



North Carolina
Total Retirement Plans



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

January 29, 2020

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 and amended it on January 31, 2019. The ECRSP was intended to provide predictable incremental increases in the employer contribution rate to protect against potential adverse experience. The ECRSP as amended on January 31, 2019, would result in recommended contribution rates for the fiscal year ending in 2021 equal to 10.15% of covered pay for employees other than law enforcement officers (non-LEOs) and 10.90% of covered pay for law enforcement officers (LEOs).

Under the ECRSP as adopted January 21, 2016, the contributions for non-LEOs were set at 7.25% of covered pay for the fiscal year ending in 2017 and were scheduled to increase each year by 0.25% of covered pay through the fiscal year ending in 2022, with additional adjustments, if applicable:

1. If the underlying Actuarially Determined Employer Contribution (ADEC) for non-LEOs for a given fiscal year is 50% greater than the scheduled employer contribution rate, then the scheduled employer contribution rate for that fiscal year and later fiscal years would increase by 0.50% of pay.
2. If the underlying ADEC for non-LEOs for a given fiscal year is 50% less than the scheduled employer contribution rate, then the scheduled employer contribution rate for that fiscal year and later fiscal years would decrease by 0.50% of pay.
3. Contribution rates for LEOs are 0.75% of pay greater than rates for non-LEOs.
4. If the General Assembly grants any additional cost-of-living allowance (COLA) beyond the COLA amount approved by the Board, increases the benefit multiplier for active employees, or changes the benefit structure in a way that results in a cost to LGERS, the schedule of contributions for the current and future fiscal years will be increased to recover the resulting cost.
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 contribution rate for non-LEOs was 7.25% for the fiscal year ending in 2017, 7.50% for the fiscal year ending in 2018, and 7.75% for the fiscal year ending in 2019. Pursuant to an amendment adopted by the Board on January 31, 2019, for the remainder of the term of the ECRSP, the annual step increase in the contribution rate will be 1.20% of covered pay rather than 0.25%. Therefore, the contribution rate for non-LEOs was 8.95% for the fiscal year ending in 2020, and would be 10.15% for the fiscal year ending in 2021, before any adjustments that

might be required under #1 through #5 above. Similarly, the contribution rate for LEOs (which is 0.75% greater than the rate for non-LEOs) would be 10.90% for the fiscal year ending in 2021, before any adjustments that might be required under #1 through #5 above.

The most recent LGERS actuarial valuation report documents the ADEC rates for the fiscal year ending in 2021. The ADEC for the fiscal year ending in 2021 is the mathematical baseline contribution rate that would fund the system using the Board's assumptions and methods adopted in January 2016, as further adjusted for the change to the assumed rate of return adopted in April 2018, including direct rate smoothing of that change. It uses plan population and asset information as of December 31, 2018. The ADEC rates are as follows:

- For non-LEOs, the ADEC rate is 10.24% of pay, which is greater than the scheduled contribution rate of 10.15% under the ECRSP.
- For LEOs, the ADEC rate is 11.92% of pay, which is greater than the scheduled contribution rate of 10.90% under the ECRSP.

Since the ADEC rate for non-LEOs is within 50% of the rates otherwise set by the ECRSP, there is no automatic adjustment to the ECRSP under items #1 or #2 as previously described.

Projections presented by the Board's consulting actuary show that, while contributions exceeded the ADEC overall during the first four years of the ECRSP, they are projected to fall short of ADEC rates in the remaining two years (July 1, 2020 through June 30, 2022).

Cost of Living Adjustment (COLA). Based on the actuarial losses recognized in this December 31, 2018, valuation, no Cost-of-Living Adjustment (COLA) that would be effective July 1, 2020, may be granted by the Board under G.S. § 128-27(k). Further, based on the methods and assumptions of the projections provided to the Board in October 2019, Cavanaugh Macdonald Consulting LLC has estimated that a potential COLA effective July 1, 2021, may be granted by the Board following the December 31, 2019, valuation as follows:

1. If calendar year 2019 market value returns exceed 18.9% (or about \$4.7 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 2019 market value returns exceed 22.2% percent (or about \$5.5 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 1% recurring COLA.

These estimates assume no other offsetting losses in the December 31, 2019, valuation.

Policy Option for Consideration by the Board of Trustees. Set the employer contribution rates for the fiscal year ending in 2021 in accordance with the ECRSP as adopted on January 21, 2016 and amended on January 31, 2019. Increase the employer contribution rate from 8.95% to 10.15% for non-LEOs, and from 9.70% percent to 10.90% for LEOs. The increase in cost to employers, from the fiscal year ending in 2020 to the fiscal year ending in 2021, would be \$80.4 million.¹ This increase would correspond to the contribution rates already set by the

¹ As illustrated in the footnotes to the "Summary" page of this document, the approximate dollar amounts for appropriations effective July 1, 2020, are estimated using the "Estimated State Payrolls for Retirement Appropriations Purposes for the 2019 Session of the North Carolina General Assembly," set forth in a letter from the Director of the Retirement Systems to the State Budget Director and the Director of the Fiscal Research Division of the General Assembly, dated May 3, 2019. For example, the approximate increase in

Board in amending the ECRSP on January 31, 2019. **Staff recommends that the Board reaffirm the contribution rates set in the ECRSP as amended January 31, 2019.**

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 2021, item (1) is equal to the appropriation for the fiscal year ending in 2020 (\$18,652,208) plus \$350,000, or \$19,002,208.

