

June 15, 2015

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 (the advisory panel) met on June 3, 2015, at 9:30 a.m. for an extensive review of the Firefighters' and Rescue Squad Workers' Pension Fund (the fund). All members were present. At the meeting, the advisory panel's agenda items included the following:

- December 31, 2013 Actuarial Valuation of the Fund
- Legislative Update
- Update of Retirement Systems Division (RSD) Operations
- Buck Consultant's Progress on the Firefighters' and Rescue Squad Workers' Pension Fund Data Cleanse project
- Plan of Work and Timeline for Redevelopment of ORBIT Recordkeeping Software for Fire & Rescue Pension Fund

As annually required, the advisory panel is pleased to submit the following 2015 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.

DECEMBER 31, 2013, ACTUARIAL VALUATION

Larry Langer and Janie Shaw, of Buck Consultants, presented the December 31, 2013, actuarial valuation for the fund. Key results of the December 31, 2013, valuation as compared to the previous June 30, 2012, valuation were:

- Annualized market returns of 12.42% compared to 7.25% assumed
- Recent legislation signed into law including:
 - In-service distributions of pensions allowed for all members after attaining age 55 and 20 years of service as an eligible firefighter or eligible rescue squad worker
- Adjustments to actuarial assumptions intended to estimate the impact of a full audit of the census data for lapsed members, including the development of the appropriate lapse assumption based on the full audit, once completed
- No significant changes in funding methodology from the prior year's valuations

When compared to the June 30, 2012, valuation, the above resulted in:

- Higher funded ratio (88.3% in the December 31, 2013, valuation compared to 83.9% in the June 30, 2012, valuation)

- Lower employer required contribution (\$13,240,552 for fiscal year ending June 30, 2016, compared to \$14,620,362 for fiscal year ending June 30, 2012)

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.

LEGISLATION

Sam Watts, RSD Policy Analyst, shared the details of Senate Bill 99 – Fire, Rescue & Safety Worker System Changes.

Section One: Clarify definitions for certain public safety programs

Section Two: Record correction procedure for Firefighters' and Rescue Squad Workers' Pension Fund

Section Three and Four: Change roster certification procedure

Section Five, Six and Seven: Rescue Squad Workers' Relief Fund changes

Section Eight: Line of duty death benefit surviving spouses' requirement change

Section Nine: Line of duty \$50,000 death benefit lump sum payment

Section Ten: Governmental control requirement for retirement system participation

Section Eleven: Effective date July 1, 2015

OPERATIONS UPDATE

Tom Causey, RSD Deputy Director of Operations, and Donna Boyette, Firefighters' and Rescue Squad Workers' Pension Fund Coordinator, provided the advisory panel with an operations update for administration of the fund.

- 1,688 rosters were uploaded into ORBiT in January
- More than 1,400 Turn-Around Document packets were received from January – April 2015
- Staff in full compliance with the 48-hour depositing time for checks, as mandated by statute

- All contributions received by deadline of March 31, 2015, were posted to accounts early April 2015
- Team is fully staffed, with roles, responsibilities, and expectations clearly defined, and schedule created for incoming calls
- Team received 636 calls in April, with a 20-second wait time and 3.2% abandonment rate
- In April 2015, 84.6% of retirements paid in the month requested as compared to 1.5% in April 2014. Current goal is 95%
- In May 2015, Retirement applications processed within 20.4 days of receipt as compared to 243.8 days in May 2014. Current goal is 20 days
- In May 2015, Purchases processed within 16.9 days of receipt as compared to 154.7 days in May 2014. Current goal is 20 days
- In May 2015, Death cases processed within 30.6 days as compared to 91.7 days in May 2014. Current goal is 20 days
- In May 2015, Transfers are processed within 24 – 48 hours of receipt
- In May 2015, Refunds are processed within 24 – 48 hours of receipt
- In May 2015, Disability files are processed within 24 – 48 hours of receipt

ACTUARIAL DATA AUDIT OF THE FUND

Larry Langer and Janie Shaw of Buck Consultants updated the advisory panel on their progress with the actuarial data audit of the fund. To be eligible for a benefit, a Firefighters' & Rescue Squad Workers' Pension Fund member must have completed 20 years of roster service and 20 years of contributions. Many members leave before meeting the requirements to be eligible for a retirement benefit. These members are called "lapsed" members.

