

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
RETIREMENT SYSTEMS DIVISION

JANET COWELL  
TREASURER

STEVE TOOLE  
RETIREMENT SYSTEMS DIRECTOR

## Agency Participation Procedures Act of 2015 – HB 276

This act revises the procedures for entry to and exit from the Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) by public agencies in order to protect the fiscal integrity of the systems.

**Statutes Affected:** 120-114(f) & (g) (*proposed*); 135-5.3; 135-8(i) (*proposed*); 128-30(i) (*proposed*)

**Primary Sponsors:** Ross, Gill, Goodman, and McNeill

**Cost:** Actuarial Analysis is Pending

**Type of Bill:** Public Agency Bill requested by the Department of State Treasurer

### SECTION ONE: Remove Barriers to Participation for Charter Schools

This section removes the 30-day time limit restriction for charter schools to elect to participate in TSERS and requires the board of directors of an entering charter school to adopt a written resolution acknowledging acceptance of the terms and conditions of membership, including the exit procedures in Section Three. This section also provides that the Board of Trustees will approve entry for a charter school based on the results of an actuarial, financial, and legal review.

### SECTION TWO: Require Review Prior to Changing Employer Participation in TSERS or LGERS

This section requires the Fiscal Research Division to obtain an opinion from the Attorney General for any legislation that would add an agency to TSERS or LGERS to evaluate whether the agency is eligible for participation. It also requires the Fiscal Research Division to obtain an estimate of the cost of the applicable withdrawal liability for any legislation that would remove an agency from TSERS or LGERS.

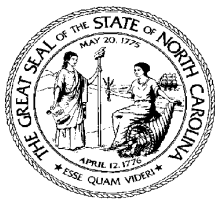
### SECTION THREE: Require Payment of Withdrawal Liability for an Exiting Agency

This section requires any agency exiting the Retirement Systems that has participated in TSERS or LGERS for more than one year to pay a withdrawal liability before exiting. This withdrawal liability is determined by the Boards of Trustees on advice of the consulting actuary to reflect the exiting agency's share of the System's unfunded accrued actuarial liability plus a risk premium that covers the increased investment, mortality and other actuarial risk for the exiting agency's participants until all benefit obligations for these participants have been paid.

### SECTION FOUR: Effective Date

This act becomes effective July 1, 2015

*Prepared by Retirement Systems Division staff, March 20, 2015*



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## **Retirement Administrative Changes Act of 2015 – HB 277**

The Department of State Treasurer aims to provide public employees and retirees, including teachers, police officers, firefighters, and public servants from all over the state with secure pensions and retirement. This legislative proposal incorporates provisions that will clarify interpretations of current law and increase efficiency of administration of the retirement systems administered by the Department.

**Statutes Affected:** 111-47.3 (*proposed*); 115C-438; G.S. 126-5(c13) (*proposed*); 120-4.31 (*proposed*) 150B-21.3A (*proposed*); 128-21(10a) & (10b) (*proposed*); 128-24(5)e. (*proposed*); 128-27(l); 128-27(m3) (*proposed*); 128-30(g) (*proposed*); 128-30(g)(3); 147-69.2(b); 147-77; 135-1(20); 135-3(8)f. (*proposed*); 135-5(l); G.S. 135-5(m4) (*proposed*); 135-8(f) (*proposed*); 135-8(f)(3); 135-74(c1) (*proposed*); G.S. 135-91(c); and 135-96.

**Primary Sponsors:** Ross, Gill, Goodman, and McNeill

**Cost:** Actuarial Analysis is Pending Completion for sections 4, 8, 10, 11, and 12

**Type of Bill:** Public Agency Bill requested by the Department of State Treasurer

### **SECTION ONE: Change Term Length and Impose Term Limits for Supplemental Board Members**

The section changes the length of terms for members of the Supplemental Retirement Board of Trustees from two years to three years. It also sets a limit of two consecutive terms and staggers the expiration of the terms in order to ensure stability, flexibility, and continuity of governance.

