

Department of State Treasurer Should Strengthen Its Oversight of the Firefighters' and Rescue Squad Workers' Pension Fund

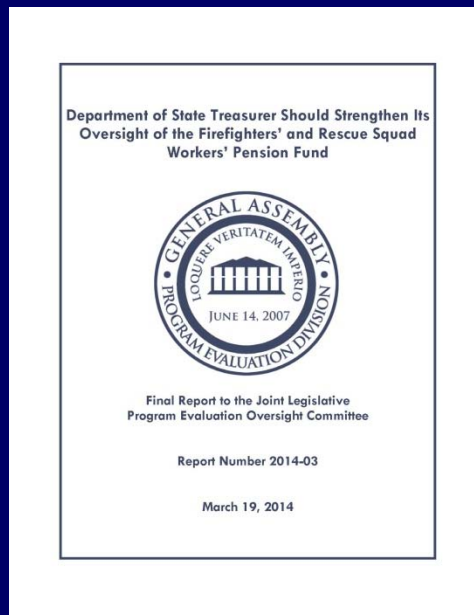
A presentation to the
Joint Legislative Program Evaluation Oversight Committee

March 19, 2014

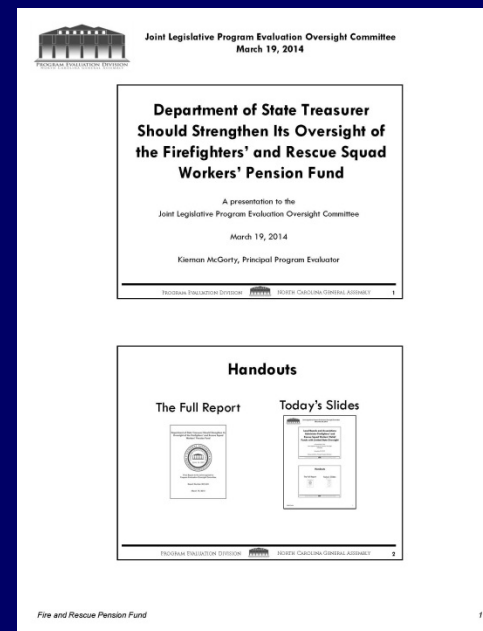
Kiernan McGorty, Principal Program Evaluator

Handouts

The Full Report



Today's Slides



Study Direction

- 2013–15 JLPEOC work plan directed PED to examine six state-administered funds related to fire, rescue, and emergency medical services
- 3rd report in four-part series evaluates
 - Firefighters' and Rescue Squad Workers' Pension Fund

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Evaluation Team

Kiernan McGorty, Evaluation Lead

Jim Horne, Senior Program Evaluator

Meg Kunde, Program Evaluator

Sara Nienow, Senior Program Evaluator

David Vanderweide, Fiscal Research Division

Evaluation

- Stakeholder: Department of State Treasurer
- Research Questions
 - What are the eligibility criteria and benefits of the Fund?
 - What is the financial status of the Fund?
 - How is the Fund administered, and what are the oversight mechanisms for the Fund?

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Overview: Findings

1. State's annual required contribution now exceeds amount of premium tax proceeds going to General Fund
2. Department's failure to question overly conservative actuarial assumptions has resulted in overstated appropriation requests
3. Department's failure to enforce timely payment of member contributions has cost Pension Fund at least \$500,000
4. Department minimally enforced prohibition against paying pension benefits to members still working
5. Department is taking action to resolve the administrative issues identified

Overview: Recommendation

- General Assembly should require the department to report on its progress toward
 - building appropriate lapse assumptions into the State's annual required contribution
 - collecting timely member contributions
 - enforcing the prohibition against in-service distributions

Background



History of Pension Fund

- In 1959, General Assembly created Fund to encourage participation in fire protection services by financially assisting firefighters in retirement
- In 1982, rescue workers were added to the Pension Fund

