



MEMORANDUM

TO: Local Governmental Employees' Retirement System Board of Trustees

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

DATE: July 27, 2023

SUBJECT: 2023 Status and Needs Report for the Firefighters' and Rescue Squad Workers' Pension Fund

This annual report, required by N.C. Gen. Stat. § 58-86-11, informs the Local Governmental Employees' Retirement System (LGERS) Board of Trustees of the status and needs of the North Carolina Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF or "the plan").

The Status and Needs Report is provided to the LGERS Board of Trustees (Board) by the FRSWPF Advisory Panel. The policy recommendations below are its own. Because the FRSWPF Advisory Panel's responsibility is to consider the status and needs of the FRSWPF alone, it is possible that recommendations to the Board may at times diverge from the needs of other pension plans, the requirements of state or federal law, or the policy goals of other stakeholders. The staff of the North Carolina Department of State Treasurer (DST) support, inform and advise the FRSWPF Advisory Panel when it meets annually pursuant to N.C. Gen. Stat. § 58-86-11. The staff also assist with preparing the annual report.

I. STATUS OF THE FRSWPF

Actuarial Valuation of the FRSWPF

The FRSWPF, as required by law, performs an annual actuarial valuation to monitor and adjust the plan's progress toward its funding goals. The primary purpose of the valuation is to measure the pension benefit and other financial obligations promised to current and former state and local governmental employees. The valuation is needed to help determine an appropriate contribution strategy that achieves, to the greatest extent possible, the three most important goals of any pension funding policy: funding adequacy, intergenerational equity, and contribution stability.

In keeping with the best practice, the funding goals for the FRSWPF are:

(1) to accumulate 100% of the present value of actuarial accrued liabilities, and

(2) to reduce any unfunded actuarial liabilities expeditiously and in accordance with the amortization policy adopted by the Board. The tables below show the progress toward the plan's funding goals over the past five years, as well as the contributions appropriated to that end.

Funding Progress of the FRSWPF

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio
12/31/2021	\$508,510,376	\$496,483,247	102.4%
12/31/2020	\$475,032,285	\$496,012,307	95.8%
12/31/2019	\$445,876,956	\$482,816,865	92.3%
12/31/2018	\$429,031,975	\$473,960,565	90.5%
12/31/2017	\$418,265,538	\$469,919,266	89.0%

Contribution rates are recommended to the legislature according to the State Contribution Rate Stabilization Policy (SCRSP) first adopted by the Board on January 26, 2017. Under the SCRSP, recommended state contributions must be the greater of:

(1) the prior year's appropriation plus \$350,000 or

(2) the actuarially determined contribution.

On April 29, 2021, the Board adopted an amendment to the SCRSP that extends this funding recommendation framework until the fiscal year ending in 2027.

Five-Year Actuarially Determined Contributions & Appropriations

Fiscal Year	Actuarially Determined Contribution (ADC)	Final Appropriation	% of ADEC Contributed
6/30/2024	\$3,253,378	\$20,052,208*	TBD
6/30/2023	\$13,086,519	\$19,702,208	150.6%
6/30/2022	\$15,182,523	\$19,352,208	127.5%
6/30/2021	\$14,845,609	\$19,002,208	128.0%
6/30/2020	\$14,323,684	\$18,652,208	130.2%
6/30/2019	\$14,544,083	\$18,302,208	125.8%

***The Board's State Contribution Rate Stabilization Policy, or SCRSP, would recommend an appropriation of at least \$20,052,208 for FYE 2024, equal to the FYE 2023 appropriation plus \$350,000. The Board has further recommended that the General Assembly increase the benefit amount under the plan from \$170 to \$175 per month, increase the member contribution rate from \$10 to \$15 per month, and appropriate an additional \$14,626,763**