### **SECTION TWO: Revenue from Food Service Contracts to Services for the Blind**

This section authorizes the Department of State Treasurer to contract with vendors for food services for employees. The net proceeds from such contracts will be transferred to the Division of Services for the Blind.

### **SECTION THREE: Clarify Investment Statutes for Commingled Fixed Income**

Amends the types of investment entity structures that are authorized for the State's externally managed fixed income investments. Currently, commingled vehicles such as limited partnerships, limited liability companies, and group trusts are authorized for the State Treasurer's other asset classes, but not fixed income. This provision would amend existing law to authorize externally managed fixed income investments to be made either by commingled structures or by investment management agreements, giving investments staff flexibility to evaluate the most cost-effective structures. This section also increases the maximum allowable waiver to public agencies for Daily Deposits into the state banking system, which has not been updated since 1985.

### **SECTION FOUR: Clarify Statute to Encourage Volunteering during Separation of Service Period**

This section clarifies the volunteer service provision in the definition of retirement under TSERS so as not to discourage retirees from working as volunteers in positions normally classified as *bona fide* unpaid volunteer positions during the six months following their effective date of retirement (the "separation of service" period). This clarification is intended to reduce the uncertainty surrounding return-to-work restrictions in statute and thereby encourage retirees to work as volunteers for State agencies. Additionally,

this section includes a technical correction that clarifies the distinction between the definition of retirement under TSERS and the definition of retirement for judges.

#### **SECTION FIVE: Require Employer Attestations of Data Accuracy**

This section requires participating employers to attest to the accuracy of their monthly data submissions to the Retirement Systems Division as part of ongoing annual audit procedures for compliance with latest standards from the Governmental Accounting Standards Board of the Financial Accounting Foundation.

#### **SECTION SIX: Improve Tools to Collect Monies Owed to the Retirement Systems**

This section improves the tools available to collect monies owed to the Retirement Systems by allowing the Office of State Budget and Management (OSBM) to redirect a portion of State-appropriated funds equivalent to the amount of monthly contributions due to the Retirement Systems if an employer fails to submit payment within 90 days.

#### **SECTION SEVEN: Clarify Rule-Making Provisions**

This section grants the Boards of Trustees the flexibility to prevent the expiration of administrative rules that protect inchoate rights of members of the Retirement System.

#### **SECTION EIGHT: Clarify Application of the 1,000-Hour Rule for LGERS Membership**

As recommended by the Department Committee reviewing Return-to-Work Legislation, this section clarifies the application of the “1,000-Hour Rule” and revises the definition of “employee” to exclude temporary employees and statutorily defined Interim City and County Managers.

#### **SECTION NINE: Human Resources Flexibility for Retirement Systems Division**

This section provides an exemption from the State Human Resources Act for staff of the Supplemental Retirement Plans.

#### **SECTION TEN: Clarify Procedures for Required Minimum Distributions**

This section clarifies the procedures for paying a member’s Required Minimum Distributions from the member’s accumulated contributions to the Retirement Systems and the conditions under which these procedures apply.

#### **SECTION ELEVEN: Adjust Calculation of Final Compensation for Death Benefit Payments**

This section replaces the current calculation of death benefit payments to members who die in active service with a flat-rate benefit payment of \$50,000, regardless of final compensation. This change eliminates ambiguity in the proper calculation of final compensation, reduces the administrative complexity associated with death benefit payments, and establishes a more consistent and equitable benefit for all members of the Retirement Systems.

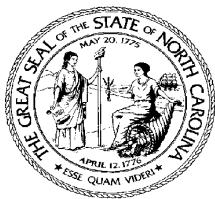
#### **SECTION TWELVE: RTW Enforcement Flexibility**

This section changes the enforcement policy for *de minimus* separation of service violations.

#### **SECTION THIRTEEN: Effective Date**

This act becomes effective October 1, 2015, with the exception of Section 11, which becomes effective January 1, 2016.