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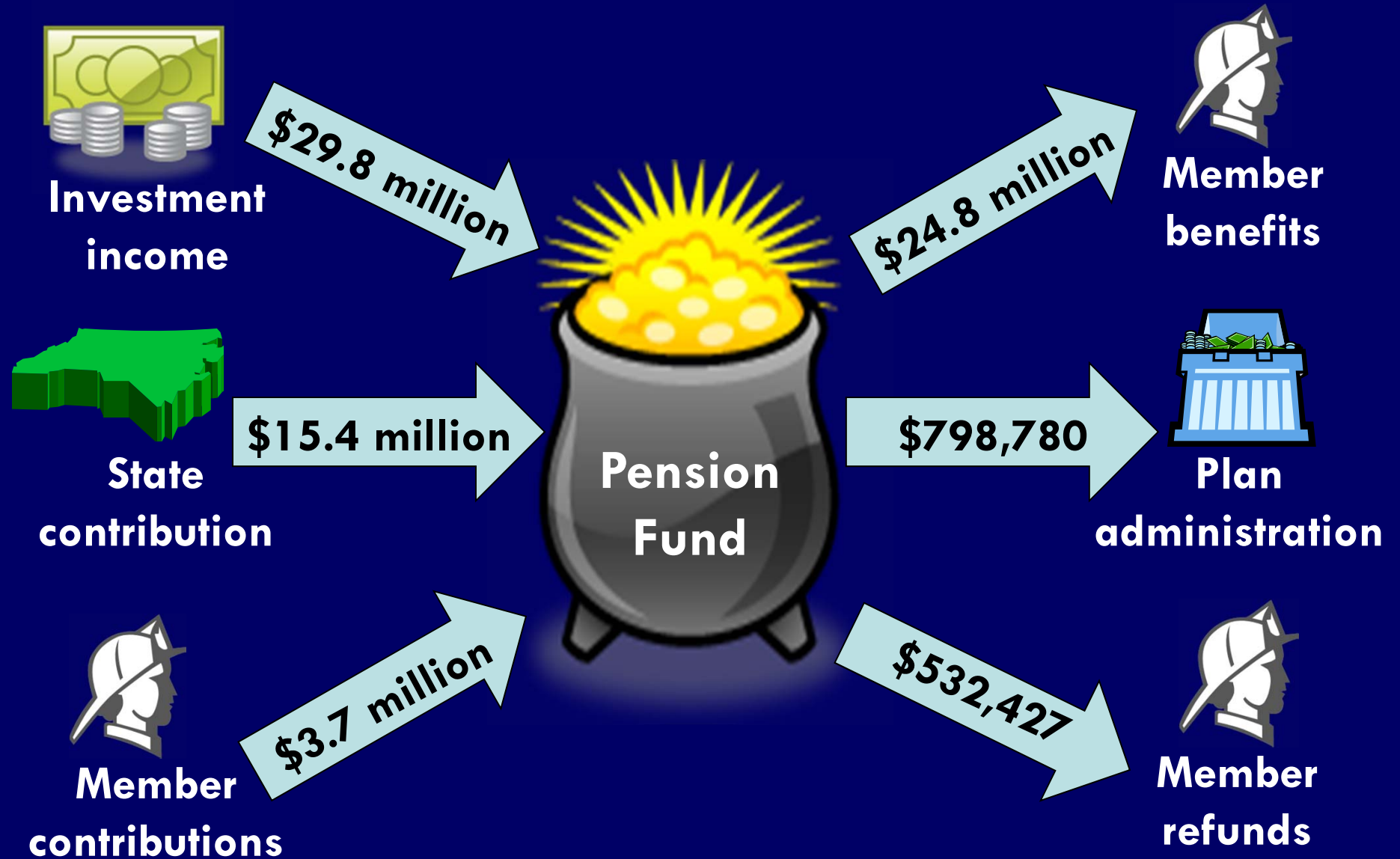


