

Decisions on Local Governmental Employees' Retirement System (LGERS)

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of 6.25 percent for general employees (including firefighters) and 7.84 percent for law enforcement officers is lower than the current employer contribution rate of 7.25 percent for general employees and 8.00 percent for law enforcement officers. The ADEC is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 21, 2016. Further, the LGERS Board of Trustees (the Board) adopted the *Employer Contribution Rate Stabilization Policy (ECRSP)* on January 21, 2016, a policy that serves to provide predictable incremental increases in the employer contribution rate to ameliorate the forecasted interest rate environment. Under this approach, the contributions for general employees were set at 7.25% of payroll for fiscal year ending 2017 and will increase each fiscal year by 0.25% per year, with the following additional adjustments, if applicable:

- (1) if the underlying ADEC for a given fiscal year is 50% higher than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal years increases 0.50%;
- (2) if the underlying ADEC for a given fiscal year is 50% lower than the scheduled employer contribution rate for that fiscal year, the scheduled employer contribution rate for the current and future fiscal year decreases 0.50%;
- (3) Law Enforcement rates will be 0.75% higher than General Employee rates;
- (4) if the General Assembly grants any additional COLA beyond the amount of COLA 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 by the cost of the additional COLA, increased multiplier or other benefit enhancement; and
- (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 Employer Contribution Rate Stabilization Policy results in a recommended contribution rate for General Employees of 7.50% of payroll and a recommended contribution rate for Law Enforcement Officers of 8.25% of payroll for fiscal year ending 2018.

Policy Option for Consideration by the Board of Trustees

Option One – Set the Employer Contribution Rates As Required by the Employer Contribution Rate Stabilization Policy:

Increase the employer contribution rate of 7.25 percent for general employees (including firefighters) to 7.50 percent and the employer contribution rate of 8.00 percent for law enforcement officers to 8.25 percent in accordance with the Employer Contribution Rate Stabilization Policy that was previously adopted by the Board. The additional cost to employers for fiscal year ending 2018 would be \$15.0 million. **Staff Recommendation.**

Given the investment losses in 2015, the Board may not grant a COLA under the authority allowed by statute.

Decisions on the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) – *[with State Contribution Rate Stabilization Policy]*

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of \$14,287,301 is lower than the appropriation for fiscal year ending 2017 of \$17,602,208. Therefore, the allocated state budget could decrease by \$3,314,907 to fund the new ADEC. However, Session Law 2016-108 requires that the Board develop a State Contribution Rate Stabilization Policy (SCRSP) for the FRSWPF. Under the SCRSP, recommended state contributions would be the greater of (1) the prior year's appropriation plus \$350,000 and (2) the actuarially determined contribution. The SCRSP results in a recommended state contribution of \$17,952,208 for fiscal year ending 2018.

Policy Option for Consideration by the Board of Trustees

Recommend an Increase to State Contribution to Fund the State Contribution Rate Stabilization Policy: Pursuant to the SCRSP Policy, the Board would be recommending the legislature increase the employer contribution to \$17,952,208 for fiscal year ending 2018. **Staff Recommendation.**

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 2015, a monthly benefit increase is not recommended under SCRSP.

Decisions on the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) – [without State Contribution Rate Stabilization Policy]

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of \$14,287,301 is lower than the appropriation for fiscal year ending 2017 of \$17,602,208. Therefore, the allocated state budget could decrease by \$3,314,907 to fund the new ADEC. However, Session Law 2016-108 requires that the Board develop a State Contribution Rate Stabilization Policy (SCRSP) for the FRSWPF. Under the SCRSP, recommended state contributions would be the greater of (1) the prior year's appropriation plus \$350,000 and (2) the actuarially determined contribution. The SCRSP results in a recommended state contribution of \$17,952,208 for fiscal year ending 2018.

Two Policy Options for Consideration by the Board of Trustees

Option One – Decrease the State Contribution to Fund the ADEC:

Recommend the legislature decrease the employer contribution to \$14,287,301 for fiscal year ending 2018 to fund the estimated ADEC.

Choosing this option with no further action, would not meet the legislature's requirement that the Board develop a rate stabilization policy.

Option Two – Recommend an Increase to State Contribution to Fund the ADEC and a \$10 Increase to Monthly Benefit:

Recommend the legislature increase the employer contribution to \$18,207,371 for fiscal year ending 2018. This would cover the ADEC and a \$10 increase to the monthly benefit.

Choosing this option with no further action, would not meet the legislature's requirement that the Board develop a rate stabilization policy.

Decisions on the Register of Deeds' Supplemental Pension Fund

Issue: The estimated Annual Required Contribution (ARC) of \$0 is less than the 1.5% of monthly receipts collected pursuant to Article 1 of Chapter 161 of the N.C. General Statutes. Additionally, the fund is over funded with a funded ratio of 155.9% based on the assumptions adopted by the Board in April 2016 and incorporated into the most recent 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 ARC 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 2017 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Local Governmental Employees'	Increase employer contribution rate ¹ by 0.25% for general employees and firefighters and by 0.25% for law enforcement officers for a cost in the first year to employers of \$15,045,655	No undistributed gain available for benefit enhancements
Firefighter's 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 Fund ⁴	No change to employer contributions.	Increases equal to \$914,794.

FOOTNOTES:

¹The current employer contribution rates are 7.25% for General Employees and Firefighters and 8.00% for Law Enforcement Officers. The total estimated payroll for the 2016 Session of the General Assembly was \$6,018,262,000, which includes \$4,915,584,000 for General Employees and Firefighters and \$1,102,678,000 for Law Enforcement Officers.

²The total appropriated employer contribution for fiscal year ending June 30, 2017 is \$17,602,208.

³Note that under the State Contribution Rate Stabilization Policy, the contribution increases by \$350,000 instead of decreasing by \$3,314,907.

⁴The total ARC for fiscal year ending 2018 is less than \$0 based on a 30-year amortization of the unfunded accrued liability, which is not allowed under GASB 67/68. Therefore, the accrued liability contribution was set such that the total employer ARC equals \$0. Based on the assumptions from the experience study, the Annual Required Contribution (ARC) for fiscal year ending 2018 would be \$(914,794).