

MINUTES

ADVISORY PANEL FOR THE FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND

MAY 25, 2017

The annual meeting of the Advisory Panel for the Firefighters' and Rescue Squad Workers' Pension Advisory Fund ("panel") was called to order at 1:00 p.m., May 25, 2017, by the Chair, Steven C. Toole. The meeting was held in the Dogwood Conference Room in the Longleaf Building located at 3200 Atlantic Avenue, Raleigh, NC 27604.

Members Present

The panel members present were: Dean Coward, Kevin Gordon (via telephone), Ken Mullen, Debra Poe, Steven C. Toole, Gary Whitman, and Kim Williams.

Members Absent

All panel members were present.

Guests Present

The guests present on the telephone were Larry Langer and Micheal Ribble from Conduent LLC.

Department of State Treasurer Staff Present

The staff present were: Donna Boyette, Thomas Causey, Linda Enderlin, Cindy Esparragoza, Treasurer Dale Folwell, Bill Golden, Lisa Norris, David Starling, Christina Strickland, and Sam Watts.

Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of panel members. There were no ethics conflicts identified by the panel members.

Approval of Minutes

It was moved by Debra Poe seconded by Ken Mullen, and carried that the panel approve the minutes from the June 30, 2016 meeting.

2017 Legislative Update

The Chair recognized Sam Watts, RSD Policy Director, to give an update on legislation affecting the Firefighters' and Rescue Squad Workers' Pension. 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 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 money to continue with the ORBIT project and add one developer position.

Operational Update of the Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Donna Boyette, Firefighters' and Rescue Squad Workers' Pension Fund Senior Administrative Officer for an update on operations. Ms. Boyette presented the team metrics. She reported that the turnaround time for purchase calculations, retirements, death processing, refunds, Turn Around Documents, incoming calls and call abandonment rates are all meeting or exceeding expectations. She described that they are processing an average of 108 refunds per month.

Ms. Boyette gave an update on the staffing for the fund. She reported that the team dynamics have not changed. The staff consists of four full-time permanent employees, one full-time temporary employee, and one part-time temporary employee used for a project. The project will be discussed in greater detail during the Status and Needs portion of the meeting. She reported that she has received approval to hire three full-time temporary employees and have recently hired two of the three to work on the Lapsed Service Project, which has approximately 15,000 remaining cases.

Ms. Boyette presented the new Lapsed Service Project that was commenced on May 8, 2017. She stated that the purpose of the project is to clean-up the data in ORBIT, which will positively impact the Turn Around Documents and their process. In 2013, Buck Consultants (now Conduent) identified over 17,000 members that will likely not continue service and therefore contribute before retirement age. Buck defined lapsed members as members who have not contributed in the previous 24 months. Since October 2015, over 2,000 cases have been resolved. As she previously mentioned, she received approval to hire three temporary employees to focus on the remaining 15,177 members. She noted that they are working on getting the funds appropriated in 2015 by the General Assembly for the data clean-up project carried forward to next fiscal year. She concluded that if the funds are carried forward, they can continue the project for 9-10 months until funding becomes unavailable. The Chair added that Conduent worked on making sure that the assumption for lapsed members set the correct parameters for this project. Larry Langer, consultant from Conduent, added that the North Carolina Retirement Systems, and specifically the Firefighters' and Rescue Squad Workers' Pension Fund, are very conservative in setting assumptions compared to other states. He commented that although the ARC was not lowered, by including the lapsed member assumption, the ARC dropped by \$3 million as a result of the revised lapse assumption.

Ms. Boyette stated that the second issue of the Firefighters' and Rescue Squad Workers' Pension Fund Newsletter was released on December 1, 2016. She provided the panel with a summary of the information that was included and stated that she will be working with association groups to send the newsletter to their members.

Treasurer's Welcome

The Chair recognized Treasurer Dale Folwell. Treasurer Folwell thanked the panel members for their service and highlighted the importance of keeping the pension fund strong in era of low interest rates and increased benefit payments without any change to member contributions. He stated that strong pension plans lead to strengthened bond ratings and lower borrowing costs for the state.

Turn Around Document Updates

The Chair recognized Donna Boyette to provide an update on the Turn Around Documents (TADs). Ms. Boyette stated there is consistent feedback from departments that an issue of concern is that lapsed members appear in the TADs. The long-term solution is to rebuild the Fire & Rescue ORBiT module, and to develop an electronic online database for the TADs. Currently, there are no resources to dedicate to this endeavor, so a short-term option will be implemented.

Ms. Boyette informed the panel that based on the input received, the potential short-term solutions are to list lapsed members at the bottom of the TADs after a page break or to add a line to the TADs to delineate active members from lapsed members. Ms. Boyette presented an example of the new TADs.

Ms. Boyette shared the long-term plan that the TADs would be electronic and available in ORBiT self-service. This would allow bank drafts and contributions to occur in an overnight process and posting on the subsequent business day. This approach would provide staff with a quality control role in the process. Ms. Boyette asked the panel their opinion on electronic TADs. A panel member conveyed that departments may not be initially receptive to this change, but perhaps with some visits and some training they would address any concerns. Another panel member commented that some departments already have electronic reporting systems, so it may not be a major issue for those departments. Treasurer Folwell added that the larger departments probably have similar systems, so they will likely have the least trouble converting. Another panel member stated that departments are already submitting member data electronically to DOI and he also stated that adding additional capabilities, such as department's having the capability of amending their own data, would be the best way to proceed. Another panel member stated that the hurdle may not be as large as expected because all fire calls are reported electronically. Treasurer Folwell informed the panel that the goal is to simplify. Ms. Boyette continued her presentation by providing an update on the benefits of the electronic system.