Pension Fund

- Eligibility
 - Must be volunteer or paid personnel listed on department roster
 - Must attend 36 hours of training a year
 - Must contribute \$10 a month during 20 years of service (for a total of \$2,400 total)
- Benefit
 - \$170 a month starting at age 55

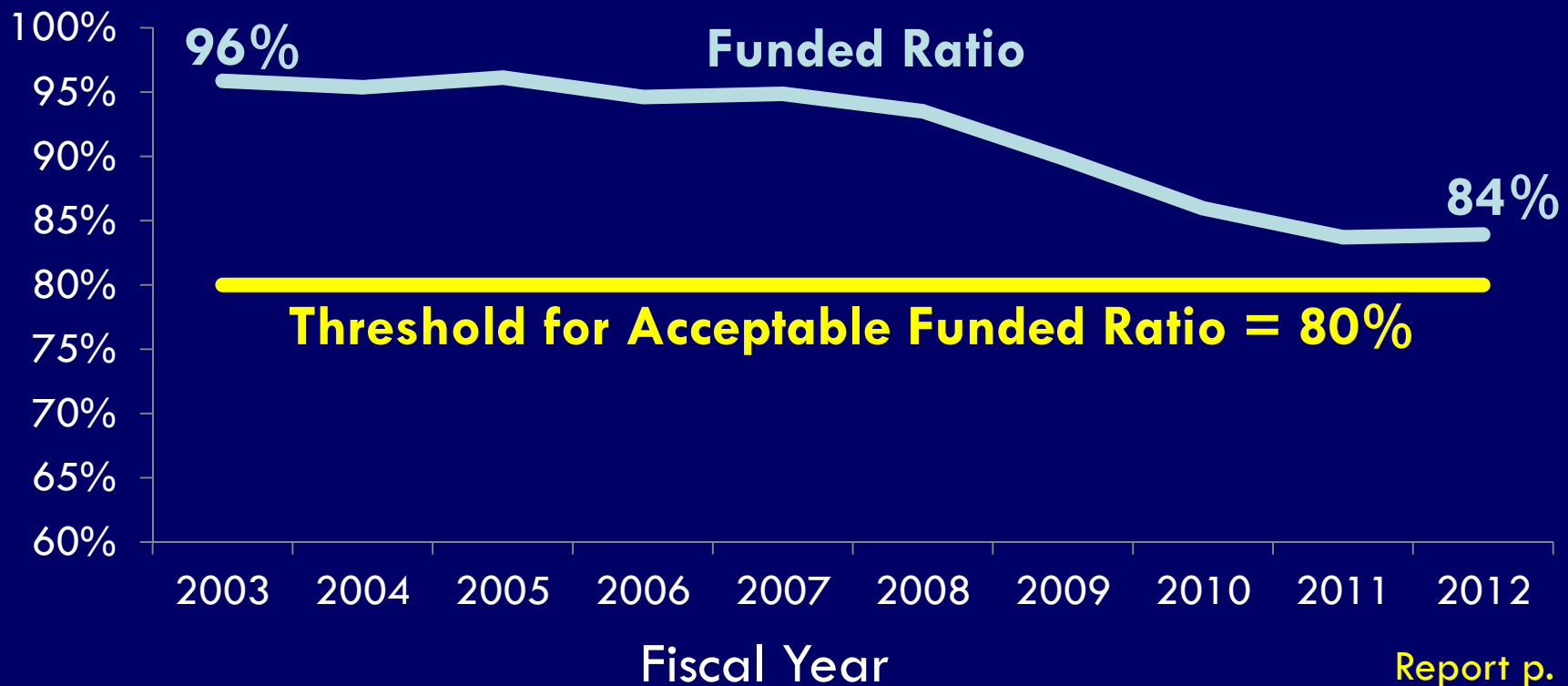
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Revenues and Expenditures, FY 2012–13



Funded Ratio Above 80% Threshold

$$\text{Funded Ratio} = \frac{\text{Actuarial Value of Assets}}{\text{Actuarial Accrued Liability}}$$



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Findings



Finding 1.