Initially, Buck reviewed 1,000 lapsed members for volunteer history accuracy and 100 non-lapsed members to confirm volunteer history accuracy. Based on this review, Buck has developed the following assumptions:

- Members who had service in year of start date, then lapse, then service in 2004-2005-2006: we will assume that 50% of this population will not return and become vested
- Members who had service only in their year of start date (2011 or prior): we will assume that 50% of this population will not return and become vested
- Lapses of greater than 6 years and returned to volunteer: we will assume that 65% of this population will not return and become vested

Of the 40,000 members of the fund, there are approximately 13,500 members who did not receive a year of service credit as of the June 30, 2012, actuarial valuation. For purposes of the data audit, Buck focused on this 13,500 population to determine the lapse assumption going forward.

The appropriate lapse assumption will be developed during the full audit of the remaining lapsed population and will be based on age, membership and lapse history of each member.

Buck has conducted research onsite, and in conjunction with members of the Retirement System, has reviewed approximately 11,000 out of 13,500 records.

- Approximately 9,000 of those 11,000 records have been thoroughly peer-reviewed to date. Anything not yet peer-reviewed was not used in the preliminary findings.
- Based on the review of the population thus far, Buck expects to remove at least 25% of lapsed members from the number of members that are expected to receive a monthly retirement benefit in the future. If applied to the entire population, this represents over 3,000 members who are not expected to return to active membership. (This is an increase from the previous expectation of 2,500 removed members.)
- The appropriate assumption and final cost savings will be validated upon completion of the full audit.
- For purposes of budgeting, it is reasonable to continue to assume FYE 2015 contributions will be reduced by \$2.2 million, based on the new lapse assumptions, including a \$1.7 million reduction from the current appropriation, as well as saving an additional \$0.5 million increase.
- Those members with service of less than or equal to 1 year have an average lapse of approximately 6 – 7 years.
- Analysis to date suggests that members with a lapse of 7 or more years are likely not to return to active membership and can be removed.

The project has been delayed due to budget constraints. RSD is currently exploring options to continue and finalize the project during the 2015/16 fiscal year.

ORBiT REDESIGN

David Starling, Constituent Relations, and Linda Enderlin, Manager, Business Analysts, updated the advisory panel on progress towards automation of the Fire & Rescue administration. Efforts continue to plan, design, build, test and implement a Fire and Rescue module within ORBiT, its online recordkeeping platform. The goal is to enhance ORBiT self-service to be more customer-friendly for participating members, including the ability to view fully credited service, contributions paid to date, and the ability to calculate service purchase estimates. Additional ORBiT fire and rescue department self-service capabilities will be available to process member contributions and provide departments with the ability to contribute using EFT. The roster process will be enhanced to provide more information, including beginning and end dates of service. Efforts will continue to enhance the integrity of our member/department data.

RSD has identified 23 separate requirements for implementation. Requirements have been completed on 9 of the 23. Efforts associated with the relocation of DST to Atlantic Avenue are consuming valuable IT resources, resulting in a temporary hold on activity related to the redesign. Current estimates indicate that the project team will reconvene September 2015. Initial estimates of the project hours necessary to complete this project total approximately 22,700, based on a multi-year effort for the team.

NEEDS OF THE FUND

The advisory panel identified the following needs of the fund:

Actuarial

- Continue to seek full funding of the ARC
- Continue to aggressively reduce liabilities

- Maintain a conservative funding policy and appropriate balance on benefits
- Strive to reach a 100% funding status for the fund

Process/Operations

- Continue efforts to complete the ORBiT redesign
- Continue to improve data integrity
- Continue the positive momentum towards 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
- Implement an active audit service starting at age 53 to identify inaccuracies before members reach retirement age
- Increase communications to the departments and members
- Encourage lapsed members over age 65 to apply for return of contributions
- Encourage lapsed members who received return of contributions in another NC Retirement System to apply for return of contributions
- Encourage lapsed members who are not expected to return to active employment to apply for return of contributions
- Identify and contact survivors of deceased active members to encourage application for return of contributions

Policy/Legislative

- Seek funding for Phase II of the data audit and ORBiT redesign
- Continue to monitor the Gross Premium Tax since, as the ARC is reduced, there may be an opportunity to increase benefits to the members

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.

The meeting adjourned at 11:32 a.m.