



RETIREMENT SYSTEMS DIVISION

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Decisions on the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)

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

For the fiscal year ending in 2020, item (1) is equal to the appropriation for the fiscal year ending in 2019 (\$18,302,208) plus \$350,000, or \$18,652,208.

For the fiscal year ending in 2020, item (2), the ADEC amount, is \$14,323,684 according to the most recent FRSWPF actuarial valuation report. The ADEC for FY 2020 is the mathematical baseline contribution amount that would fund the system using the Board's assumptions adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2017.

Therefore, the SCRSP results in a recommended state contribution of \$18,652,208 for the fiscal year ending in 2020, which is the greater of item (1) or item (2).

Benefit Increase. Under the SCRSP, a benefit increase may be considered when FRSWPF has undistributed investment gains, meaning that FRSWPF's deferred gains exceed its deferred losses. According to the consulting actuary's valuation report as of December 31, 2017:

- Undistributed investment gains at December 31, 2017, were approximately \$5.95 million.
- If the General Assembly appropriates the funding indicated by the SCRSP for the fiscal year ending in 2020, then the state contribution for the fiscal year would exceed the actuarially determined amounts by approximately \$3.2 million¹. This contribution would fully fund the actuarial accrued liability of approximately \$2.8 million associated with a \$1 increase in the monthly benefit (from \$170 to \$171 per month).
- An increase of \$1 would increase the monthly benefit by 0.6 percent, which is less than the Consumer Price Index increase that the actuary estimated as 2.1 percent.

Consideration of a benefit increase should also take into account the following factors:

- Although FRSWPF had undistributed investment gains as of December 31, 2017, the Retirement Systems' in-house actuary estimates that FRSWPF will have net deferred losses (rather than gains) of \$15 million to \$25 million as of December 31, 2018.

¹ For this purpose, contributions are compared to an actuarially determined contribution amount that fully reflects the Board's assumed rate of return of 7 percent per year, rather than employing the "direct rate smoothing" that is used in the minimum funding calculations.

- Under the SCRSP, a benefit increase would require an increase in the member contribution rate to achieve a balance of cost sharing closer to 50/50 between members and the state. Members currently contribute \$10 per month over the course of 20 years (a total of \$2,400). As documented in the consulting actuary's valuation report, a benefit increase would require that the member contribution be increased to \$15 per month.

Policy Options for Consideration by the Board of Trustees. The following policy options are available to the Board. Staff is making no recommendation between the two options.

- **Option 1.** Recommend an increase in the state contribution to \$18,652,208 for the fiscal year ending in 2020, pursuant to the SCRSP. Recommend that the monthly benefit be increased from \$170 to \$171, and the monthly member contribution rate be increased from \$10 to \$15.
- **Option 2.** Recommend an increase in the state contribution to \$18,652,208 for the fiscal year ending in 2020, pursuant to the SCRSP. Recommend that the benefit and contribution rates be unchanged, in light of the likely deferred asset losses as of December 31, 2018.