For the fiscal year ending in 2021, item (2), the ADEC amount, is \$14,845,609 according to the most recent FRSWPF actuarial valuation report. The ADEC for FY 2021 is the mathematical baseline contribution amount that would fund the system using the Board's assumptions adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2018.

Therefore, the SCRSP results in a recommended state contribution of \$19,002,208 for the fiscal year ending in 2021, which is the greater of item (1) or item (2).

Benefit Increase. Under the SCRSP, the Board may consider recommending a benefit increase when FRSWPF has undistributed investment gains. According to the consulting actuary's valuation report as of December 31, 2018, there were no undistributed gains.

Policy Option for Consideration by the Board of Trustees. Recommend an increase in the state contribution to \$19,002,208 for the fiscal year ending in 2021, pursuant to the SCRSP. This amount corresponds to the amount appropriated from the General Fund for the fiscal year ending in 2021 under S.L. 2019-209 (House Bill 226), and is an increase of \$350,000 over the amount appropriated for the fiscal year ending in 2020. **Staff recommends that the Board reaffirm the recommendation of \$19,002,208 pursuant to the SCRSP.**

cost (\$80.4 million) is estimated as \$6,701,818,000 (the LGERS payroll from the aforementioned memo) times 1.20 percent (since both the non-LEO and LEO contribution rates would increase by 1.20 percent of pay from FY 2020 to FY 2021). Once a similar payroll letter is finalized for the 2020 Session of the General Assembly, the dollar amounts would change in accordance with the new estimated payroll amounts.

Decisions on Registers of Deeds' Supplemental Pension Fund

Issue. The most recent valuation report shows the recommended Actuarially Determined Employer Contribution (ADEC) for the fiscal year ending in 2021. The ADEC for FY 2021 is the mathematical baseline contribution amount that would fund the system using the Board's assumptions adopted on January 21, 2016. It uses plan population and asset information as of December 31, 2018.

The estimated ADEC of \$0 for the fiscal year ending in 2021 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 \$855,737 in calendar year 2018 and \$844,228 in calendar year 2017.) Additionally, the fund is over-funded with a funded ratio of 162.5% 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 would make it more likely that the ADEC in a future year would be greater than \$0.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current benefit structure. ***Making no recommendation does not require a vote of the Board.***

Decisions on the Death Benefit Plans

Death Benefit Plan for Members of LGERS

Issue. The actuarial valuation of the Death Benefit Plan for members of LGERS as of December 31, 2018, shows that the plan has liabilities of \$58,515,422. Against these liabilities, the plan has current assets of \$82,886,234. Prospective contributions by the participating employers have a present value of \$42,148,306. The present and prospective assets, which amount to \$125,034,540, exceed the liabilities of \$58,515,422 by \$66,519,118.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current contribution rates or benefit structure. ***Making no recommendation does not require a vote of the Board.***

Retirees' Contributory Death Benefit Plan

Issue. Benefits payable under the Retirees' Contributory Death Benefit Plan are supported entirely by the contributions of the participants and the investment earnings on those contributions. The actuarial valuation as of December 31, 2018, shows that the plan has liabilities of \$1,239,353,244. Against these liabilities, the plan has current assets of \$253,125,884. Prospective contributions of participants eligible for benefits have a value of \$950,763,602. The total present and prospective benefits amount to \$1,203,889,486, which are less than the liabilities by \$35,463,758. Based on the assumptions of the actuarial valuation, the current assets and contribution rates of the plan are not adequate with the current plan provisions and contribution rates. Further consideration could be given based on the results of future actuarial valuations and experience studies.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current premiums, interest rate on return of contributions or benefit structure. ***Making no recommendation does not require a vote of the Board.***

**Summary of Alternatives
For Presentation to the 2020 General Assembly**

Retirement System	Employer Contributions	Enhance Benefits
Local Governmental Employees' Retirement System	Increase employer contribution rate by 1.20 percent for both law enforcement officers and all other members for a cost in the first year to employers of \$80,421,816 ¹	No undistributed gain available for benefit enhancements
Firefighters' and Rescue Squad Workers' Pension Fund	Increase employer contribution ² by \$350,000 ³	See discussion material
Registers of Deeds' Supplemental Pension Fund ⁴	No change to employer contributions	Increases have not been requested or contemplated
Death Benefit Plans	No change	No change

FOOTNOTES:

¹The employer contribution rates for the fiscal year ending June 30, 2020, are 8.95% for employees other than Law Enforcement Officers (non-LEOs) and 9.70% for Law Enforcement Officers (LEOs). For the fiscal year ending June 30, 2021, the Board's Employer Contribution Rate Stabilization Policy calls for contribution rates of 10.15% for non-LEOs and 10.90% for LEOs. The total estimated payroll for the 2019 Session of the General Assembly was \$6,701,818,000, which includes \$5,492,782,000 for non-LEOs and \$1,209,036,000 for LEOs.

²The total appropriated employer contribution for fiscal year ending June 30, 2020, is \$18,652,208. For the fiscal year ending June 30, 2021, S.L. 2019-209 (House Bill 226) has appropriated the increase of \$350,000, to \$19,002,208.

³Under the State Contribution Rate Stabilization Policy, the contribution increases by \$350,000 instead of decreasing by \$3,806,599.

⁴The total actuarially determined employer contribution for fiscal year ending 2020 is \$0 after taking into account the fund assets in excess of the actuarial accrued liability. Contributions to the fund are set by statute.