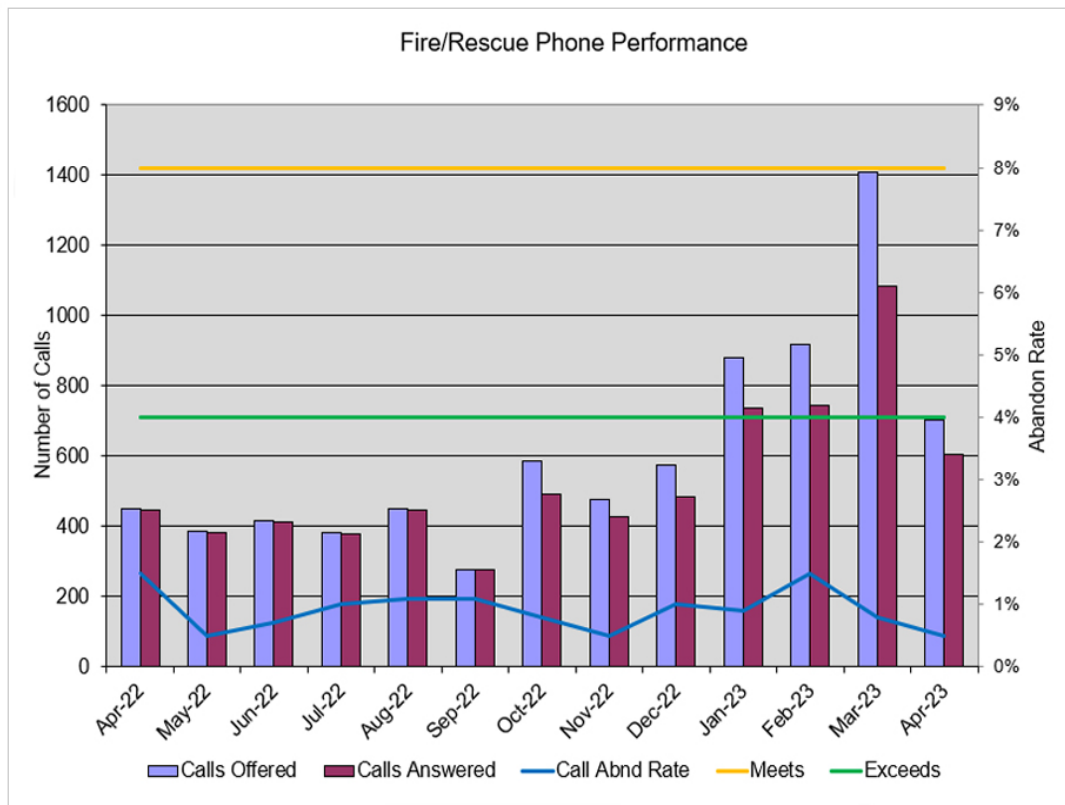
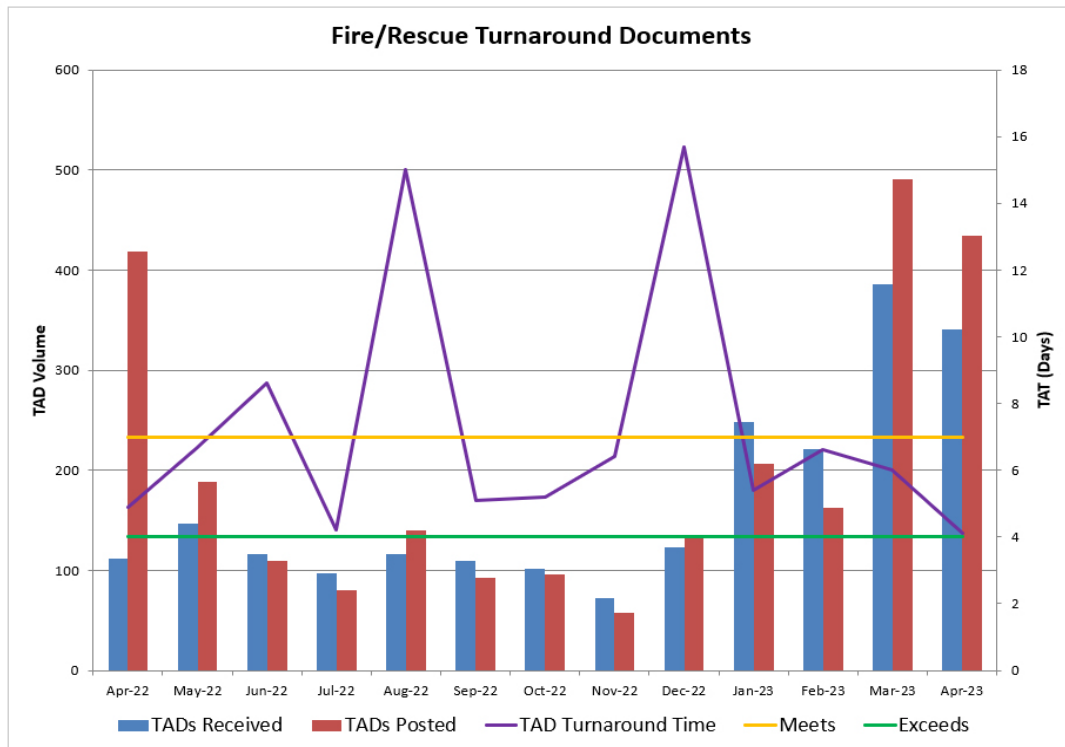
(for a total appropriation of \$34,678,971 for FYE 2024) to pay for the net cost of the benefit and member contribution rate increases over a one-year period.