State's annual required contribution now exceeds amount of premium tax proceeds going to General Fund

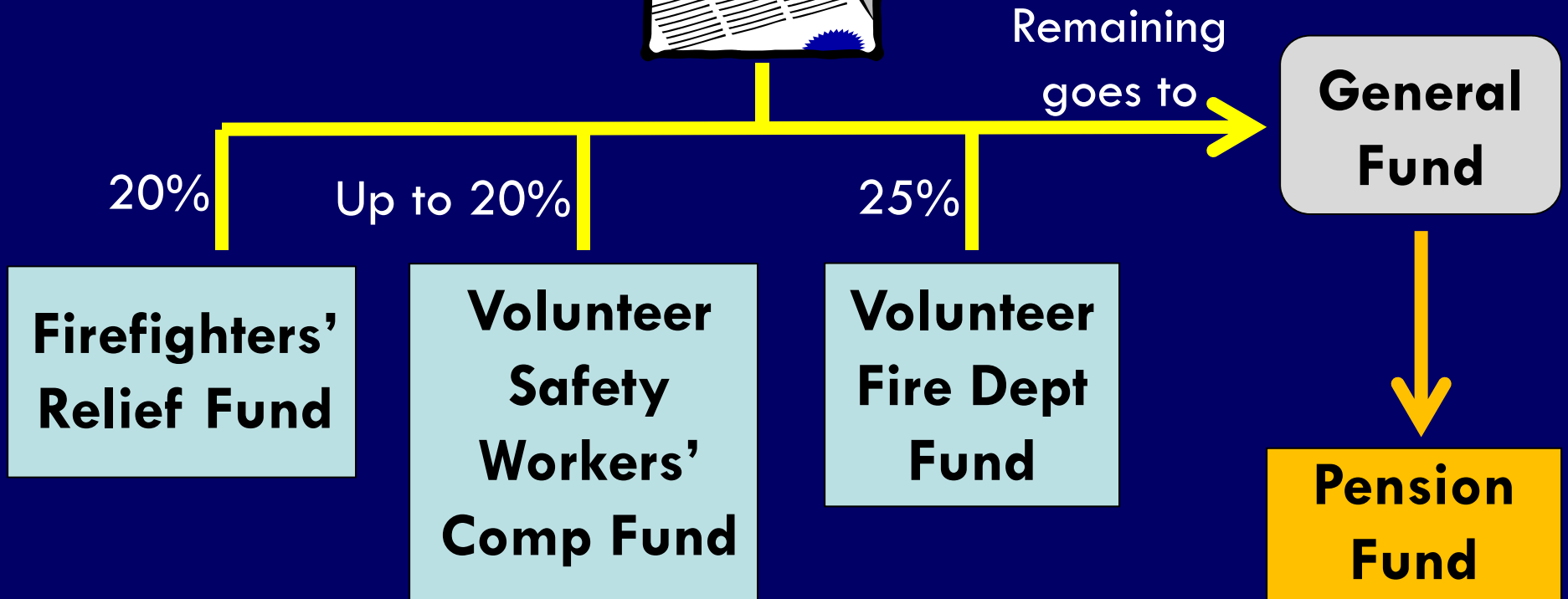
State Contribution

- State's annual required contribution (ARC) – amount an actuary calculates the State needs to contribute during the current year for benefits to be fully funded in the future
- State pays its contribution from the General Fund

