



FIREFIGHTERS' AND RESCUE SQUAD WORKERS' PENSION FUND (FRSWPF)

April 29, 2021

State Contribution Rate Stabilization Policy (SCRSP) Summary

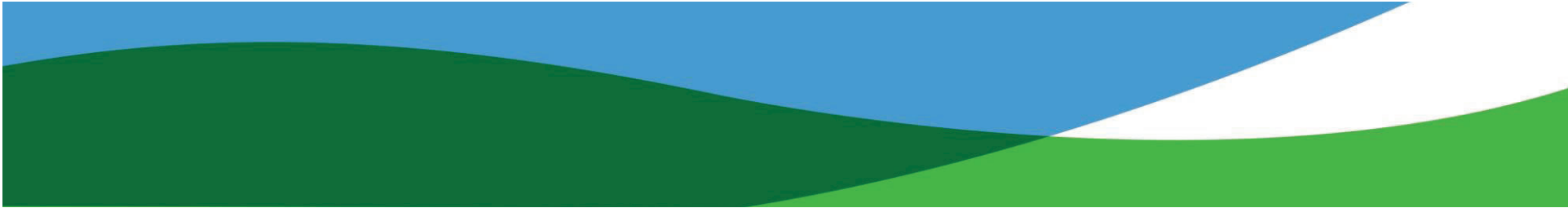
Patrick Kinlaw, FSA, Director of Policy, Planning, and Compliance



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Agenda

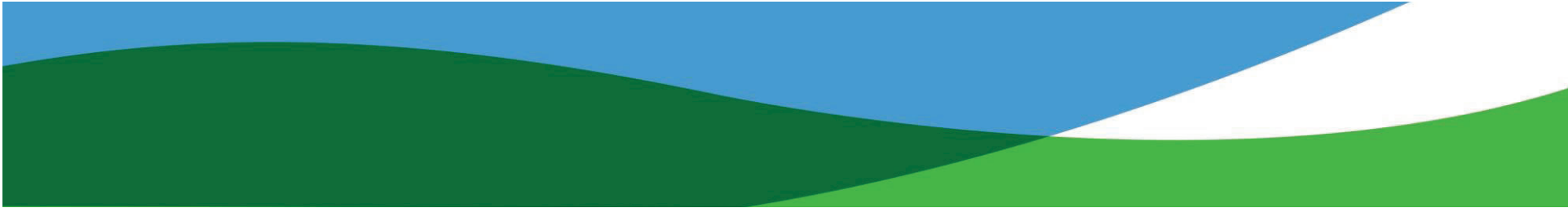
- Background: SCRSP for FY 2017-2022
- Summary of Proposed Version for FY 2023-2027
- Hypothetical Examples



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Background: SCRSP for FY 2017-2022

- Required by S.L. 2016-108, adopted by LGERS Board on January 26, 2017
- In effect “until the next experience review and will then be reset based on the results of that review”
- (Note, the Experience Study adopted January 2021 is effective for funding purposes for fiscal years ending 2023 and later; therefore, the 2017 SCRSP lasts through the fiscal year ending 2022 and then expires)
- Covered annual appropriation recommendation, as well as the conditions for considering and recommending increases to benefit amounts or member contribution rates





Background: SCRSP for FY 2017-2022 (Continued)

- Annual appropriation recommendation in January, for an upcoming fiscal year
 - Greater of (1) or (2)
 - (1): Current year's appropriation plus \$350,000
 - (2): Underlying actuarially determined employer contribution rate (ADEC)
 - \$350,000 came from estimated revenue growth from tax on gross property insurance
- Goal of 50%/50% split between member and State contributions toward the normal cost, with State paying 100% of the amount necessary to amortize unfunded liabilities
- Factors to be considered by Board before recommending benefit improvement
 - Increase in Consumer Price Index (CPI)
 - Growth rate of tax on gross property insurance
 - Evaluation of whether sufficient funding is available for the benefit improvement
 - Evaluation of how proposed change affects progress toward Board's funding goals
- Requires recommendation that any benefit increase be funded in a single year, either through reserving undistributed investment gains or through State appropriations





Summary of Proposed SCRSP for FY 2023-2027

- More clearly defines guidance for Board decisions based on how the Board has interpreted the FY 2017-2022 SCRSP during its operation
- Maintains appropriation recommendation before any benefit improvements (greater of current year's recommendation plus \$350,000, or underlying ADEC)
 - One slight adjustment: Current year's "recommendation" (rather than current year's "appropriation") plus \$350,000
 - Clarifies how the Board's current year recommendation (generally a year old by the time of the decision for upcoming year) and the underlying ADEC (generally calculated months prior) should be adjusted for intervening events, such as enacted benefit changes, member contribution changes, or assumption/method changes





Summary of Proposed SCRSP for FY 2023-2027 (Continued)