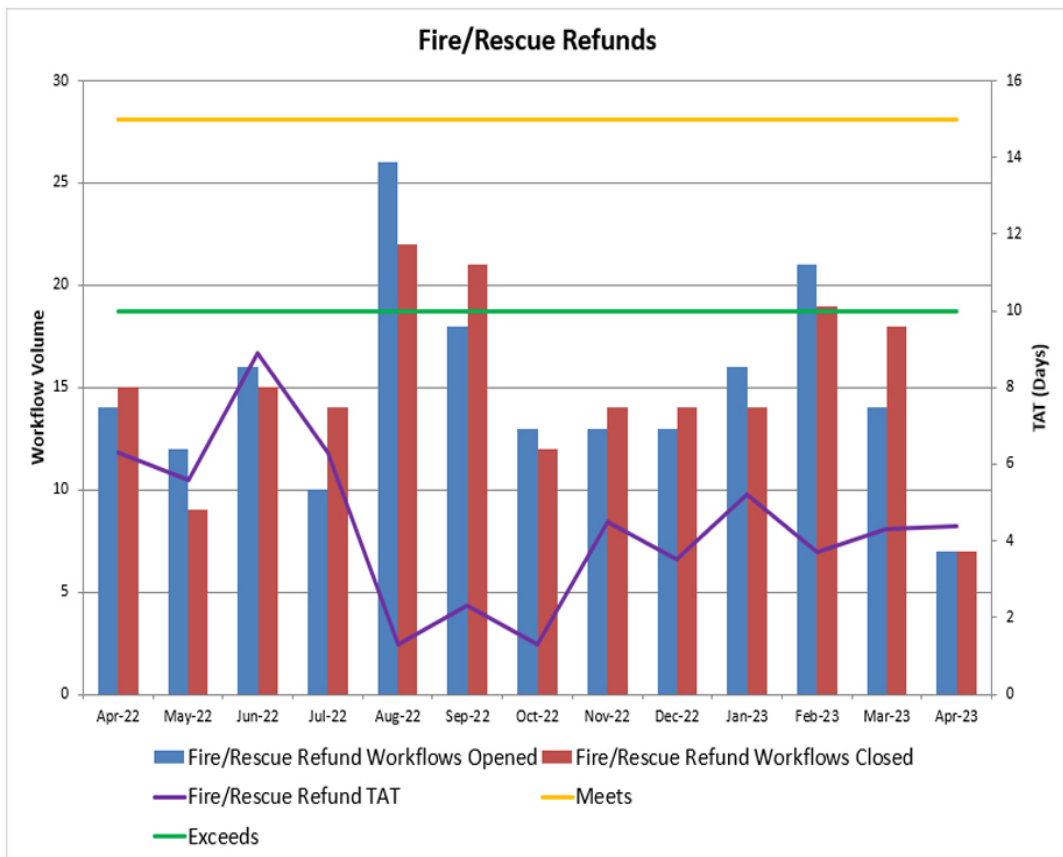
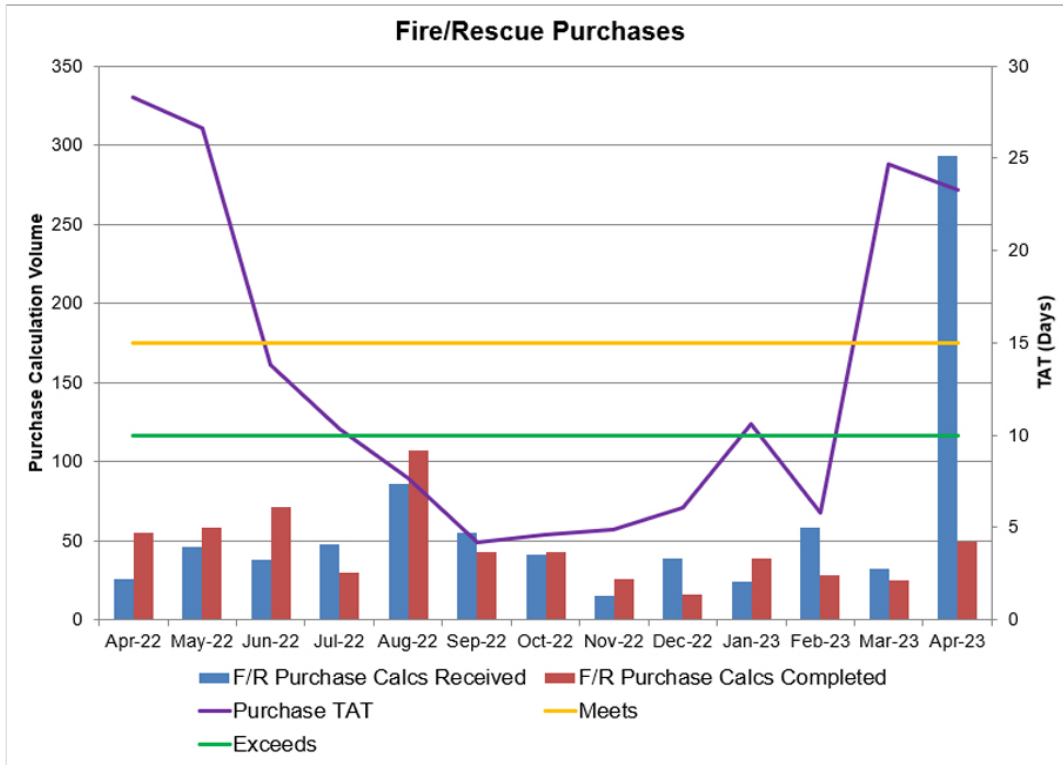
On January 28, 2021, as a result of the experience review that occurs at least once every five years, the Board adopted updates to assumptions and methods to be used for actuarial valuations effective December 31, 2020, and later. The adopted assumptions included a reduction to the assumed future rate of return on the fund's assets, from 7.00% to 6.50% per year, as well as changes to assumptions regarding mortality rates, service retirement rates, disability retirement rates, rates of pre-retirement termination of employment, and other assumptions. For purposes of the actuarially determined employer contribution rate (recommended State contribution prior to applying any stabilization policy), the effect of these assumption and method updates on the recommended contribution amount is being recognized gradually over a period of five years.