*Prepared by the Retirement Systems Division staff, March 19, 2015*



NORTH CAROLINA  
**DEPARTMENT OF STATE TREASURER**  
RETIREMENT SYSTEMS DIVISION

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## **Retirement Technical Corrections Act of 2015 – HB 274**

The Department of State Treasurer aims to provide public employees and retirees, including teachers, police officers, firefighters, and public servants from all over the state with secure pensions and retirement. In some instances, the Retirement Systems Division must provide necessary corrections and clarifications to existing statutes and laws to continually provide this service to members.

**Statutes Affected:** 114-2.4A(c); 128-29.1; 128-38.10(f); G.S. 135-1(10); 135-106(b); G.S. 135-151(e); G.S. 135-4(g)

**Primary Sponsors:** Gill, L. Bell, Elmore, and Waddell

**Cost:** None, these are technical policy changes only

**Type of Bill:** Public, agency bill requested by the Department of State Treasurer

### **SECTION ONE: Clarify TSERS Membership Definition**

This section clarifies the definition of membership in TSERS as requiring at least 30 hours per week for nine or more months of the year. These revisions observe the opinion of NC Supreme Court from 1997 in *Wiebenson v. Bd. of Trustees*.

### **SECTION TWO: Conform Change in Disability Offset for Social Security**

This section conforms a disability offset date to other instances of this offset.

### **SECTION THREE: Change Asset Transfer Date for IRS 415(m) Plans**

This section changes the annual deadline for transfers of assets from supplemental employer funds to pension accumulation from the end of the fiscal year to the end of the calendar year. The purpose of this section is minimize the amount of time that funds will remain in a benefit payment account and to align administrative practices and pertinent statutes.

### **SECTION FOUR: Repeal Vestigial LGERS Investment Statutes**

This section repeals superceded LGERS investment statutes that formerly corresponded with their counterparts in the TSERS investment statutes, which were repealed in 1979.

### **SECTION FIVE: Conform State Law for Funds Recovered from Legal Settlements to Federal Law**

This section clarifies a recently amended law pertaining to the rules surrounding funds recovered from legal settlements to correct a conflict with the Federal Exclusive Benefits rule.

### **SECTION SIX: Uniformed Services Employment and Reemployment Rights Act (USERRA)**

This section conforms a service purchase statute in the Teachers' and State Employees' Retirement System to federal law related to the treatment of active duty military service. The Retirement System has handled these cases correctly under the federal law, but the state statute has not been updated to reflect Uniformed Services Employment and Reemployment Rights Act (USERRA).

### **SECTION SEVEN: Effective Date**

This act becomes effective July 1, 2015.

*Prepared by the Retirement Systems Division staff  
March 30, 2015*



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
RETIREMENT SYSTEMS DIVISION

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March 17, 2015

TO: Lisa Hollowell, Fiscal Analyst

FM: Steve Toole, Retirement Director

RE: Retirement Systems Division FY 2016 Expansion Budget needs for consideration  
by the General Government Appropriations Subcommittee during 2015 Session

The Retirement Systems Division anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% from 2012 to 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. Currently, the North Carolina Retirement Systems (NCRS) is one of the most cost-effective retirement systems in the nation, costing just \$23 per member to administer, compared to a peer average of \$87 per member, and boasting a member-to-employee ratio of 5,796 members served per employee, compared to a peer average of 1,271 members served per employee. Despite low administration costs, the funded status of the North Carolina Retirement Systems is currently the second highest in the nation. However, as the systems' membership continues to grow, it has become increasingly difficult to effectively administer the retirement and other benefit plans and programs managed by RSD. The Division is currently faced with three central problems:

- 1) Significant technological limitations;
- 2) Prohibitive inflexibility of personnel management and compensation; and
- 3) Diminished capacity to maintain effective customer service in the future.

Because RSD is currently unable to address these issues due to budgetary constraints, RSD proposes the following budget expansion requests that would provide the necessary funding and authority to implement a series of technological, informational, and manpower changes aimed at addressing these issues and improving the operational efficiency and long-term financial standing of the pension funds. Since the Division is entirely receipt-supported, none of these requests impact General Fund availability for FY 2016.

