June 17, 2014

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

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As required annually by statute, the Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel (Advisory Panel) met on May 15, 2014 for an extensive review of the Firefighters' and Rescue Squad Workers' Pension Fund (Fund). At the meeting, the Advisory Panel's agenda items included the following:

- Overview of the Fund
- June 30, 2012 Actuarial Valuation of the Fund
- North Carolina's General Assembly's Program Evaluation Division report on the Fund
- Response by the Department of State Treasurer's Retirement Systems Division (RSD) on the Program Evaluation Division's report
- Update and tour of RSD Operations
- Buck Consultant's progress on the Firefighters' and Rescue Squad Workers' Pension Fund Data Cleanse project
- Project scope and high-level timeline of RSD's ongoing efforts to improve administration of the Fund

As established by statute, the Advisory Panel is pleased to submit the following 2014 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

In the last 18 months, the Fund has been closely examined by representatives from the NC General Assembly, its Program Evaluation Division, System Actuary and Retirement's internal staff. This analysis shows that many activities are currently in an active status.

Financial – as of June 30, 2012, 11,912 retired members are currently receiving benefits. There are 40,870 active members of the Fund with market value assets of $317.9 million, and an actuarial accrued liability of $403.8 million. The funded ratio is 83.9 percent.

In order to be eligible for a benefit, a Firefighters' & Rescue Squad Workers' Pension Fund member must have 20 years of roster service and 20 years of contributions. Many members leave before becoming vested (reaching 20 years of roster service). These members are called "lapsed" members. Buck, as the actuary, currently assumes that all lapsed members will return to active roster service and ultimately become vested. A more probable lapse assumption was not previously developed due to the lack of readily-available data. A "deeper dive" research

project was performed in order to assess the ability to create a lapse assumption that would reduce both future liabilities and the State's contribution requirement to the Plan.

Buck reviewed 1,000 lapsed members for employment history accuracy and 100 non-lapsed members to confirm employment history accuracy. Based on this review, the following assumptions will be used going forward:

- Members who had service in year of hire, then lapse, then service in 2004-2005-2006: we will assume 50% of this population will not return and become vested
- Members who had service only in their year of hire (2011 or prior): we will assume 50% of this population will not return and become vested
- Lapse of greater than 6 years and returned to work: we will assume 65% of this population will not return and become vested

Based on these results, the FYE 2015 funding contribution should be reduced by $2.2 million. Staff and Buck are in contract negotiations to have the entire lapsed population reviewed.

Operations – from January to March 2014, Retirement received more than 1,400 Turn-Around Document packets. Retirement averaged an 8-day processing time during that period, surpassing the goal of 12 days. Retirement is in full compliance with the 48 hour depositing time for checks with Financial Operations Division, receipt of the rosters by January 31 from the Associations and cutoff of contribution processing 90 days following the end of the calendar year.

Due to a number of issues (primarily staff turnover and training) Retirement is currently challenged with processing member Retirements, which are currently taking 45 – 60 days. Additionally, staff is experiencing prior service purchase processing delays, with service verifications taking 60 – 75 days. Despite being short staffed, the team has a number of initiatives underway, which should facilitate improvement, including:

- Staff recruitment (Supervisor and two processing Analysts)
- Cross-training Staff to reduce key-person risk
- Continue to leverage temporary employees to offset staff shortage
- Leverage required overtime where applicable

Staff is working with the Communication team to improve educational materials and forms for improved member comprehension. The team continues to be committed to quality and timely service and will continue to work diligently to achieve success.

Infrastructure – Retirement Systems record keeping platform, ORBiT, was never designed for the specific requirements associated with this Fund. This creates additional challenges for Operations as ORBiT was primarily designed for the State and Local retirement systems, which have vastly different operational requirements from a processing perspective.

As a result, Retirement is in the process of a complete rewrite of ORBiT for the Fund. We have defined our Scope and are currently gathering Business Requirements. Upon completion of Requirements, IT will develop a Design document and seek approval from Retirement. Upon approval, IT will commence Development. This is a multi-year effort. Our Scope has been defined as follows:

- Enrollment
- Turn-Around-Documents Submission Process
- Contributions via Electronic Fund Transmission
- Processing Turn-Around-Documents
- Department & Member Self Service
- Interagency transfers
- Service Purchases
- Refunds
- Maintain Department information
- Retirement processing
- Roster processing
- Restore member withdrawn accounts
- Maintain member status (disability, leave of absence, etc.)

Approximately 20 individual project elements are associated with the ORBiT rewrite for the Fund. Currently, we have signed off on the overall project Scope, completed requirements for Enrollment, and are 75 percent completed on the Turn-Around-Document Requirements.

Program Evaluation Division – As directed by the North Carolina General Assembly's Joint Legislative Program Evaluation Oversight Committee, the Division examined the Fund. Kiernan McGorty, with the Program Evaluation Division, presented their findings from their review. The headline read:

*Department of State Treasurer Should Strengthen Its Oversight of
the Firefighters' and Rescue Squad Workers' Pension Fund*

Their summary findings are as follows:

- The Pension Fund is adequately funded, but the State's annual required contribution now exceeds the amount of property insurance premium tax proceeds going to the General Fund
- Legislative inquiries, starting in 2012, revealed problems with the Department of State Treasurer's administration of the Fund
- Because the Department of State Treasurer is taking steps to address the issues, the Program Evaluation Division recommends that the General Assembly require the Department to report annually on its progress to the House State Personnel Committee and the Senate Pensions & Retirement and Aging Committee.

Legislation – Retirement Policy and Legislative Affairs teams are actively pursuing legislation in support of the Fund during this year's short-session. The bill draft clarifies existing practice with respect to the Fund. It would also provide for eligibility of pension payments to all participants aged 55 and older who have paid the required contribution per month for the required 20 years (the maximum contribution time), regardless of whether they have actually retired from firefighting or rescue squad work. This extension of payments is contingent on the pension fund having sufficient funds to do so. On Tuesday, May 20, the bill draft was unanimously approved by the House Committee on Finance and was sent to the floor.

NEEDS OF THE FUND

The Advisory Panel held a brainstorming session to identify the needs of the Fund. Those results are as follows:

Process/Operations

- Continue momentum towards fixing the ORBiT infrastructure
- Develop an ability to identify inactive members and remove them from the Turn-Around-Documents
- Leverage field level users in support of the ORBiT infrastructure rewrite
- Develop a certification validation by Department
- Develop member statements
- Perform member account service audits to ensure integrity of data and speed of future processing
- Easier access on Department level to service/credit information on department and members. Currently have members setup on ORBiT accounts and give log-in information to Chief and/or Treasurer

Policy

- Create a vesting period for personnel given dues paid by Department. Will allow non-vested refunds to be paid to Department
- Continue to fully fund the Pension Fund
- Develop a Cost of Living Adjustment policy
- Allow members to purchase time
- Develop a clear line/date or cutoff when membership will be terminated
- Clearly define 36-hour training requirement, and whether a member who works only a portion of the year is required to have 36 hours of training
- Evaluate today's Survivor Benefit – LODD ($2,400) – A career ending injury/illness is worth more than the death of a responder

Communication

- Train Retirement personnel to accurately answer questions or direct a person how to get the answer
- Communicate to each Department all that has been done– they need to hear about the progress Retirement is making on their behalf
- Notify Departments of delinquencies of contributions via email or other electronic means
- Need for some form of communication to general membership on status of projects – possibly attendance of Retirement at regional meetings
- Some means of educating members on the complexity of administration (benefit increase, etc.)
- Issue reminders of contributions due to departments

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

The meeting adjourned at 1:03 PM.