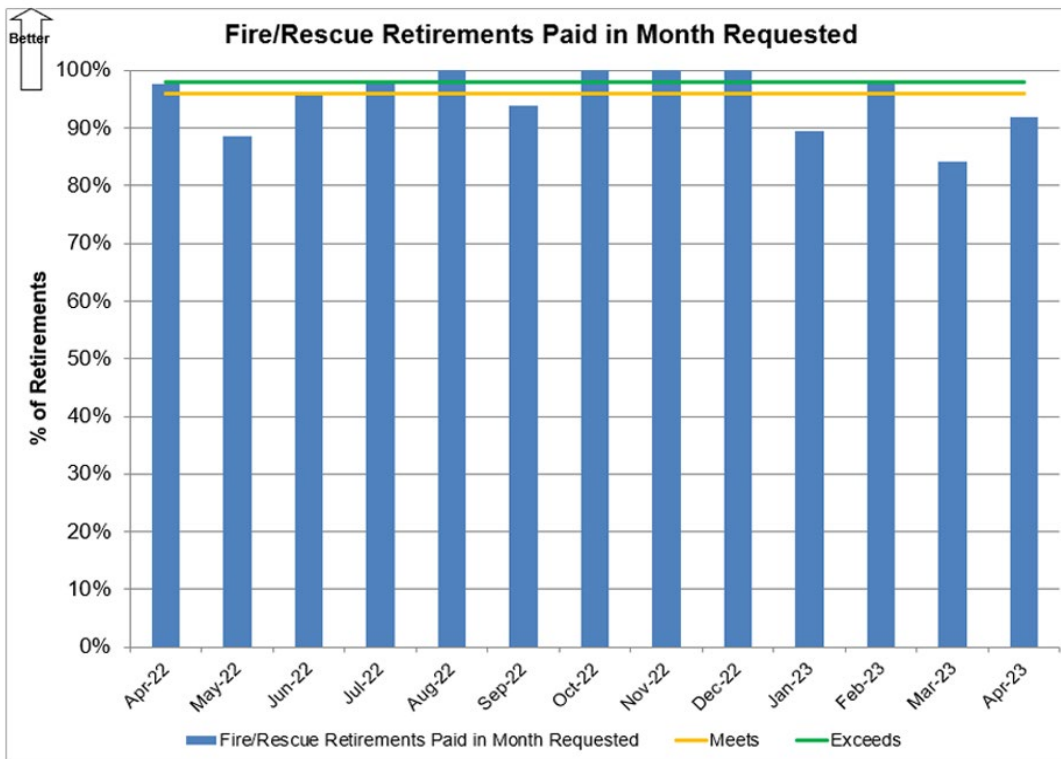
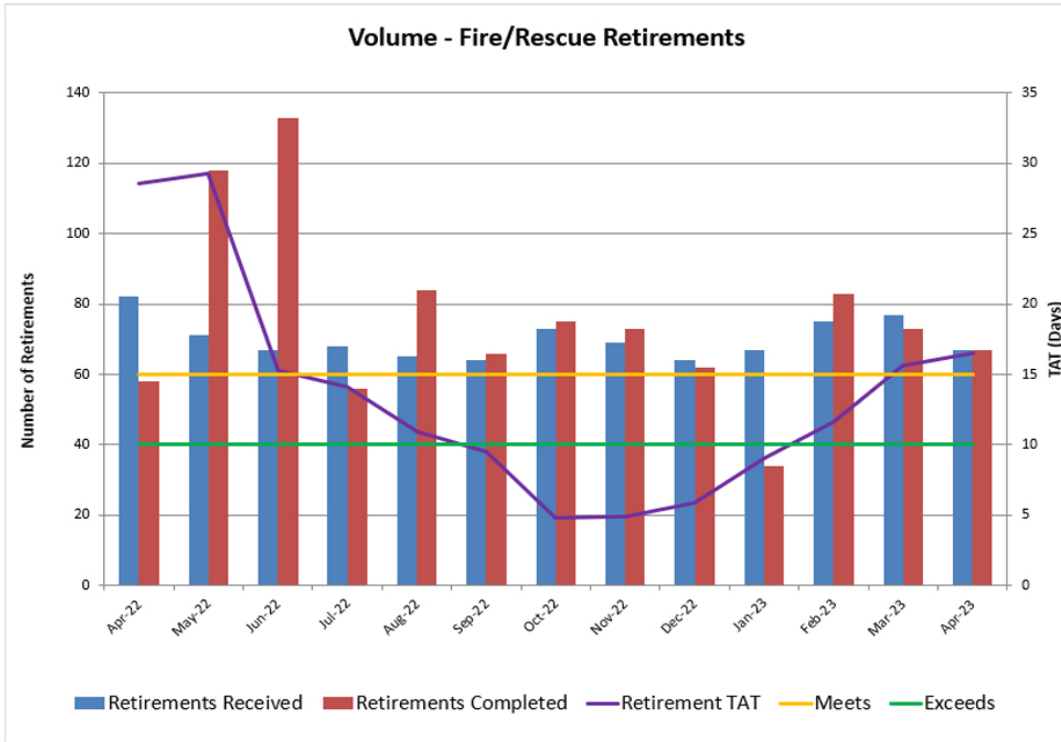
FRSWPF Operational Activities

