



January 25, 2018

Decisions on Local Governmental Employees' Retirement System (LGERS)

Issue. The LGERS Board of Trustees (the Board) adopted the *Employer Contribution Rate Stabilization Policy (ECRSP)* on January 21, 2016. The ECRSP intends to provide predictable incremental increases in the employer contribution rate to ameliorate any potential adverse experience. **In summary, for the fiscal year ending in 2019, the ECRSP results in a recommended contribution rate for General Employees of 7.75 percent of payroll and a recommended contribution rate for Law Enforcement Officers of 8.50 percent of payroll.**

Under the ECRSP, the contributions for general employees were set at 7.25 percent of payroll for the fiscal year ending in 2017 and will increase each fiscal year by 0.25 percent of payroll, with the following additional adjustments, if applicable:

1. If the underlying Actuarially Determined Employer Contribution (ADEC) for a given fiscal year is 50 percent greater than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases by 0.50 percent of payroll.
2. If the underlying ADEC for a given fiscal year is 50 percent less than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years decreases by 0.50 percent of payroll.
3. Law Enforcement rates will be 0.75 percentage points greater than General Employee rates.
4. If the General Assembly grants any additional COLA beyond the COLA amount approved by the Board, increases the multiplier for active employees or changes the benefit structure in a way that has a cost to the system, the schedule of contributions for the current and future fiscal years will be increased to offset that cost factor.
5. The cost of any allowable COLA granted by the Board under the authority allowed by statute will not impact the scheduled contribution rates.

The most recent LGERS actuarial valuation report documents the recommended ADEC rates for the fiscal year ending in 2019. The ADEC for FY 2019 is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 21, 2016, and using plan population and asset information as of December 31, 2016. The ADEC rates for FY 2019 are as follows:

- General employees (including firefighters) rate is 7.40 percent, which is less than the recommended FY 2019 contribution rate of 7.75 percent under the ECRSP, and is less than the FY 2018 employer contribution rate of 7.50 percent for general employees.

- Law enforcement officers rate is 8.99 percent for law enforcement officers, which is greater than the recommended FY 2019 contribution rate of 8.50 percent under the ECRSP, and also is greater than the FY 2018 employer contribution rate of 8.25 percent for law enforcement officers.

Since the ADEC rates are within 50 percent of rates otherwise set under the ECRSP, they do not automatically cause any adjustments under items (1) or (2) above.

Cost of Living Adjustment (COLA). Based on the actuarial investment loss recognized in this December 31, 2016, valuation, no Cost-of-Living Adjustment (COLA) that would be effective July 1, 2018, may be granted by the Board under G.S. 128-27(k). Further, based on the methods and assumptions provided by Conduent to the Board in October 2017, we estimate that a potential COLA effective July 1, 2019, may be granted by the Board following the December 31, 2017, valuation as follows:

1. If calendar year 2017 market value returns exceed 16.7 percent (or about \$3.8 billion for LGERS), the plan is estimated to have an actuarial investment gain (rather than a loss) and a COLA could be considered; and
2. If calendar year 2017 market value returns exceed 19.9 percent (or about \$4.6 billion for LGERS), the plan is estimated to have an actuarial investment gain (rather than a loss) and such gain may be enough to provide a one percent COLA.

Policy Option for Consideration by the Board of Trustees. Set the Employer Contribution Rates as Required by the Employer Contribution Rate Stabilization Policy: Increase the employer contribution rate for general employees (including firefighters) from 7.50 percent to 7.75 percent, and increase the employer contribution rate for law enforcement officers from 8.25 percent to 8.50 percent, in accordance with the ECRSP that was previously adopted by the Board. The additional cost to employers for fiscal year ending 2019 would be \$15.6 million.

Staff Recommendation.

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 2019, item (1) is equal to the appropriation for the fiscal year ending in 2018 (\$17,952,208) plus \$350,000, or \$18,302,208. Item (2) is \$14,544,083 according to the most recent FRSWPF actuarial valuation report. Therefore, the SCRSP results in a recommended state contribution of \$18,302,208 for the fiscal year ending in 2019.

Policy Option for Consideration by the Board of Trustees. Recommend an Increase to State Contribution to Fund the State Contribution Rate Stabilization Policy: Recommend the legislature increase the employer contribution to \$18,302,208 for fiscal year ending 2019, pursuant to the SCRSP. **Staff Recommendation.**

Benefit Increase. Under the State Contribution Rate Stabilization Policy, an increase to the monthly benefit is considered when the Fund has an actuarial value of asset gain in the prior year and when the Fund's deferred asset gains exceed the Fund's deferred asset losses at the valuation date. Since the FRSWPF experienced an asset loss during 2016, a monthly benefit increase is not recommended under SCRSP.

Decisions on the Register of Deeds' Supplemental Pension Fund

Issue. The estimated ADEC of \$0 for the fiscal year ending in 2019 is less than the 1.5 percent of monthly receipts collected pursuant to Article 1 of Chapter 161 of the N.C. General Statutes. (Statutory amounts collected were \$853,599 in calendar year 2016 and \$810,996 in calendar year 2015.) Additionally, the fund is over-funded with a funded ratio of 154.5 percent based on the assumptions adopted by the Board in April 2016 and incorporated into the most recent actuarial valuation.

Based on these facts, the monthly benefit amount could be increased. However, increasing the maximum monthly benefit from \$1,500 to \$1,550 for future and current members in receipt of benefits would produce an ADEC above \$0.

Policy Option for Consideration by the Board of Trustees. Recommend no change to Current Benefit Structure Based on Approved Experience Study Assumptions: Recommend no change to the current benefit structure. ***Making no recommendation does not require a vote of the Board.***

Summary of Alternatives For Presentation to The 2018 General Assembly

Retirement System	Employer Contributions	Enhance Benefits
Local Governmental Employees' Retirement System	Increase employer contribution rate ¹ by 0.25 percent for general employees and firefighters and by 0.25 percent for law enforcement officers for a cost in the first year to employers of \$15,624,032	No undistributed gain available for benefit enhancements
Firefighters' and Rescue Squad Workers' Pension Fund	Increase employer contribution ² by \$350,000 ³	Increases not available this year under SCRSP
Register of Deeds' Supplemental Pension Fund⁴	No change to employer contributions	Increases have not been requested or contemplated

FOOTNOTES:

¹The current employer contribution rates are 7.50 percent for General Employees and Firefighters and 8.50 percent for Law Enforcement Officers. The total estimated payroll for the 2017 Session of the General Assembly was \$6,249,613,000, which includes \$5,111,218,000 for General Employees and Firefighters and \$1,138,395,000 for Law Enforcement Officers.

²The total appropriated employer contribution for fiscal year ending June 30, 2018, is \$17,952,208.

³Note that under the State Contribution Rate Stabilization Policy, the contribution increases by \$350,000 instead of decreasing by \$3,408,125.

⁴The total ADEC for fiscal year ending 2019 is \$0 after taking into account the fund assets in excess of the actuarial accrued liability. Contributions to the fund are set by statute.