



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Volunteer Fire Department Preservation Act.
Bill Number: Senate Bill 62 (First Edition)
Sponsor(s): Senators Daniel, Britt, and McInnis

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 62, V. 1 (\$ in thousands)

| | <u>FY 2021-22</u> | <u>FY 2022-23</u> | <u>FY 2023-24</u> | <u>FY 2024-25</u> | <u>FY 2025-26</u> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State Impact | | | | | |
| General Fund | 21,233 | (2,188) | (2,188) | (2,188) | (2,188) |
| Highway Fund | - | - | - | - | - |
| Other/Receipts | - | - | - | - | - |
| TOTAL STATE EXPENDITURES | 21,233 | (2,188) | (2,188) | (2,188) | (2,188) |

ACTUARIAL IMPACT SUMMARY

Section 4 has a potential actuarial impact on a retirement system.

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

Section 4: Increases the monthly benefit from \$170 to \$180 and increases the monthly member contribution from \$10 to \$20. This section becomes effective January 1, 2022. Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following impacts on the FRSWPF:

| | Cavanaugh Macdonald | Hartman & Associates |
|-----------------------------------------------------------------------------------------------|---------------------|----------------------|
| Increase in Accrued Liability | \$27,590,851 | \$32,500,000 |
| Net Decrease in Employer Normal Cost due to Benefit Increase and Member Contribution Increase | \$2,187,684 | \$2,300,000 |

The actuarial impact under the State Contribution Rate Stabilization Policy (SCRSP) adopted for the FRSWPF by the Local Governmental Employees' Retirement System Board of Trustees is as follows:

| | FY 2021-22 | FY 2022-23 and Later |
|-----------------------------------------------------|----------------------|----------------------|
| Change in Accrued Liability Amortized over One Year | \$27,590,851 | |
| Net Change in Employer Normal Cost | (\$2,187,684) | (\$2,187,684) |
| ADEC minus Minimum Contribution* | <u>(\$4,169,685)</u> | |
| Total | \$21,233,482 | (\$2,187,684) |

* The ADEC is the Actuarially Determined Employer Contribution in the most recent actuarial valuation. This component only applies in the year the increase is granted and only if the member contribution is increased to the amount (to the nearest \$5) needed to make the member's share of the normal cost equal to 50%. The bill does increase the member contribution to that amount.

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, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

| Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions) | |
|-----------------------------------------------------------------------------------|--------|
| Membership includes both paid and volunteer firefighters and rescue squad workers | |
| Active Members | |
| Count | 24,994 |
| Average Age | 39 |
| Average Service | 11.0 |
| Inactive Members | |
| Count | 15,361 |
| Retired Members | |
| Count | 14,765 |
| Annual Benefits | \$30M |
| Average Age | 69 |
| New Retirees During 2020 | 500 |

| Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions) | |
|------------------------------------------------------------------------------|--------|
| Accrued Liability (AL) | \$483M |
| Actuarial Value of Assets (AVA) | \$446M |
| Market Value of Assets (MVA) | \$459M |
| Unfunded Accrued Liability (AL - AVA) | \$37M |
| Funded Status (AVA / AL) | 92% |
| Required Employer Contribution for FY 2021-22 | \$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.

The impact in FY 2021-22 was determined using the State Contribution Rate Stabilization Policy (SCRSP) adopted in January 2017 and the impact in FY 2022-23 and subsequent years was determined using the SCRSP adopted in April 2021.

TECHNICAL CONSIDERATIONS

It is not clear if the monthly benefit increase is effective January 1, 2022 or July 1, 2021.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Actuarial Impact of the Volunteer Firefighter Preservation Act - SB 62", March 3, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 62, Section 4: Modifications to the Firefighters' and Rescue Squad Workers' Pension Fund", February 26, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Local Governmental Employees' Retirement System Board of Trustees, "Firefighters' & Rescue Squad Workers' Pension Fund State Contribution Rate Stabilization Policy (SCRSP)", adopted on January 26, 2017.

Local Governmental Employees' Retirement System Board of Trustees, "State Contribution Rate Stabilization Policy for the Firefighters' and Rescue Squad Workers' Pension Fund", adopted on April 29, 2021.

Local Governmental Employees' Retirement System Board of Trustees, "Decisions on the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)", January 28, 2021.

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.

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