analysis who are not expected to return to active membership. Based on the cost savings projected, it was assumed that the final lapse assumption will equate to a twenty percent accrued liability and normal cost savings for the remaining lapse population not removed. This assumption equated to a FYE 2015 contributions projection being reduced by \$2.2 million, including a \$1.7 million reduction from the current appropriation, as well as saving an additional \$0.5 million increase. Mr. Langer gave a report on the phase two preliminary results and stated that Buck Consultants has reviewed 11,000 out of the 13,500 records so far. He stated that based on the review thus far, Buck Consultants expects to remove at least 25 percent of lapsed members and if applied to the entire population, this would represent 3,000 members who are not expected to return to active membership, an increase from the initial estimation of 2,500 members from phase one. Lastly, Mr. Langer updated that the project is currently on hold and is awaiting notice from the Retirement Systems to resume with the final review. Mr. Toole stated to the Panel that the project has been delayed due to budgetary constraints, but that the Retirement Systems Division expects to resume the project in the fall of 2015. After the presentation, Mr. Gordon inquired about the cost of accounting for lapsed members and the potential to allow the departments and the Firefighters' and Rescue Squad Workers' Pension Fund to fix and remove inactive members from rosters. Mr. Gordon also asked the cost of continuing to include members with only one year of service in the Pension Fund. Mr. Toole replied that RSD staff would compile data on the costs for including members for one year, three years, five years and ten years of service. Mr. Whithman stated that 2/3 of the membership on roster are inactive and that departments could help with identifying and communicating the lapsed members. Mr. Gordon asked RSD staff to look into the definition of inactive member. The Panel agreed that the Status and Needs Report should include the need for completion of the data audit and the data cleanse of the Pension Fund's records.

Plan of Work and Timeline for Redevelopment of ORBIT Record Keeping Software

The Chair recognized David Starling, RSD Director of Constituent Services, for an update on the plan of work and timeline for the redevelopment of ORBIT for the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Starling explained the timeline and stated that the project would require 22,700 hours and considerable resource hours. He stated that RSD's

relocation to DST's new Atlantic Avenue location is consuming significant IT hours and has halted the project until the move is completed in September, 2015. Mr. Starling explained that RSD is facing many challenges as it continues to redevelop ORBIT, including: competing projects, developers and business analyst's unavailability due to the move, end of year operational priorities and lack of budget to hire contract developers and business analysts.

Status and Needs of the Firefighters' and Rescue Squad Workers' Pension Fund

The Chair, Steve Toole, stated to the Panel that RSD staff would send a drafted report and schedule a conference call to discuss, receive comments and approve the report before delivering it to the Board of Trustees of the Local Governmental Employees' Retirement System at the July board meeting.

Adjournment

There being no further business, Kevin Gordon moved for adjournment of the meeting, which was seconded by Debra Poe and carried. The meeting adjourned at 11:32 a.m.

CHAIR