Six expansion requests:

- ORBiT Online Self-Service/Retirement (\$850,000 non-recurring, \$350,000 recurring, 3 FTE)
- Salary Reserve Pool: a) Temporary & Contract Services (\$890,000 recurring); b) Market Salary/Equity Adjustment (\$775,000 recurring)
- Call Center Modernize/Software & Equipment (\$325,000 non-recurring & \$65,000 recurring)
- Firefighters & Rescue Squad Workers' Data Audit/Administration (\$660,000 non-recurring one-time re-purpose of a recurring appropriation)
- Retiree Contributory Death Benefit Open Enrollment (\$175,000 non-recurring)
- Financial & Audit Services (\$142,000 recurring)

## **NC Department of State Treasurer, Retirement Systems Division (RSD)**

### **Online Self-Service & Other Automation Services**

The Retirement Systems Division anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% from 2012 through 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. This request would significantly improve the operational efficiency of the Retirement Systems Division and allow us to better serve our members by enhancing our staff's capacity to handle the current workload, as well as reduce the costs of a continually growing population of active and retired public workers in North Carolina. The additional funding in this request would enable RSD to develop enhancements to its self-service portal, Online Retirement Benefits through Integrated Technology (ORBIT), to allow members to apply for retirement benefits, disability benefits, and refunds of contributions as well as make all beneficiary changes online. This budget request includes funding for three new modules in the self-service portal and is expected to require approximately 24 months of full-time work by two contracted developers at an average cost of \$100 per hour each (for a total anticipated cost of \$832,000) to plan, develop, and implement these technological enhancements. Solicitation of competition by outside firms would be required for this project. In addition, this request includes two (2) permanent developer positions and one (1) permanent business analyst position who will work closely with the two (2) contracted developers during the planning and development process of this project. These permanent positions will provide both trans- and post-development maintenance for the newly implemented features of the self-service portal, in addition to providing expertise in developing and implementing future self-service enhancements of this nature. These enhancements would ensure that RSD is more capable of adapting and expanding its services and operational processes to accommodate a dynamic, continually expanding retirement environment. Greater adaptability and reduced costs despite continued growth will further promote RSD's fiscal integrity.

Currently, members and employers submit signed paper forms, which are then manually entered by RSD staff as it is provided by the members and employers. The increasing number of retirees and members has severely strained the personnel resources of the Division in many areas – primarily those associated with the processing, imaging, and data input surrounding paperwork received by RSD. The resources needed to handle the inordinate volume of paperwork and manually enter paper forms into the database are rapidly increasing. These rising costs are coupled with an associated increase in postage, printing, and mailing costs. RSD believes the best solution to our resource constraints is to move many of our processes and transactions online, which would reduce incoming and paperwork and manual entry and lower the costs of administration significantly.

The expansion of online self-service capabilities provided in this request would:

- Result in faster application processing time
- Reduce volume of paperwork
- Reduce manpower hours used for document imaging
- Reduce manpower hours used for manual data entry of paper forms received
- Eliminate processing delays due to paper form submission through the mail
- Provide members online access to their application status
- Reduce call volume related to application status inquiries – currently the most frequent reason for a call received by the call center
- Reduce e-mail, written correspondence, and other communications in response to member inquiries
- Increase efficiency and reduce complexity of multi-step application procedures requiring multiple form submissions and extensive verification of member-provided information
- Automated checks would provide applying members with immediate feedback on the validity of any personal information they submit (e.g., SSN, DOB, or other required data element)

## **NC Department of State Treasurer, Retirement Systems Division (RSD)**

### **Temporary Staff & Contractor Services**

Contractors and other temporary employees play an essential and ongoing role in supporting the operations of the North Carolina Retirement Systems: temporary staffing affords RSD the human resource flexibility to operate reliably and consistently in spite of unpredictable circumstances. Inadequate staffing threatens the stability and reliability of the many operational functions RSD must perform in order to meet its obligations and ensure that its statutorily mandated benefit programs are equitably and consistently administered. Seasonal fluctuations in workload demands, activities associated with compliance requirements, technological enhancements and maintenance, and implementing legislative mandates are the principal elements fueling RSD's continual need for temporary workers and contractor services in meeting its human resource needs.