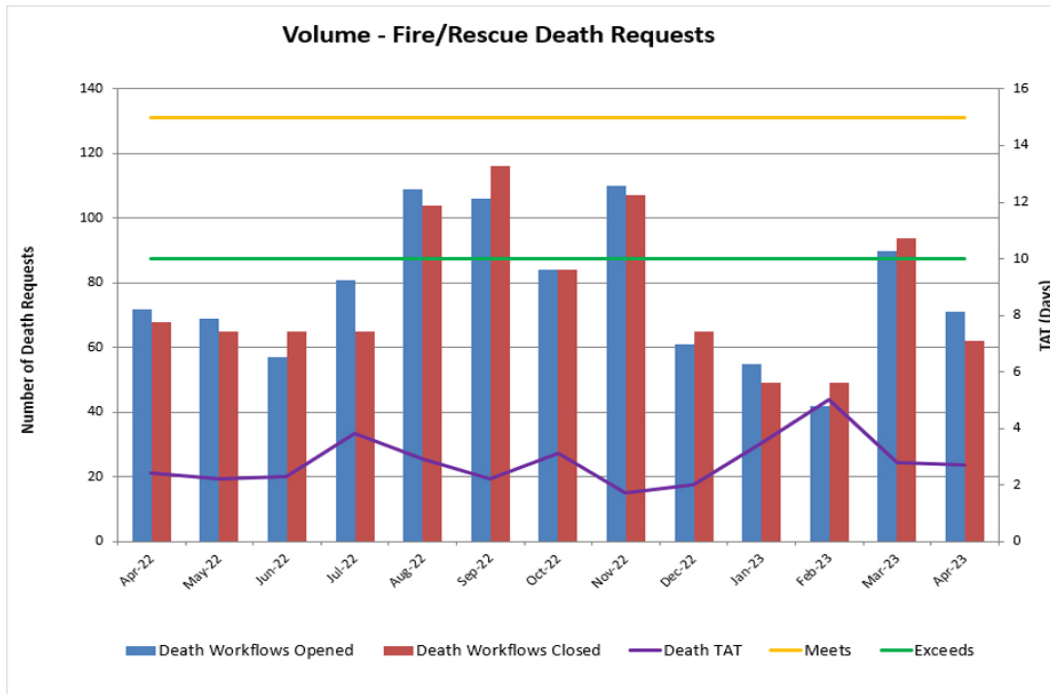
The following charts demonstrate the volume of member inquiries and requests, indicating operational workload, as well as various metrics relating to staff performance in responding to inquiries and processing member requests. Member retirements, service purchases, refunds of contributions and member phone calls received by the call center are among the principal services provided. As the charts below indicate, the Retirement Systems Division (RSD) staff routinely meet or exceed operational goals.

