NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Legislative Retirement Note

Short Title: Forfeit. Retmt/Anti-Spiking/Serv. Purch/TC.
Bill Number: Senate Bill 117 (Fifth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 117, V. 5 ($ in thousands)

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	**-**	**-**	**-**	**-**	**-**
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**-**	**-**

ACTUARIAL IMPACT SUMMARY

All sections of the bill have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), and Legislative Retirement System (LRS)

Section 1: Provides a mechanism for forfeiture of the pension of a judge or justice who has been impeached, convicted, and removed from office by the General Assembly. Similarly, provides a mechanism for the pension forfeiture of judges removed from office by the state Supreme Court on recommendation of the Judicial Standards Commission. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of CJRS.

Section 2: Repeals four statutes originally intended to provide a mechanism for identifying job-related felony convictions for pension forfeiture. Repealing these statutes allows the Board of

Trustees to determine whether a conviction is job-related. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, CJRS. or LRS.

Sections 3 and 4: Clarify that actuarial tables, assumptions, methods, and factors, including the contribution-based benefit cap factor, selected by the Board of Trustees do not require rulemaking. This change is consistent with current administrative practices. Both actuaries estimate that these sections will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 5: Changes the effective dates of various amendments to service purchase provisions in House Bill 1055 from December 31, 2018 / January 1, 2019 to June 30, 2019 / July 1, 2019. House Bill 1055 has been vetoed by the Governor and consequently is not law as of the date of this note. Cavanaugh Macdonald estimates that Section 5 of House Bill 1055, as amended by Section 5 of this bill, will reduce actuarially determined contributions in both TSERS and LGERS by 0.01% of pay in FY 2021-22 and 0.02% of pay in FY 2022-23. Conduent, the actuary for the retirement systems at the time of the actuarial note for House Bill 1055, had estimated a reduction of 0.01% of pay in FY 2021-22 and 0.03% of pay in FY 2022-23 for Section 5 of House Bill 1055 as ratified.

G.S. 120-114(g) requires actuarial notes on bills modifying service purchases to contain an estimate of the impact measured using Treasury Bond yields and cost-of-living adjustment and salary increase assumptions consistent with those yields. Cavanaugh Macdonald estimates that the impact measured using these alternative assumptions would be roughly the same as the impact provided above using the valuation assumptions.

Hartman & Associates states that this section would not alter the level of gains previously estimated due to House Bill 1055 but would delay them by the six month later effective date.

Note that Section 5 does not by itself have any actuarial impact because House Bill 1055 is not law. The comments above describe how Section 5 modifies the actuarial impact of House Bill 1055.

Section 6: Modifies House Bill 1055 to sunset only two benefit payment options to members who retire on or after February 1, 2020 instead of sunsetting three options as of January 1, 2019 as the ratified bill does if it is not modified as per Senate Bill 117:

- Option 4: Social Security Leveling (Will not be sunset);
- Option 6-2: Modified Joint & Survivor (Will be sunset) – 100% for named beneficiary with pop-up to maximum allowance if beneficiary predeceases the member; and
- Option 6-3: Modified Joint & Survivor (Will be sunset) – 50% for named beneficiary with pop-up to maximum allowance if beneficiary predeceases the member.

Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS. However, Cavanaugh Macdonald notes that “if actual returns over the long run are substantially less than the assumption used to calculate benefits, then Options 6-2 and 6-3 increase the unfunded liabilities of the system. Therefore, if the long-term investment returns of the Systems are less than the assumption used to calculate benefits, [eliminating these

Options] would tend to reduce unfunded liabilities … The inverse is true if returns exceed the assumption used to calculate benefits."

Section 7: Adds a sunset date of five years to the charter school withdrawal liability payment plan enacted in Section 3(b) of Session Law 2018-84 and clarifies that the current priority of a lien held by the Retirement System will remain in effect as long as withdrawal liability funds are owed to the Retirement System by a withdrawing charter school even if the enabling provision has sunset. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 8: Corrects the dates in the statutes amended by Session Law 2018-22 to match the effective dates of those amendments and prevent retroactive impact. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

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, 2016 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2016 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Active Members				
Count	305,013	126,647	560	170
General Fund Compensation	$10,652M		$74M	$4M
Valuation Compensation (Total)	$14,282M	$6,049M	$72M	$4M
Average Age	45	44	55	59
Average Service	10.7	10.2	13.6	6.8
Inactive Members				
Count	151,581	63,682	42	91
Retired Members				
Count	208,443	65,930	654	293
Annual Benefits	$4,343M	$1,252M	$41M	$2M
Average Age	71	68	73	77
New Retirees During 2017	11,100	4,200	30	20

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Accrued Liability (AL)	$74,548M	$25,654M	$643M	$29M
Actuarial Value of Assets (AVA)	$67,377M	$24,425M	$565M	$28M
Market Value of Assets (MVA)	$64,247M	$23,309M	$539M	$27M
Unfunded Accrued Liability (AL - AVA)	$7,171M	$1,229M	$78M	$1M
Funded Status (AVA / AL)	90%	95%	88%	96%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)	32.35%	21.74%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return: 7.20%				
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				
	TSERS	LGERS	CJRS	LRS
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

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

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Forfeiture of Retirement Benefits/Judges, Anti-Spiking, and other Technical Changes– Senate Bill 117 – Proposed House Committee Substitute CSTVp-29

(v.15)", December 1, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Proposed House Committee Substitute to Senate Bill 117 S117-CSTVp-29 [v.13]: An Act Prohibiting Receipt of Benefits From the CJRS for Judges Who Have Been Impeached or Removed From Office, to Amend Felony Forfeiture Statutes, to Clarify Anti-Pension-Spiking Benefit Cap, and Make other Technical and Substantive Changes to the Retirement Systems", November 29, 2018, 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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Signed copy located in the NCGA Principal Clerk's Offices