- Maintains and more clearly defines four conditions for Board to consider recommending benefit improvements; 2017-2022 SCRSP described factors as “requiring consideration”
 - (1) Recommended benefit increase is no greater than CPI increase
 - (2) Sufficient funding is available / Board recommends full funding in one year
 - (3) Board recommends member contribution rate be increased / maintained at a level at least equal to the amount in \$5 increments closest to a 50/50 share of normal cost
 - (4) Board has considered any statutory changes to tax on gross property insurance

- Exception regarding (2) above:
 - In initial SCRSP, “full funding” meant using “undistributed investment gains” or recommending appropriation equal to full actuarial cost of the improvement
 - Proposed version for FY 2023-2027 defines Benefit Improvement Funding Requirement (BIFR)
 - BIFR is equal to the full actuarial cost increase, with the following adjustments (but only if the adjustments are a total decrease to the BIFR):
 - Increase by actuarial accrued liability, decrease by actuarial value of assets
 - Increase by underlying ADEC, decrease by contribution being made under policy
 - Resulting BIFR no less than \$0



Hypothetical Examples – Policy Contrib. Without Benefit Increase (Decision During January 2025 for FY Ending 6/30/2026)

(1) Appropriation recommended for FYE 6/30/25	\$20,000,000	\$21,500,000*	\$20,000,000**
Adjustments:			
(a) Portion intended for one-year funding of ben. improvement	\$0	(\$1,500,000)	\$0
(b) BIFR for improvement enacted by NCGA, not fully-funded	\$0	\$3,000,000	\$0
(c) Funding appropriated toward NCGA-enacted improvement	\$0	(\$1,000,000)	\$0
(d) Effect of actuarial assumption/method changes not incorporated in Board's recommendation for FYE 6/30/25	\$0	\$0	\$0
(e) Effect of enacted increase to member contribution rate	<u>\$0</u>	<u>\$0</u>	<u>(\$3,000,000)</u>
Adjusted (1)	\$20,000,000	\$22,000,000	\$17,000,000
(2) Underlying ADEC for FYE 6/30/2026 (from 12/31/2023 actuarial valuation report adopted Oct. 2024)	\$16,000,000	\$17,500,000	\$13,000,000
Adjustment:			
(a) Portion of Underlying ADEC attributable to one-year funding of benefit improvement	<u>\$0</u>	<u>(\$1,500,000)</u>	<u>\$0</u>
Adjusted (2)	\$16,000,000	\$16,000,000	\$13,000,000
Greater of Adjusted (1) plus \$350,000, or Adjusted (2)	\$20,350,000	\$22,350,000	\$17,350,000

* Assumes in Jan. 2024, Board recommended benefit improvement with BIFR of \$1.5 million and actuary included that recommendation in the Underlying ADEC. Further assumes that the General Assembly instead granted a benefit improvement with BIFR of \$3.0 million but funded only \$1.0 million.

** Assumes that since prior Board recommendation, the General Assembly enacted a member contribution increase that decreased the State's annual cost by \$3.0 million.



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Hypothetical Examples – Ben. Improvement Funding Req. (BIFR) (Decision for Recommended Improvement Taking Effect 7/1/2025)

(1) Full actuarial cost of proposed benefit improvement (increase in actuarial accrued liability and normal cost)	\$4,000,000*	\$4,000,000**	\$4,000,000***
(2) FRSWPF actuarial accrued liability as of 12/31/2023	\$500,000,000	\$500,000,000	\$500,000,000
(3) FRSWPF actuarial value of assets as of 12/31/2023	\$470,000,000	\$499,000,000	\$501,500,000
(4) Underlying ADEC for FYE 6/30/2026	\$16,000,000	\$16,000,000	\$21,000,000
(5) Policy Contrib. Without Ben. Increase for FYE 6/30/2026	\$20,350,000	\$20,350,000	\$21,000,000
Total Adjustment: (2) – (3) + (4) – (5), Only If Less Than \$0	\$0	(\$3,350,000)	(\$1,500,000)
BIFR: (1) + Total Adjustment, No Less Than \$0	\$4,000,000	\$650,000	\$2,500,000

* Assumes FRSWPF is not very close to 100% funded. BIFR is equal to full actuarial cost of improvement, \$4,000,000.

** Assumes just under 100% funded, and already planning to fund more than the Underlying ADEC plus the full actuarial cost in the upcoming year. BIFR is adjusted by amount of funding exceeding the Underlying ADEC (\$4,350,000) less the amount needed to reach 100% funding (\$1,000,000), for an overall reduction of \$3,350,000 and a BIFR of \$650,000.

*** Assumes just over 100% funded, but not contributing any more than the Underlying ADEC in the upcoming year. BIFR is reduced for the amount of plan surplus (\$1,500,000), for a BIFR of \$2,500,000.



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