Operational Metrics and Goals









II. NEEDS OF THE FRSWPF

Funding Policy

1. The Panel discussed but did not identify any current needs.

Investment Policy

2. The Panel discussed but did not identify any current needs.

Benefit Policy

3. **Policy Recommendation:** The General Assembly should establish a tiered benefit structure for firefighters and rescue squad workers who continue to serve after attaining 20 years of service in a manner similar to the benefit structure of the National Guard Pension Fund. This would provide, for each additional year of service in excess of 20 years, an increase to a member's benefit by a fixed dollar amount, up to a specified maximum benefit amount.
 - **Panel's Rationale:** A tiered benefit structure would provide incentive for members to continue working or volunteering as a firefighter or

rescue squad worker after they have attained 20 years of service.

Administrative Policy

- 4. Policy Recommendation:** RSD should require participating members to submit contributions online.

- **Panel's Rationale:** This will reduce RSD's operational workload by reducing the volume of paperwork and the time and manpower required to receive, process and record receipt of member contributions.

- 5. Policy Recommendation:** RSD should electronically notify participating departments and squads of delinquent contributions.

- **Panel's Rationale:** Late submission of member contributions is very common in the FRSWPF due to the nature of the accrual of service, among other factors. This hinders the ability of the pension fund to generate investment returns on such funds, in addition to reducing the accuracy of the pension plan's member data and, consequently, the accuracy of the actuarially determined contribution required of the state each year. Electronic notifications in the event of delinquency will improve member and employer compliance with required contribution deadlines, improving the potential to generate investment returns on these funds and enhancing the accuracy of actuarial assumptions used to determine funding costs.

- 6. Policy Recommendation:** RSD should issue electronic notices reminding members and employers to submit required member contributions by the appropriate submission deadlines.

- **Panel's Rationale:** Late submission of member contributions is very common in the FRSWPF due to the nature of the accrual of service, among other factors. This hinders the ability of the pension fund to generate investment returns on such funds, in addition to reducing the accuracy of the pension plan's member data and, consequently, the accuracy of the actuarially determined contribution required of the state each year. Electronic notifications reminding members and departments or squads to submit contributions in a timely manner will improve compliance with contribution deadlines, thereby improving both the potential to generate investment returns on these funds and enhancing the accuracy of actuarial assumptions used to determine funding costs.

- 7. Policy Recommendation:** RSD should communicate to members who are accruing roster service, but no contributions are being received on their behalf even though the member had established an account and contributed previously.
- **Panel's Rationale:** This would help identify members where a discrepancy exists in reporting of their roster service and the remittance of contributions caused by, for example, inconsistency with SSN reporting or a member receiving roster credit with more than one department despite neither department submitting contributions.
- 8. Policy Recommendation:** RSD should communicate to members who are being removed from their department's contribution list.
- **Panel's Rationale:** This notification would provide the member with options regarding their status, such as continuing to participate with another department, requesting a refund of contributions, or leaving their monies in the FRSWPF.
- 9. Policy Recommendation:** RSD should require departments and squads to report contributions online.
- **Panel's Rationale:** Requiring reporting online will allow better quality reporting using existing business rules and should assist units with amounts due. This will also be a precursor to require payments online as well which will save time for staff and units.
- 10. Policy Recommendation:** RSD should advocate for more structured data and contribution reporting for departments and squads similar to the other retirement systems administered by RSD.
- **Panel's Rationale:** Departments and squads are currently permitted to report data at any interval throughout the year as well as make payments sporadically (monthly, quarterly, or even once a year). Requiring regular data reporting and contribution payments would greatly reduce the administrative burden on the plan, help maintain better data integrity including member information needed for several other policy recommendations.

