



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Recruit/Retain Vol. Firefighters.
Bill Number: Senate Bill 416 (First Edition)
Sponsor(s): Senators Daniel, T. Alexander, and Britt

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 416, V. 1 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund	31,694	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	31,694	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Section 5 has a potential actuarial impact on a retirement system.

Systems Affected: Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)

Section 5: Increases the member contribution to the FRSWPF from \$10 per month to \$15 per month, effective January 1, 2020, and increases the monthly benefit from \$170 per month to \$180 per month. Cavanaugh Macdonald, the actuary for the retirement systems, estimates that this section will increase the State's required contribution under the Board of Trustees' funding policy by \$31,693,692 in FY 2019-20 only, which represents a one year amortization of the increase in accrued liability due to the increase in the monthly benefit. Hartman & Associates, the actuary for the General Assembly, estimates that this section will increase the State's required contribution under the funding policy by \$28.0 million in FY 2019-20 only.

While the \$5 increase in the member contribution will reduce the State's underlying actuarially determined employer contribution (ADEC), both actuaries note that this is not expected to impact the State's contribution under the funding policy because the funding policy sets the contribution at the greater of the underlying ADEC or the previous year's contribution plus \$350,000, and the latter is expected to be greater.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2017 actuarial valuations. Significant

membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)	
Active Members	
Count	25,068
Average Age	39
Average Service	10.9
Inactive Members	
Count	13,134
Retired Members	
Count	14,308
Annual Benefits	\$29M
Average Age	68
New Retirees During 2018	700

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)	
Accrued Liability (AL)	\$470M
Actuarial Value of Assets (AVA)	\$418M
Market Value of Assets (MVA)	\$424M
Unfunded Accrued Liability (AL - AVA)	\$52M
Funded Status (AVA / AL)	89%
Required Employer Contribution for FY 2019-20	\$19M
Assumed Rate of Investment Return: 7.00%	
Cost Method: Entry Age Normal	
Amortization: 12 year, closed, flat dollar	
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015	

Benefit Provisions	
Formula	\$170 per month
Unreduced retirement age/service	55/20
Employee contribution	\$10 per month

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

It is not clear if the monthly benefit increase is effective January 1, 2020 or July 1, 2019.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Actuarial Impact of the Volunteer Firefighter Recruitment and Retention Act of 2019 - SB 416", April 29, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 416, Section 5: Modifications to the Firefighters' and Rescue Squad Workers' Pension Fund", April 30, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research

Fiscal Research Division
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