



Firefighters' and Rescue Squad Workers' Pension Fund Valuation Data Audit – Phase 2 Full Data Audit Preliminary Findings

Board of Trustees Meeting
Larry Langer and Mike Ribble
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Background

- In order to be eligible for a benefit, a Firefighters' and Rescue Squad Workers' Pension Fund member (F&R) must have 20 years of roster service and 20 years of contributions
 - Many members leave before becoming vested in their benefit (reaching 20 years of roster service). These members are called “lapsed” members.
- Buck, as the actuary, currently assumes that all lapsed members will return to active roster service and ultimately become vested in their benefit.
- A more probable lapse assumption was not previously developed due to the lack of readily available data.

Background continued

The North Carolina Retirement Systems Division (RSD) retained Buck late last year (2013) to perform a valuation data audit for the approximately 40,000 members of the F&R Pension Fund. This included a data audit, including a sample of approximately 1,000 members for onsite research and a high-level lapse assumption based on the sampled data.

- Of those 40,000 members, there are approximately 13,500 members who did not receive a year of service credit as of the last actuarial valuation. For purposes of the data audit, we focused on this 13,500 population to determine the lapse assumption.
- A “deeper dive” research project was requested in order to assess the ability to create a lapse assumption that would reduce both future liabilities and the State’s contribution requirement to the Plan.
- Based on this deeper dive, a full audit of the lapsed population was recommended and approved.

Phase I expected results

After the audit sample (Phase I) was complete, Buck determined the lapse assumption needed to be validated with the full audit (Phase II).

- Based on Phase I, we expect to remove at least 2,500 members who are not expected to return to active membership (receive roster service credit).
- A select and ultimate lapse assumption will be developed during the full audit of the remaining lapsed population which will be based on age, membership and lapse history of each member.
- For purposes of the cost savings we projected, we assumed the select and ultimate lapse assumption will equate to a 20% accrued liability and normal cost savings for the remaining lapsed population not removed.
- This equated to a FYE 2015 contributions projection being reduced by \$2.2 million, including a \$1.7 million reduction from the current appropriation, as well as saving an additional \$0.5 million increase.

Phase II preliminary results

Buck has been onsite researching, and in conjunction with members of the RSD, have reviewed approximately 6,500 out of 13,500 records.

- Approximately half of those 6,500 records have been thoroughly peer reviewed to date. Anything not yet peer reviewed was not used in our preliminary findings.
- Based on the review so far of the population, we expect to remove at least 25% of lapsed members. 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 select and ultimate lapse 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, including a \$1.7 million reduction from the current appropriation, as well as saving an additional \$0.5 million increase.

Phase II observations

Onsite data research	
Total lapsed population	13,500
Records audited	6,500
Records peer reviewed	3,500

Observations of 3,500 peer reviewed records	
Total members with no service	380
Service of less than or equal to 1 year	500
Lapse of 7 or more years	850

- 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 members with a lapse of 7 or more years are likely not to return to active membership and can be removed

Potential next steps – RSD and Buck

Buck will continue reviewing records to confirm all assumptions and finalize savings

- Full team onsite this week, additional onsite visits scheduled through at least December
- Expect final results to be available by first quarter 2015

Recommend sending letters to multiple populations

- Lapsed members over age 65 to encourage application for return of contributions
- Lapsed members who received return of contributions in other North Carolina administered plans to encourage application for return of contributions
- Lapsed members that are not expected to return to active employment to encourage application for return of contributions

Recommend performing death search on all lapsed population

- Reaching out to survivors of deceased active members to encourage application for return of contributions

QUESTIONS?

THANK YOU!