APPENDIX

History of Policy Recommendations

1. **Policy Recommendation:** The LGERS Board of Trustees should maintain a conservative funding policy that includes specific parameters for recommending improvements to benefit structure and inflation protection adjustments.
 - **Outcome:** LGERS Board of Trustees adopted the State Contribution Rate Stabilization Policy (SCRSP) in January 2017. This policy requires stable increases in contribution rates, often in excess of the actuarially determined contribution. It also requires the Board of Trustees to consider a number of factors when evaluating whether to recommend a benefit enhancement to the General Assembly, including: changes in the CPI; growth of insurance premium tax revenue; undistributed gains available to offset the costs of benefit increases; and the impact of any benefit increases on the plan's unfunded liability and on progress toward the Board's funding goals.
2. **Policy Recommendation:** RSD should campaign to encourage lapsed members older than age 65 to apply for return of contributions.
 - **Outcome:** The dedicated Lapsed Service Project ended 5/31/2018.
3. **Policy Recommendation:** RSD should campaign to encourage lapsed members who received a return of contributions from another NC retirement system to apply for a FRSWPF return of contributions.
 - **Outcome:** A new monthly report in ORBIT identifies FRSWPF members who have requested a refund in another RSD account. We sent out refund letters and forms to this population to encourage them to request their contributions if they will not meet the required 20 years of service to retire.
4. **Policy Recommendation:** RSD should encourage lapsed members who are not expected to return to active employment to apply for return of contributions.
 - **Outcome:** The dedicated Lapsed Service Project ended 5/31/2018.
5. **Policy Recommendation:** RSD should seek funding for Phase II of the data audit and ORBIT.
 - **Outcome:** Conduent data audit completed.
6. **Policy Recommendation:** The General Assembly should evaluate the Survivor Benefit and the Line-of-Duty Death Benefit (\$2400).

- **Outcome:** A career-ending injury or illness provided more money than the death of a public safety worker. Legislation was enacted in 2016 to allow members to name beneficiaries and, in the case of line-of-duty deaths, elect to receive either a return of contributions or a lifetime monthly benefit if there is only one eligible principal beneficiary.
- 7. Policy Recommendation:** RSD should endeavor to achieve operational metrics goals.
- **Outcome:** RSD is currently meeting all operational metric goals.
- 8. Policy Recommendation:** RSD should develop Member Statements.
- **Outcome:** Members can now view their accounts online through ORBIT.
- 9. Policy Recommendation:** RSD should continue efforts to reconcile the various member contribution amounts and various laws to ensure accuracy of data for members as they near retirement.
- **Outcome:** The Age 50 and Older project is complete.
- 10. Policy Recommendation:** RSD should increase communications to departments and members.
- **Outcome:** The December 2018 newsletter was sent to 18,839 departments/agencies and members and newsletters continue to be sent.
- 11. Policy Recommendation:** RSD should identify and contact survivors of deceased active members to encourage application for return of contributions.
- **Outcome:** This is being addressed by the team daily. Monthly death matches are conducted to identify deceased members. Research is performed to locate next of kin. An obituary provides survivor information. Many attempts are made to try and reach these survivors including contacting funeral homes and churches.
- 12. Policy Recommendation:** RSD should add a "History of Benefits" to its newsletter.
- **Outcome:** Published in the December 2016 newsletter.
- 13. Policy Recommendation:** RSD should populate Turnaround Documents (TADs) with an up-to-date list of members who are actively serving.
- **Outcome:** TAD layout with actives at the top and in-actives at the bottom implemented in 2018.

- 14. Policy Recommendation:** RSD should encourage departments to promptly report the death of a member.
- **Outcome:** Communicated to departments.
- 15. Policy Recommendation:** The LGERS Board of Trustees should revise the language of the State Contribution Rate Stabilization Policy (SCRSP) to make the policy more transparent and provide clarity because this policy overlays the funding policy for legislative purposes.
- **Outcome:** As part of drafting the amendment and extension of the SCRSP adopted by the LGERS Board of Trustees in April 2019, RSD staff worked with stakeholders to improve the transparency and clarity of the policy.
- 16. Policy Recommendation:** RSD should improve integrity of member and department data.
- **Outcome:** Since October 2015, more than 12,700 records have been updated and removed from the active list in ORBIT.
- 17. Policy Recommendation:** RSD should implement an active audit of service starting at age 53 to identify inaccuracies before members reach retirement age.
- **Outcome:** Completed the Age 53 and Older project began on 11/1/2015.
- 18. Policy Recommendation:** RSD should communicate to each department/agency all that has been done by RSD on their behalf. Communicate to general membership on status of projects. Develop a means for educating members.
- **Outcome:** A newsletter was sent in December 2018. An agency e-mail sent to advise departments/agencies of changes in the TAD document and the member transfer process.
- 19. Policy Recommendation:** RSD should enhance participating department or squad's access to information pertaining to contributions, service credit history, and other data associated with each department or squad's participating members.
- **Outcome:** The on-line contribution reporting launched in 2020 provided expanded access to departmental contribution and roster service data.
- 20. Policy Recommendation:** RSD should undertake a full redesign of the FRSWPF online user functionality in ORBIT involving end-user

testing and feedback throughout the development and implementation processes of such a redesign.

