



LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES MEETING – January 2021

Update on Funding Stabilization Policies – LGERS and FRSWPF

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North Carolina
Total Retirement Plans



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Agenda

- Overview and Timing of Current Board Policies
 - Employer Contribution Rate Stabilization Policy (ECRSP) for Local Governmental Employees' Retirement System (LGERS)
 - State Contribution Rate Stabilization Policy (SCRSP) for Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)
- Next Steps



LGERS Employer Contribution Rate Stabilization Policy (ECRSP)

- First adopted Jan. 2016 as part of recommendation to legislature for FYE 2017
- Consulting actuaries' Jan. 2016 presentation demonstrated policy through June 30, 2022
- Amended Jan. 2019; steeper employer contribution increases during remaining 3 years
- Policy as expressed Jan. 2016 and amended Jan. 2019 has been followed by Board in each year since, as part of establishing employer contribution rates
- Policy describes annual funding requirements:
 - Non-LEOs for FYE 2017-2022: 7.25%, 7.50%, 7.75%, 8.95%, 10.15%, 11.35%
 - LEOs for FYE 2017-2022: 0.75% greater than non-LEO rate in all years
 - “Guardrails” based on ADEC: If non-LEO ADEC rate differs from policy rate by half, policy schedule is adjusted 0.50% of pay toward ADEC rate
 - Any benefit increases granted by the Board do not affect policy rate schedule
 - Policy rate schedule is adjusted for any benefit increases granted by the legislature



FRSWPF State Contribution Rate Stabilization Policy (SCRSP)

- Adopted by Board on Jan. 26, 2017; effective until “the next experience review” (i.e., the experience review presented today, which would first affect contributions in FYE 2023)
- Annual funding recommendation: Greater of (1) or (2)
 - (1) = Current year’s ADEC
 - (2) = Prior year’s appropriation plus \$350,000 (designed to mirror estimated growth rate of the tax on gross property insurance)
- Requires that before recommending a benefit enhancement, the Board consider the rate of inflation, the growth rate of the tax on gross property insurance, whether there is sufficient funding for the enhancement without adding unfunded liability to the State’s balance sheet, and how the proposed change affects progress toward funding goals
- Sets long-term goal of 50/50 split between member and State contributions toward normal cost, with State paying 100% of the unfunded liability portion of the ADEC
- Requires immediate realization of the cost of benefit enhancements by reserving undistributed investment gains or appropriating the cost in a single year



Next Steps

- Both LGERS ECRSP and FRSWPF SCRSP scheduled through June 30, 2022
- Alternatives presented for FYE 2022 recommendations are based on current policies
- Expect staff recommendation at April 2021 meeting regarding FYE 2023-2027
- Issues under consideration for LGERS ECRSP
 - Formal Board policy document outlining purpose, objectives, multi-year term
 - Clarifications in policy regarding direct rate smoothing, and effect of discretionary benefit or assumption changes on contribution rates
 - Annual funding recommendation to be based on scenario projections
 - Will continue to recommend funding of at least the total ADEC over 5 years
 - “Guardrails” (both width and responsiveness) under consideration
 - Difference between LEO and non-LEO rates also under consideration
 - Any clarifications regarding circumstances for recommending benefit changes
- Issues under consideration for FRSWPF SCRSP
 - Annual funding recommendation, including “prior year plus \$350,000” minimum
 - Technical review of existing policy document