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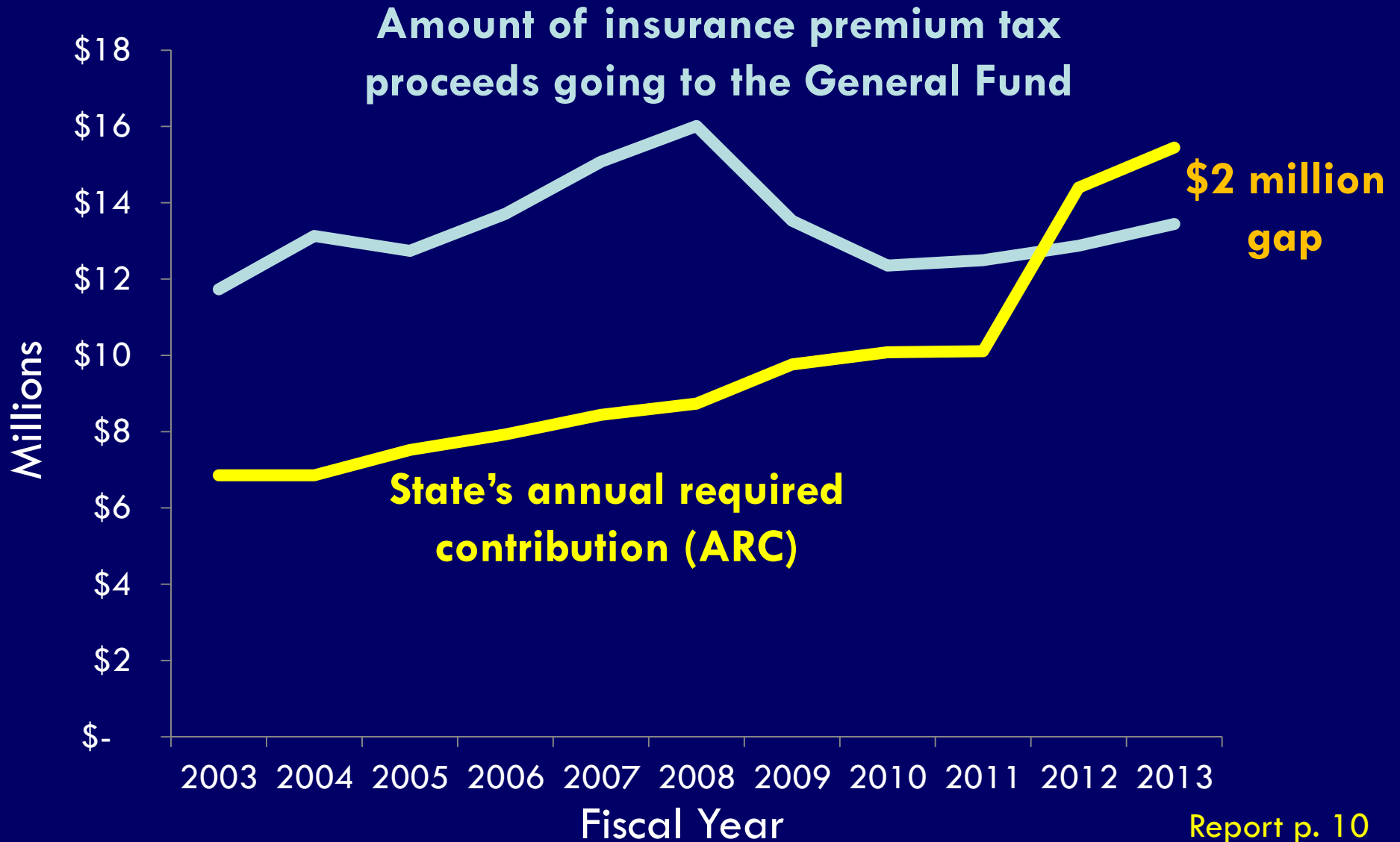
Funding Mechanism

Insurance companies pay taxes on gross premiums from property insurance



Tax not earmarked for Pension Fund

State Contribution Exceeds Tax Proceeds



Finding 2.