- **Outcome:** The re-design of on-line reporting functionality launched in 2020. Pilot participation from departments and end-users have provided invaluable feedback.

21. Policy Recommendation: Allow participating departments or squads to submit contributions online.

- **Outcome:** The contribution reporting system implemented will accomplish this and allow departments to submit on-line contributions.

22. Policy Recommendation: RSD staff should endeavor to make available the most up-to-date forms following any revisions or changes.

- **Outcome:** Current versions of all forms for the FRSWPF are available on ORBIT.

23. Policy Recommendation: The General Assembly should eliminate the requirement for notarization of beneficiary forms and allow electronic submission of beneficiary forms during enrollment process. In place of notarization, RSD should require member identity verification using member-selected security questions and answers.

- **Outcome:** Electronic submission of beneficiary forms is available for FRSWPF members.

24. Policy Recommendation: DST should recommend that the General Assembly increase the member contributions requirement whenever benefit increases are granted.

- **Outcome:** The SCRSP was adopted by the LGERS Board of Trustees in January 2017.

25. Policy Recommendation: RSD should seek an IRS letter of determination for the FRSWPF and seek to modify or enact any necessary technical changes to the general statutes according to its requirements.

- **Outcome:** The Panel decided at its 2021 annual meeting that this item does not need to be included on its list of recommendations.

26. Policy Recommendation: RSD should monitor the Gross Insurance Premiums Tax to identify opportunities to recommend benefit increases for members without adversely affecting the funded status of the FRSWPF or requiring excessive funding from the General Fund.

- **Outcome:** The amended and extended SCRSP adopted by the LGERS Board of Trustees in April 2021 provides a formal process for monitoring changes in the statutory provisions for the Gross Insurance Premiums Tax.

27. Policy Recommendation: To the extent allowable under federal law, the General Assembly should modify state law such that, when a participating department or squad contributes to the FRSWPF on behalf of its members, these contributions are refunded directly to such department or squad when applicable, potentially only in the years prior to a vesting period (i.e., refund contributions to the department or squad for members who have not yet attained five years of service, but refund contributions to members once they have attained five years of service).

- **Outcome:** At its 2021 annual meeting, the Panel removed this recommendation due to concerns that it may not comply with federal law. RSD has received advice from outside legal counsel indicating that once monies are received in a member's account, those contributions are the member's and cannot be refunded to a department or squad.

28. Policy Recommendation: The General Assembly should require automatic expulsion of active members following delinquency in submitting member contributions, or in the event of a lapse in service of a specified amount of time. In conjunction, RSD should institute a policy to allow members to request a leave of absence to avoid automatic expulsion.

- **Outcome:** At its 2021 annual meeting, the Panel removed this recommendation due to concerns that it may not comply with federal law. RSD has received advice from outside legal counsel indicating that lapsed members cannot be removed in this manner.

29. Policy Recommendation: RSD should regularly seek feedback from participating departments and squads regarding contribution and data submission processes and incorporate this input into process improvements.

- **Outcome:** RSD has implemented reporting online and is currently using the feedback from the pilot as well as feedback from new units added to online reporting. At its 2021 annual meeting, the Panel considered this recommendation addressed although this is an ongoing process.

30. Policy Recommendation: RSD should notify members when they meet the retirement eligibility requirements and send periodic reminders encouraging eligible members to apply for retirement.

- **Outcome:** At its 2022 annual meeting, the Panel considered this item completed as members are now sent notifications.

31. Policy Recommendation: RSD should better communicate the "Balance not yet applied" category for contributions.

- **Outcome:** At its 2022 annual meeting, the Panel considered this item completed as the clearer language has been added to the reporting module and in ORBIT help, and there has been additional communications sent out about the contributions not applied. Staff will continue to communicate this information.

32. Policy Recommendation: The General Assembly should modify state law to allow firefighters and rescue squad workers to receive increased pension benefits if dual membership is maintained in multiple departments (e.g., membership as both a volunteer firefighter and a paramedic/EMS technician).

- **Outcome:** At its 2023 annual meeting, the Panel decided that this item not be pursued at this time considering many administrative and technical difficulties on the participating departments, squads, and RSD.

33. Policy Recommendation: RSD should notify inactive members who are approaching and within two years of age 55, have less than 20 years of service, have not contributed to the FRSWPF in the last calendar year, and are not paid in full.

- **Outcome:** At its 2023 annual meeting, the Panel decided that this item has been completed as notifications are sent to these inactive members.