



North Carolina Local Governmental Employees' Retirement System

Adoption of Proposed Assumptions as Set in December 31, 2014
Experience Reviews

Board of Trustees Meeting
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January 21, 2016

Proposed Assumptions

On October 22, 2015, Buck Consultants presented the “Investigation of Demographic and Economic Experience Five-Year Period from January 1, 2010 – December 31, 2014” for the following systems:

- Local Governmental Employees’ Retirement System
- Firefighters’ and Rescue Squad Workers’ Pension Fund

Experience review resulted in proposed changes to the following:

- Demographic Assumptions
- Economic Assumptions
- Funding Methods

Subsequent to the October meeting proposed demographic assumptions were adjusted to reflect mortality projection scale MP-2015, released by the Society of Actuaries on October 8, 2015

- Buck believes that the new basis is a reasonable assumption to adopt and that the combined package of revised assumptions remains appropriate for use going forward.

Key Takeaways - LGERS

Assumption	Observed Experience Relative to Expectations	Recommendation	Impact on Costs
1. Mortality	Fewer Deaths	Decrease Rates and Update Mortality Improvement Projection Scale	Significant Increase
2. Service retirement	Fewer Retirements	Decrease Rates	Slight Decrease
3. Disability retirement	Fewer Disabilities	Decrease Rates	Slight Decrease
4. Termination from active employment	Fewer Terminations	Decrease Rates	Slight Increase
5. Leave conversions at retirement	Varies by Group	Varies by Group	Immaterial
6. Investment return	Current Assumption Reasonable	No Change	N/A
7. Merit pay increases	Lower Increases	Decrease Rates	Significant Decrease
8. Inflation	Current Assumption Reasonable	No Change	N/A
9. Productivity growth	Current Assumption Reasonable	No Change	N/A
10. Amortization method	Current Assumption Reasonable	No Change	N/A
11. Actuarial cost method	Inconsistent to Other Systems	Move to Entry Age	Increase
12. Asset valuation method	Not Transparent or Predictable	5-year Smoothing	Slight Decrease

Notes:

1. The mortality assumption was the source of the largest increase in costs. While we did observe fewer deaths than expected over the past few years, the increase in costs was driven more by the increase in mortality improvements suggested by national studies
6. The current investment return assumption of 7.25% remains reasonable
7. The merit increase assumption was the source of the largest decrease in costs as salaries continued to fall short of the long-term assumptions

Overall, the net impact on liabilities was an increase

Key Takeaways - FRSWPF

Assumption	Observed Experience Relative to Expectations	Recommendation	Impact on Costs
1. Mortality	Fewer Deaths	Decrease Rates and Update Mortality Improvement Projection Scale	Significant Increase
2. Service retirement	In-Service Distributions	No Change	N/A
3. Disability retirement	Fewer Disabilities	Decrease Rates (with LGERS)	Slight Decrease
4. Termination from active employment	Under Data Audit Review	N/A	N/A
5. Lapse assumption	Under Data Audit Review	N/A	N/A
6. Investment return	Current Assumption Reasonable	No Change	N/A
7. Merit pay increases	N/A	N/A	N/A
8. Inflation	Current Assumption Reasonable	No Change	N/A
9. Productivity growth	N/A	N/A	N/A
10. Amortization method	Current Assumption Reasonable	No Change	N/A
11. Actuarial cost method	Current Assumption Reasonable	No Change	N/A
12. Asset valuation method	Not Transparent or Predictable	5-year Smoothing	Slight Decrease

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