

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

BILL NUMBER: House Bill 1034 (Second Edition)
SHORT TITLE: Volunteer Fire and Rescue Finances (PED).
SPONSOR(S):

FUNDS AFFECTED: State General Fund

SYSTEM OR PROGRAM AFFECTED: North Carolina Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF).

BILL SUMMARY:

Section 1: Amends statutes related to local firefighters' relief funds in Article 84 of Chapter 58 of the General Statutes. While this section permits fire departments and rescue squads to use relief funds to pay member contributions to the FRSWPF, this change does not affect the liability or the State's contribution for the FRSWPF.

Section 2: Amends statutes related to the workers' compensation fund for certain safety workers. These changes do not affect the FRSWPF.

Section 3: Amends G.S. 58-86-55 to allow payment of monthly benefits in the FRSWPF at age 55 with 20 years of service, despite continued paid employment as a firefighter or rescue squad worker. This section appropriates \$1,400,000 for FY 2014-15, recurring, from the General Fund to the FRSWPF, which will be more than sufficient to meet the increased required contribution due to this provision, as detailed below. This section also redirects to the General Fund 5% of the proceeds of the tax on gross premiums from property insurance coverage, which does not affect the FRSWPF.

Section 4: Amends statutes related to grant funds for fire departments. These changes do not affect the FRSWPF.

EFFECTIVE DATE: July 1, 2014

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the FRSWPF, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of Section 3 will increase the normal cost and accrued liability contributions in FY 2014-15 and subsequent years as follows:

	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
Normal Cost	\$200,000	\$228,000
Accrued Liability Contribution	\$800,000	\$872,000
Total Annual Cost	\$1,000,000	\$1,100,000

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of both actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2012 actuarial valuation, except as noted below. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 6/30/2012 unless otherwise noted, M = millions)	
	<u>FRSWPF</u>
Active Members	
Count	40,870
Average Age	40
Average Service	11.3
Inactive Members	
Count	154
Retired Members	
Count	11,912
Annual Benefits	\$24M
Average Age	68
New Retirees During 2013	575

Financial Statistics (as of 6/30/2012 unless otherwise noted, M = millions)	
	<u>FRSWPF</u>
Accrued Liability (AL)	\$404M
Actuarial Value of Assets (AVA)	\$339M
Market Value of Assets (MVA)	\$322M
Unfunded Accrued Liability (AL - AVA)	\$65M
Funded Status (AVA / AL)	84%
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	\$14.6M
Assumed Rate of Investment Return	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	Not applicable
Cost Method	Entry Age Normal
Amortization	12 year, closed, flat \$
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA	

Benefit Provisions	
	<u>FRSWPF</u>
Formula	\$170 per month
Unreduced retirement age/service	55/20
Employee contribution (as % of pay)	\$10 per month

In addition to the assumptions above from the June 30, 2012 valuation, both actuaries used an assumption that some portion of current members have lapsed (ceased making contributions) and will thus neither contribute in the future nor earn future service. This assumption is based on an initial audit of records performed by Buck Consultants and presented to the Board of Trustees in January, 2014 and is further detailed in the notes from the individual actuaries.

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

SOURCES OF DATA:

Buck Consultants, “Volunteer Fire & Rescue Finances (House Bill 1034 and Senate Bill 747)”, May 21, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1034/Senate Bill 747, Section 3: An Act to Amend the Supplemental Pensions for Firefighters and Rescue Squad Workers”, May 27, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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APPROVED BY:

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Fiscal Research Division

DATE: May 27, 2014



Signed Copy Located in the NCGA Principal Clerk's Offices