An exemplary instance of the impact this increased workload may have can be seen in the volume of calls received in the Call Center. These periodic increases in call volume put considerable strain on personnel resources, which limits our ability to provide excellent customer service. Call volume normally varies considerably from month to month due to seasonal fluctuations, and can dramatically increase in response to external events such as legislative changes and technological problems. Call Center staff aim to answer at least 95% of calls offered within two minutes, on average. However, in February 2014, call volume increased so dramatically that staff could only answer 44% of calls, and the average hold time for callers was more than 25 minutes. Similarly, more than 10,000 calls went unanswered in October 2013, when RSD's Call Center was flooded with calls about State Health Plan enrollment because of problems with the website and telephone assistance line operated by an outside vendor.

Another key function of RSD requiring temporary workers and contractor services is its database. The Online Retirement Benefits through Integrated Technology (ORBIT) database is the primary data repository used for pension administration and is also the principal business application of the division. The ORBIT system relies on a number of technological tools provided by external vendors. Maintaining compatibility with these tools is an ongoing process handled by permanent staff. Occasionally, however, temporary staff are necessary to implement certain critical, time-sensitive updates that require substantially more manpower than would otherwise be available. Numerous discrepancies have been identified between statutory requirements, business operating procedures, and ORBIT functionality. These discrepancies substantially increase the risk of incorrect payments, expose the system to potential abuse, and require tremendous amounts of research and manual intervention. Addressing deficiencies in the modules related to the administration of death and disability benefits, as well as the management of the Firefighters' and Rescue Squad Workers' Pension Fund, are among RSD's largest challenges in the next two years.

Additionally, at the end of each legislative session, temporary employees are an integral part of implementing any legislative changes passed during the session. Depending on the nature of the changes required by the newly passed legislation, the specific time and human resource needs may vary dramatically, potentially requiring a broad range of skill sets that permanent staff in the Division are unable to provide. The complexity or simplicity of the change may require implementation procedures of variable duration, ranging from weeks to years. For example, the top priorities following the most recent legislative session in 2014 include enhancements to the ORBIT database related to pension spiking, new vesting rules, and the payment of interest upon withdrawal of contributions.

More adequate funding for temporary workers and contractor services will allow RSD to adapt flexibly to the changing workload required to effectively serve its members. It will also provide manpower with vital skillsets necessary for maintaining the integrity of member records and other data needed to administer the retirement systems, for increasing transparency of governmental records and data, and for implementing legislation passed at the end of each legislative session.

## **NC Department of State Treasurer, Retirement Systems Division (RSD) Market and Equity Salary Adjustments**

The Retirement Systems Division anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% from 2012 to 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. RSD firmly believes that further promoting the fiscal integrity of the retirement systems is essential to maintain the financial stability of the pension funds, as well as to achieve the fiscal integrity needed to continue to meet the ever-changing needs of a burgeoning population of current and future retirees in North Carolina. This request would help to reduce turnover rates contributing to increasingly burdensome training costs for new employees, and help retain experienced and knowledgeable employees better suited to accumulate and understand the complex information needed to handle our member-facing "front-office" workload and provide excellent service. Excellent staff and excellent management whose compensation reflects the amount and the importance of their responsibilities will be more likely to remain at RSD and to continue improving and refining our service quality and operational efficiency.

In an effort to realize these goals and retain high quality employees, this request would allow RSD the flexibility to adjust the salaries of existing employees to be more competitive with labor market averages, as determined in a study conducted by the Office of State Human Resources. It would also allow RSD the flexibility to adjust the salaries of existing employees to provide more appropriate compensation to employees with job responsibilities far exceeding their pay grade, as determined in an equity study conducted by the Department of State Treasurer. This proposal would allow RSD to adjust compensation for 12 employees to better correspond with their job's expanded responsibilities at a total cost of \$204,500, and it would allow RSD to give raises to the 105 employees earning below-market salaries to make their compensation more competitive at a cost of \$570,304.