Department's failure to question overly conservative actuarial assumptions has resulted in overstated appropriation requests

Overly Conservative Lapse Assumption

- Lapse assumption – likelihood that some number of current members have stopped serving and will not vest
- Actuary assumed all current members, regardless of how long it had been since they made their last contribution, will contribute in the future and receive benefits
- Department overstated its appropriation requests

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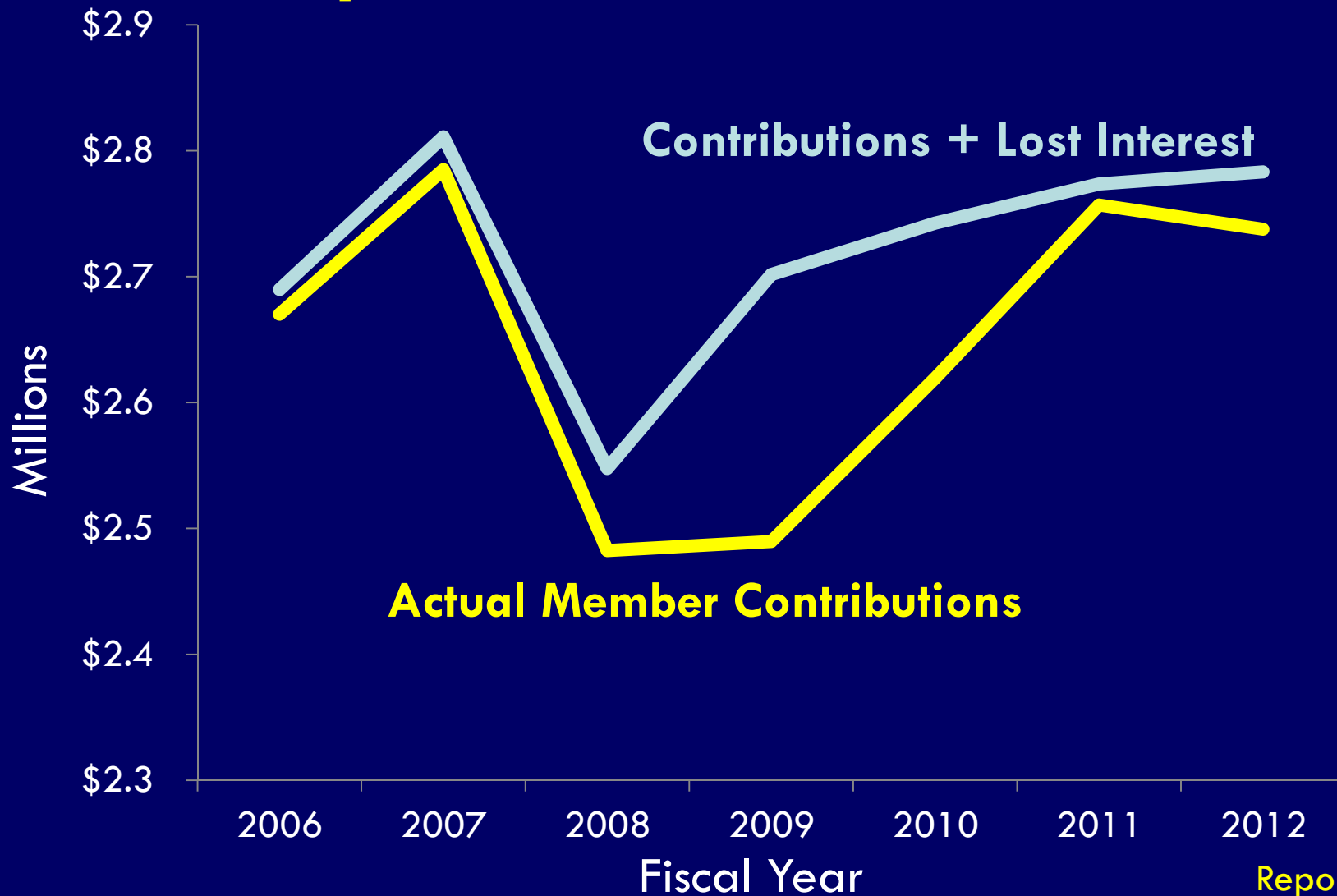
Finding 3.

