

June 20, 2017

TO: Board of Trustees of the Local Governmental Employees' Retirement System

FROM: Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel

Re: Annual Report to the Board of Trustees of the NC Local Governmental Employees' Retirement System Regarding the Status and Needs of the NC Firefighters' and Rescue Squad Workers' Pension Fund

The Firefighters' and Rescue Squad Workers' Pension Fund Advisory Panel (Advisory Panel) met on May 25, 2017, at 1:00 p.m. for an extensive review of the Firefighters' and Rescue Squad Workers' Pension Fund (Fund). All members were present. At the meeting, the Advisory Panel's agenda items included:

- December 31, 2015, Actuarial Valuation of the Fund
- State Contribution Rate Stabilization Policy
- Legislative Update
- Update of Retirement Systems Division (RSD) Operations
- Turnaround Documents (TADs)
- Plan of Work and Timeline for Redevelopment of ORBIT Recordkeeping Software for Fire & Rescue Pension Fund

As annually required by statute, the Advisory Panel is pleased to submit the 2017 Annual Report to the Board of the Trustees of the North Carolina Local Governmental Employees' Retirement System regarding the status and needs of the Fund.

STATUS OF THE FUND

Legislation

Sam Watts, RSD Policy Director, presented an update on the legislation affecting the Firefighters' and Rescue Squad Workers' Pension Fund. Mr. Watts updated the panel on House Bill 76, which would increase the Firefighters' and Rescue Squad Workers' Pension Fund benefit by \$5 per month. Mr. Watts reported on the status of a special budget provision, which would expand the line-of-duty death benefits to include certain types of cancers. Mr. Watts reported on the House General Government Money Report, which provides that the budget contain funds to continue with the ORBIT project and to add one developer position.

Operations Update

Donna Boyette, Firefighters' and Rescue Squad Workers' Pension Fund Coordinator, provided the Advisory Panel with an operations update for administration of the Fund. Mrs. Boyette noted that the team has consistently met and exceeded the operational goals.

- Rosters for 2016 were successfully uploaded into ORBIT
- Team has been fully staffed since April 2015

- Team metrics are being met or exceeded on a regular basis:
 - Purchase calculations: 58 within 5.8 days
 - Retirements: 75 within 6.9 days
 - Death Processing: 61 within 10.6 days
 - Refunds: 138 within 3.9 days
 - Turnaround Documents (TADs): 233 within 5.3 days
 - Incoming Calls: 631 answered within 49 seconds
 - Call Abandonment Rate: 5.1 percent
- Data Cleanup from Lapsed Assumption Revision (June 2015 – April 2017):
 - Refunds: 2,507
 - Retirements: 1,653
 - Deaths: 1,461
 - More than 15,000 member cases remaining
 - Hired three full-time temporary employees to continue clean-up efforts
- Second issue of Fire & Rescue newsletter released December 1, 2016

Turnaround Documents

Fund staff has routinely received feedback from departments across the state regarding inactive members being reported on the TADs. Although this concern will be addressed with the ORBIT upgrade, the staff has explored an interim solution to address the issue. TADs will be sorted alphabetically placing active members at the beginning; inactive members at the bottom; with a line or page break between active and inactive. The Advisory Panel was appreciative of this short-term solution.

ORBIT Redesign

In January 2017, Fund staff successfully delivered the enhanced ORBIT self-service platform with enhanced security features, which will serve as the foundation for the new Fire and Rescue ORBIT module.

Legislatively-mandated priorities and vacancies in the DST IT department have impacted the team's ability to make any further progress toward the redesign of the Fire and Rescue ORBIT module. As vacancies are filled and other legislative mandates are completed, IT staff will recommence with the new Fire and Rescue ORBIT module.

December 31, 2015, Actuarial Valuation

Larry Langer and Mike Ribble, of Buck Consultants, presented the December 31, 2015, actuarial valuation for the Fund. Key results of the December 31, 2015, valuation as compared with the previous valuation were:

- Market value returns of 0.35 percent compared with 7.25 percent assumed
 - Session Law 2016-108 provided a monthly benefit of \$170 to a member's beneficiary if that member is killed in the line of duty
- Changes in actuarial assumptions and methods in accordance with the latest experience study prepared as of December 31, 2014, and adopted by the Board of Trustees on January 21, 2016

- The final return-to-service assumption based on the findings of the data audit of the Fund and adopted by the Board of Trustees on July 21, 2016

When compared to the December 31, 2014, valuation, the above resulted in:

- Lower funded ratio (89.2 percent in the December 31, 2015, valuation compared with 90.9 percent in the December 31, 2014, valuation)
- Higher employer required contribution (\$14,287,301 for fiscal year ending June 30, 2018, compared with \$12,830,706 for fiscal year ending June 30, 2017)

The Fund is well-funded compared to its peers. This is due to:

- Stakeholders working together to keep the Fund well-funded since inception
- A history of appropriating and contributing the recommended contribution requirements
- Assumptions that, in aggregate, are more conservative than peers
- A funding policy that aggressively pays down unfunded liability over a 12-year period
- Modest changes in benefits when compared to peers

Continued focus on these measures will be needed to maintain the solid status of the Fund well into the future.

NEEDS OF THE FUND

The Advisory Panel identified the following needs of the Fund:

Actuarial

- Continue to seek full funding of the Annual Required Contribution (ARC)
- Continue to aggressively reduce liabilities
- Maintain a conservative funding policy and appropriate balance of benefits
- Strive to reach a 100 percent funding status for the Fund

Process/Operations

- Continue efforts to complete the ORBIT redesign
- Continue to improve data integrity including the 15,177 remaining identified in the lapsed service project.
- Continue achieving operational goals
- Develop member statements
- Continue to improve departments' access to service/credit information about each department and its members
- Continue efforts to reconcile the various member contribution amounts over time and various laws to ensure accuracy of data for members as they near retirement
- Develop electronic submission of the TADs and contributions
- Continue to promote the \$170 benefit in the Fire and Rescue e-newsletter to attract and retain members

Policy/Legislative

- Continue to monitor the Gross Premium Tax since, as the ARC is reduced, there may be an opportunity to increase benefits to the members
- With an increasing number of career firefighters and rescue squad workers, consider a tiered benefit for increased benefit for more than 20 years of service
- Consider an incentive program to attract and retain members
- Continue to monitor for felony forfeitures to ensure compliance with the statute

The Retirement Systems Division will evaluate the needs of the Fund as shared by the Advisory Panel and incorporate those needs into the ongoing project, where applicable.