The Retirement Systems Division (RSD) has the largest number of front line staff members in the Department of State Treasurer. Given the complexity of the retirement systems it administers, RSD's success depends on retaining trained and competent staff. A CEM Benchmarking Study found that RSD's salary cost was 37% below the average of peer retirement systems, and an Office of State Human Resources Study found that 105 employees in the Retirement Systems Division have salaries below local human resources market rates. The average salary gap below market rate for these employees is \$4,421, and they range from \$203 to \$15,504 below comparable market averages. Moreover, many mid-level managers within the division have been charged with responsibilities vastly exceeding what was envisioned for their OSHR classification, and their compensation is correspondingly inadequate compared to market rates for jobs with similar responsibilities. As the Retirement Systems Division, and the population of public workers and retirees that it serves, continues to expand, the need for high quality, experienced employees will only continue to expand along with it. As the systems, retirements, and membership grow, the complexity of inquiries, requests, and issues coming from and encountered by our members and our staff will increase proportionately. Because of the complex nature of the retirement systems and its administration, the retention of experienced and knowledgeable employees is critical in providing excellent customer service and reducing the financial, operational, and customer service quality costs associated with high turnover rates and inexperienced staff members. Training costs are especially burdensome: the average training cost alone for a new RSD employee is \$12,161. As such, paying market salary for positions is critical to keeping other operational costs manageably low, as well as to retaining the experienced staff in whom RSD invests significant time and money. Retaining these individuals provides for a greater return on this human capital investment.

Paying salaries comparable to average market rates will increase the retention of high performing, dedicated employees and thereby increase the efficiency and capability of our staff. It will also increase the return on RSD's investment in employees, which can be quite costly (\$12,161 per new employee on average). Reducing training costs and increasing staff quality and experience by reducing turnover will effectively lower the costs of providing service of greater quality and will allow RSD to operate more efficiently.



## **NC Department of State Treasurer, Retirement Systems Division (RSD)**

### **Call Center Modernization**

The Retirement Systems Division anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% from 2012 through 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. RSD firmly believes that further promoting the fiscal integrity of the retirement systems is essential to maintain the financial stability of the pension funds, as well as to achieve the fiscal integrity needed to continue to meet the ever-changing needs of a burgeoning population of current and future retirees in North Carolina. In order to promote exceptional customer service and to satisfy the needs of our members, we need to focus on improving our member-facing front office units by modernizing our Call Center. Technological improvements will greatly enhance RSD's Member Services capabilities, will increase our division's operational efficiency and responsiveness by allowing us to expand and adapt more quickly and effectively to increases in volume of calls, member inquiries, and other essential services we provide to our members.

This request is to update and enhance the Retirement Call Center telephone system. Enhancements to the telephone system will provide a number of previously unavailable features and technological improvements, such as call recording and analytics capabilities, quality monitoring, collaboration, forecasting, scheduling, screen pops, predictive dialing and Interactive Voice Response capabilities. Updating the telephone system will also allow for Call Center data to integrate seamlessly with both the ORBIT database, where all member data are housed, as well as Member Services Workflow software, which will allow for analysis of workflow information to continually and adaptively increase efficiency. These upgrades will greatly improve inquiring members' customer service experience, and will enable our "front office" to better serve the retirees, employees, employers, and the State it serves. Perhaps most importantly, this request will reduce the state's legal risk by providing the capability to record calls.

The Call Center is faced with several technological constraints limiting its ability to provide excellent customer service. These constraints include:

- Inadequate, outdated technology that is no longer supported by current vendors
- Increases in call volume of approximately 10% each year since 2010
- A projected increase in call volume for 2015 of 10-15% over the 2012 volume

Anticipated impacts after the implementation of the change include:

- A new Interactive Voice-Response system (IVR) will provide the capability of processing multiple member-directed actions without speaking to a Representative
- A new Call Management System (CMS) will provide the ability to monitor phone performance in real time
- Call Recording, which is a Call Center standard, will lower the risks of litigation, decrease the amount of time needed to research cases, and will serve as a tremendous training tool.
  - Call Recording was identified as a necessary change in the 2011 Benchmark Portal's Call Center assessment
- Screen pops will decrease call handle times by allowing data to automatically populate
- Email integration will allow automated tracking and storing
- Web chat and instant message capability will provide an enhanced variety of methods of communicating with inquiring members

## **NC Department of State Treasurer, Retirement Systems Division (RSD) Firefighters' and Rescue Squad Workers' Pension Fund Data Audit**

One of the primary responsibilities of the Department of State Treasurer (DST) is to provide a safe and secure retirement for North Carolina's more than 900,000 public employees. The Retirement Systems Division (RSD) anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% between 2012 and 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. RSD firmly believes that protecting the financial health of the retirement systems through sound funding policy is paramount to achieving the Department's objectives of fostering the long-term stability and sustainability of the pension funds.