Plan of work and Timeline for Redevelopment of ORBIT Online Retirement Platform for the Firefighters' and Rescue Squad Workers' Pension Fund

The Chair recognized Bill Golden, NCDST Chief Information Officer, to provide input on the ORBiT Online Retirement Platform update. The Chair stated that the Status of Work report for the ORBiT Online Retirement System has 1 of 17 requirements completed, and there is no change from last year. He explained that there were very pressing priorities including ORBiT Self Service Upgrade followed by online retirement processing that needed to be finished before starting on the new ORBIT Fire & Rescue module. The ORBiT Self Service Upgrade was finished on January 26th, 2017, which will serve as the foundation for the future Fire & Rescue enhancements. The original plan was to run the two projects, online retirement processing and the new Fire & Rescue module, simultaneously. Due to resource constraints, including losing 3 of 12 ORBiT Developers, staff has been forced to delay development on the new Fire & Rescue module. Mr. Golden informed the panel that originally IT was staffed to run the current programs, not to enhance and develop new ones. However, over time they have found efficiencies, which enable them to also enhance current programs. As open positions are filled and new team members are added, the team will be in a position to work on two projects simultaneously. Work on the new Fire & Rescue module will resume as soon as possible.

December 31, 2015 Actuarial Valuation

The Chair recognized Larry Langer and Michael Ribble, with Conduent, to give a presentation on the December 31, 2015, actuarial valuation for the Fund. Mr. Langer presented the key results of the December 31, 2015. He reported that the market value return of 0.35 percent was lower than the 7.25 percent assumed, and the 2014 return of 6.24 percent. Returns during 2015 were flat across the country, and the North Carolina Retirement Systems' experience was on par with peers. Session Law 2016-108 provides a monthly benefit of \$170 to the member's beneficiary if the member is killed in the line of duty. Adjustments were made to the actuarial assumptions in accordance with the experience study, which includes a new mortality rate table, and the return to work assumptions adopted by the board on July 21, 2016. There were no significant changes in funding methodology from the prior year's valuations.

When compared to the December 31, 2014 valuation, the deviations resulted in a lower funded ratio of 89.2 percent in the December 31, 2015 valuation, compared to 90.9 percent in the December 31, 2014 valuation; and, a higher employer required contribution of \$14,287,301 for fiscal year ending June 30, 2018, compared to \$12,830,706 for fiscal year ending June 30, 2017. Mr. Langer stated that the Fund continues to be well-funded compared to its peers.

Mr. Ribble explained the valuation process, specifically the membership data, market value of assets, allocation of investments by category, benefit provisions, actuarial assumptions, and funding methodology. He noted that the Fund is expending \$28,816,779 in benefit payments and receiving only \$16,727,357. The funding policy is aggressive when compared to other public sector retirement systems.

Mr. Ribble reported on the actuarial value of assets, Actuarial Accrued Liability, and the impact of the return to work assumption on the ARC. The return to work assumption alone reduced the ARC by \$3,675,184. Mr. Ribble and Mr. Langer echoed their reluctance to reduce the ARC by a large amount until they ensured that the assumption was reliable.

A panel member sent in questions to the Chair via email earlier in the day regarding the valuation and the impacts of certain changes. Mr. Langer and Mr. Watts touched on a few of the questions and the Chair proposed to send formal responses once the questions were researched by the appropriate parties. The Chair requested that panel members send additional questions via email, and stated that he will relay a formal response to those as well.

State Contribution Rate Stabilization Policy

The Chair presented the State Contribution Rate Stabilization Policy (SCRSP). He described the background of the SCRSP. The SCRSP was originally used for the LGERS and TSERS, and the legislature mandated in session law 2016-108 that a similar funding policy be implemented for the Firefighters' and Rescue Squad Workers' Pension Fund. The policy is designed to help the fund withstand turbulent economic times by increasing and stabilizing employer contribution rates. Mr. Toole shared that the policy will also allow for increases in member contributions as benefit amounts are increased. A panel member asked how the normal costs are calculated, and cited the actuarial amounts of approximately \$28 million paid in benefits and \$16 million received in contributions. Mr. Langer responded that the details are

included in page 32 of the actuarial report. A panel member requested that the panel receive more information and an example. The Chair confirmed that the information will be given to the panel.

Status and Needs of the Firefighters' and Rescue Squad Workers' Pension Fund

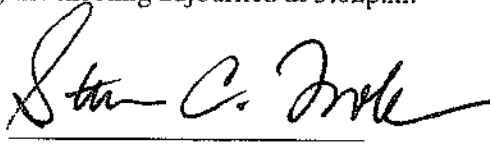
Donna Boyette presented the Annual Report on the status and needs of the Firefighters' and Rescue Squad Workers' Pension Fund, based on the panel's discussion during the June 6, 2016 meeting. Ms. Boyette reviewed the ARC, funding status of the fund, and reiterated the current status of the ORBIT Fire & Rescue redesign efforts. Ms. Boyette explained the work being done to communicate with members who are age 53 and over and nearing retirement. She communicated that the goal for the new, short-term solution for the TADs is June 2017.

Mr. Toole stated that the Retirement System staff will prepare the draft Advisory Panel Meeting minutes and draft Status and Needs report to be approved by the Advisory Panel for presentation to the Local Governmental Employees' Retirement System Board of Trustees at the July meeting. Staff will schedule a short meeting in June to review and approve the minutes and report.

There were no public comments.

Adjournment

There being no further business, the meeting adjourned at 3:02p.m.



CHAIR