Department's failure to enforce timely payment of member contributions has cost the Pension Fund at least \$500,000

Department Accepted Delinquent Payments

State Law	Department of State Treasurer Action
2005: General Assembly repealed mandatory forfeiture provision	2005-2009: Department applied members' contributions to their last missing payment, regardless of how many years had passed
2009: General Assembly enacted statutory deadline requiring members to make contributions no later than 90 days after calendar year in which service occurred	2009-2012: Department applied members' contributions to their last missing payment, regardless of how many years had passed

\$500,000 Funding Gap Due to Inadequate Member Contributions



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Finding 4.

Department minimally enforced the prohibition against paying pension benefits to members still working as firefighters and rescue workers

Statute Prohibits In-Service Distributions

- According to statute, members are not entitled to benefits until they have retired from performing any official duties as paid firefighters or rescue workers
- 2013 Session – Department asked for the introduction of an agency bill including a provision that removed the prohibition against in-service distributions
- Session Law 2013-284 – retained the prohibition against in-service distributions

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Department Only Used First Mechanism to Enforce Statute

Mechanisms for Enforcing Prohibition Against In-Service Distribution	Implementation Status until 2013
1. Members and chiefs attest that member not still working	●
2. Compare Pension Fund retiree data to LGERS active members	○
3. Compare Pension Fund retiree data to fire and rescue department rosters collected by NCSFA and NCAREMS	○
4. Compare Pension Fund retiree data to the Department of Revenue's tax records for active employees at fire and rescue departments	○



Finding 5.

Department is taking action to resolve the administrative issues identified in our report

Department Developing a Lapse Assumption

- Department contracted actuary to examine the work history of 1,000 members to develop a more probable lapse assumption
- Preliminary results suggest 20% lapse assumption = \$2.2 million reduction in State's annual required contribution
- State's annual required contribution still projected to exceed the amount of insurance premium tax proceeds going to the General Fund

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Department Manually Tying Contributions to Service Time

- Currently, staff manually match service time to member contributions because ORBIT still automatically applies contributions to the last delinquent payment
- Department contracted a business analyst to determine the components needed to automate the process

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Department Corroborating Employment Status of Members

- Department is comparing the claims of prospective retirees and their department chiefs on the retirement application form with member data in the Local Governmental Employees' Retirement System (LGERS)

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Recommendation



Recommendation

- General Assembly should require the department to report on its progress toward**
- building appropriate lapse assumptions**
 - collecting timely member contributions**
 - enforcing the prohibition against in-service distributions**

Additional Legislative Action

- General Assembly should request the Fiscal Research Division provide it with the difference between the State's annual required contribution (ARC) and the amount of premium tax proceeds going to the General Fund each year

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Technical Corrections

- General Assembly should amend state law to conform with practice
 - members who earn service exclusively as volunteers do not violate the prohibition against in-service distributions
 - members who earn service exclusively as firefighters do not violate the prohibition against in-service distributions by being paid rescue workers and vice versa
 - one-month separation of service is required

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Summary: Findings

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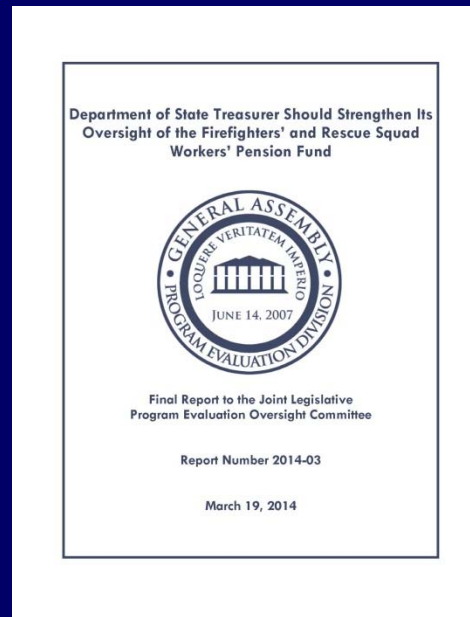
Summary: Recommendation

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Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on the report's recommendation

**Report available online at
www.ncleg.net/PED/Reports/reports.html**



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