Toward this end, RSD undertook Phase One of an audit of the census data corresponding with members of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) in response to an evaluation of this pension fund conducted by the General Assembly's Program Evaluation Division (PED). In the resulting report, PED raised concerns that certain assumptions used in the plan's annual actuarial valuation did not accurately reflect the behaviors of the current population of actively employed firefighters and rescue squad workers participating in the plan. PED's report recommended that RSD perform an audit of the plan's census data in order to more accurately assess the likelihood that a worker will continue contributing to the fund until they earn enough service to receive a pension benefit upon retirement, known as a "lapse assumption". In the absence of accurate census data, standard actuarial practice is to use an overly conservative lapse assumption in the plan's valuation. As a result of the findings from Phase One of the audit, the annual required contribution (ARC) was estimated to decrease by \$2,200,000 by eliminating the need for an overly conservative lapse assumption. Phase Two of this audit, which RSD began but ultimately had insufficient funding to complete, would provide additional information needed to enhance the quality of census data and optimize the plan's actuarial assumptions. These data and actuarial improvements would subsequently reduce the State's required contributions to the plan in future fiscal years.

In addition to the immediate and long-term reductions in annual funding requirements, this budget expansion request would serve to strengthen the fiscal integrity of one of RSD's less well-funded retirement systems without imposing any additional cost to the State. Strengthening and maintaining the fiscal integrity of the retirement systems is indispensable in ensuring the financial stability and long-term sustainability of the pension funds, both individually and as a whole. This request would thus enhance the Department of State Treasurer's capacity to protect the pension funds as it strives to provide a safe and secure retirement to a burgeoning population of current and future retirees in North Carolina.

In light of this evidence, and pursuant to a unanimous recommendation from the Local Governmental Employees' Retirement System (LGERS) Board of Trustees, RSD is requesting that the General Assembly leave the employer contribution for the Firefighters' and Rescue Squad Workers' Pension Fund in fiscal year ending June 30<sup>th</sup>, 2016, at \$13,900,000 – equal to the amount of the annual required contribution for fiscal year ending June 30<sup>th</sup>, 2015. Additionally, RSD is requesting that the General Assembly direct \$659,448 of these funds to RSD to offset the costs of financial and audit services, contractors, and temporary workers needed to forge ahead with completing the remainder of Phase Two of the census data audit for lapsed FRSWPF members, as recommended in PED's report.

## **NC Department of State Treasurer, Retirement Systems Division (RSD) Contributory Death Benefit Open Enrollment Opportunity**

The Retirement Systems Division anticipates a "Retirement Boom" in coming years: retirements are projected to increase 43% from 2012 through 2024. Moreover, membership continues to grow steadily, increasing at a rate of 2% of non-retired members served each year. RSD firmly believes that further promoting the fiscal integrity of the retirement systems is essential to maintain the financial stability of the pension funds, as well as to achieve the fiscal integrity needed to continue to meet the ever-changing needs of a burgeoning population of current and future retirees in North Carolina. This request would help to reduce, or even eliminate, a significant and growing deficit in one of the retirement and other benefit plans RSD administers in the hopes of achieving these goals.

In an effort to realize these goals, this request would allow the Retirement Systems Division to implement an open enrollment period in the Contributory Death Benefit Plan for retirees who missed the opportunity to take advantage of this benefit upon retirement. The costs for the first year (\$75,000) and the second year (\$100,000) of the open enrollment period would primarily cover the cost of hiring IT contractors and communications collateral. This request would grant RSD the authority to charge each new enrollee in the plan a one-time, nonrefundable administrative fee to cover these costs.

Based on the actuarial valuation for calendar year 2013, the deficit for the Contributory Death Benefit increased from \$12.5M to \$35.2M -- the largest funding deficit the plan has seen in the past six years. This deficit is the result of asset losses on a 98.4% fixed income portfolio. Moreover, retiring members in the past, if they had chosen to participate, would have had very little flexibility to name or modify the beneficiary of this benefit. As a result, RSD believes that many retirees may have elected not to participate in the plan due to inflexibility in beneficiary-naming regulations. In 2014, however, the General Assembly changed the law governing Contributory Death Benefit participants' choice of beneficiary to allow for much greater flexibility.

RSD believes that implementing an open enrollment period would allow retirees who previously elected not to participate in the plan to take advantage of this new beneficiary-naming flexibility, which would increase participation. According to RSD's projections, an additional 10,000 new enrollees in the plan would be sufficient to eliminate the plan's current deficit. An open enrollment period is likely the most cost-effective and expeditious manner of achieving this much-needed increase in plan participation.

## **NC Department of State Treasurer, Retirement Systems Division (RSD)**

### **Financial & Audit Services**

The Department of State Treasurer is charged with the responsibility of establishing fiscally sound practices to ensure that the funds entrusted to the Department will be sufficient to pay all benefits and other obligations promised to former, current, and future employees, even in the face of financial uncertainty. In order to do so, the Department must fundamentally understand the needs of the population it serves, the benefits it provides, and the financial mechanisms necessary to achieve these essential ends. The financial and audit services provided by qualified actuarial consulting firms are paramount in cultivating a funding policy capable of achieving these goals and, furthermore, of fulfilling both the implicit obligations and the statutory mandates with which the Department is charged.

Pursuant to G.S. § 128-28(m) and § 135-6(l), the Retirement Systems Division of the Department of State Treasurer must retain the services of an actuary to provide technical advice to the Boards of Trustees governing the various retirement benefit plans sponsored by the State. The services provided by the actuary include, but are not limited to: developing an annual valuation of each plan; providing actuarial notes in response to proposed legislation as required by G.S. § 120- 114; performing demographic and experience reviews on each benefit plan; and facilitating the entry of local employers to the Retirement Systems. Additionally, the information furnished as a result of these actuarial services is also used to compile and disclose financial statements and other required disclosures included in the State's Comprehensive Annual Financial Report. The total estimated cost of these statutorily required actuarial services currently amounts to \$510,000 per year and is expected to increase at a rate of 2% per year.

Since the creation of the Retirement System in 1941, RSD has retained an independent actuarial firm to provide a comprehensive set of actuarial services. These services are required to prudently manage the following benefit plans administered by the Division:

- Teachers' and State Employees' Retirement System (TSERS)
- Local Governmental Employees' Retirement System (LGERS)
- Consolidated Judicial Retirement System (CJRS)
- Legislative Retirement System (LRS)
- Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)
- National Guard Pension Fund (NGPF)
- Register of Deeds' Supplemental Pension Fund (RDSPF)
- Disability Income Plan of N.C. (DIPNC)
- Death Benefit Plans
  - Death Benefit Plans for Active Employees who Members of TSERS and LGERS
  - Separate Insurance Benefits Plan for Law Enforcement Officers
  - Retirees' Contributory Death Benefit Plan

So long as the State of North Carolina continues to provide public workers with pension and other employee benefits, RSD will continue to rely upon these statutorily required actuarial services in order to meet its obligations in managing these benefit plans. We are therefore requesting a recurring appropriation of \$510,000 to offset the costs of these actuarial services.

Since 1999, the annual base allocation for all financial/audit services has remained at \$368,647 despite considerable increases in both the complexity and the cost of these necessary services. In the last six years, the hourly rate charged by the consulting actuary has increased by 12%. In addition, recent changes in the Actuarial Standards of Practice (APA) and the Government Accounting Standards Board (GASB) rules governing pension plans have substantially increased the number of hours needed to prepare the required actuarial analyses.