



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2017**

**Legislative Retirement Note**

**BILL NUMBER:** Senate Bill 257 (Eighth Edition)

**SHORT TITLE:** Appropriations Act of 2017.

**SPONSOR(S):**

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**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Separate Insurance Benefit Plan (SIBP), and special separation allowance.

**BILL SUMMARY:**

Section 35.19A: Grants cost-of-living adjustments (COLAs) of one percent (1.0%), effective July 1, 2017, for retirees in TSERS, CJRS, and LRS. These adjustments increase the ongoing monthly benefit for beneficiaries in those Systems.

Section 35.19B: Defines a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer in G.S. 135-1(11c) to include probation/parole officers with respect to service rendered on or after July 1, 2017. Changing the definition of law-enforcement officer has the following impacts in other areas of the General Statutes:

- G.S. 135-5(b19) says “A member who is a law enforcement officer” will be eligible for unreduced retirement at age 55 with 5 years of service as a law-enforcement officer or reduced retirement at age 50 with 15 years of service as a law-enforcement officer. Because G.S. 135-5 is in the same chapter as G.S. 135-1(11c), changing the definition of law-enforcement officer extends those retirement age provisions to probation/parole officers.
- G.S. 143-166.41(a) says that the separation allowance is available to “every sworn law-enforcement officer as defined by G.S. 135-1(11c)...” By changing the definition in G.S. 135-1(11c), this section causes probation/parole officers to start earning service toward the separation allowance. While only service on or after July 1, 2017 counts toward the requirement to have 5 years of law enforcement service immediately prior to retirement, probation/parole officer service prior to July 1, 2017 will count toward the requirement that half of an employee’s career be as a law enforcement officer.
- G.S. 143-166.60 says that the SIBP is established for “all law enforcement officers, as defined in G.S. 135-1(11c)...” By changing the definition in G.S. 135-1(11c), the bill makes probation/parole officers eligible for the SIBP.

The bill does not change the definition of law enforcement officer in G.S. 143-166.30(a)(4). That is the definition that applies to the NC 401(k) Plan. Thus, the bill does not extend the law-enforcement 401(k) benefits to probation/parole officers.

Because the bill only changes the definition of law-enforcement officer with respect to service rendered on or after July 1, 2017, most probation/parole officers would have to work for at least five more years to be eligible to retire at a different age or receive the separation allowance.

Section 35.21

Subsections 35.21(c) and (d) amend Article 3B of Chapter 135 of the General Statutes to require that retirees earn contributory retirement service in a State retirement system prior to January 1, 2021, and do not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Because the valuations of the various retirement systems and the valuation for Other Post-Employment Benefits (OPEB) only reflect current participants, the current valuation results are unaffected by this change for future new hires. This change will eventually reduce the OPEB normal cost, which was \$1.3 billion for FY 2015-16.

No other sections of the bill modify retirement benefits or statutes.

**EFFECTIVE DATE:** Sections 35.19A and 35.19B are effective July 1, 2017. The subsections of Section 35.21 described above are effective January 1, 2021.

**ESTIMATED IMPACT ON STATE:**

Section 35.19A

Conduent, the actuary for TSERS, CJRS, and LRS, estimates that the provisions of this bill will have an annual cost in FY 2017-18 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.43%	0.82%	0.77%
General Fund	\$ 43,682,406	\$ 615,631	\$ 27,874
Highway Fund	\$ 1,299,026	\$ 0	\$ 0
Receipt Funds	<u>\$ 19,543,023</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 64,524,454	\$ 615,631	\$ 27,874

Conduent estimates that this Section will increase the unfunded liability of the systems by roughly \$435 million. The TSERS liability was 93% funded at the end of 2015. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above, although these contributions must be made in addition to continued increased contributions due to previous COLAs that are still being amortized.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2017-18 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.42%	0.80%	0.77%
General Fund	\$ 42,666,536	\$ 600,616	\$ 27,874
Highway Fund	\$ 1,268,816	\$ 0	\$ 0
Receipt Funds	<u>\$ 19,088,534</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 63,023,885	\$ 600,616	\$ 27,874

None of the systems have gains available to cover a portion of these costs.

Section 35.19B

Both Conduent, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that the change to the TSERS retirement ages will result in an increase in the actuarially determined employer contribution of 0.02% of payroll, or \$2.0 million from the General Fund. Both actuaries estimate an increase in the SIBP liability of \$0.2 million, which would not eliminate the surplus in the SIBP. Conduent also estimates negligible decreases in the contributions and/or liability for the Disability Income Plan and Death Benefit Plan due to the expected change in retirement patterns.

The actuaries estimated the following cash flow impact due to the additional separation allowances:

<u>Year</u>	<u>Conduent</u>	<u>Hartman &amp; Associates</u>
FY 2017-18	\$0	\$0
FY 2018-19	\$0	\$0
FY 2019-20	\$0	\$0
FY 2020-21	\$0	\$0
FY 2021-22	\$0	\$0
FY 2022-23	\$142,000	\$182,663
FY 2023-24	\$463,000	\$514,066
FY 2024-25	\$821,000	\$855,506
FY 2025-26	\$1,221,000	\$1,199,239
FY 2026-27	\$1,632,000	\$1,577,257

Conduent estimates that the actuarial accrued liability for the additional separation allowance payments is approximately \$14 million. This liability was calculated at a discount rate of 3.20%, which is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2015.

Both actuaries used data provided by the Department of Public Safety showing 1,784 active probation/parole officers with a total annual payroll of \$73 million as of March 2017.

Appropriations

Section 35.19 sets contribution rates sufficient to cover the increased cost of these two sections and contribute the amount recommended by the actuary to properly fund existing benefits.

**ASSUMPTIONS AND METHODOLOGY:**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>SIBP</u>
Active Members				
Count	305,291	124,974	561	24,170
General Fund Compensation	\$10,185M		\$70M	\$190M
Valuation Compensation (Total)	\$13,897M	\$5,869M	\$70M	\$1,213M
Average Age	45	44	55	39
Average Service	10.7	10.2	12.9	11.4
Inactive Members				
Count	143,214	59,289	45	N/A
Retired Members				
Count	201,522	63,110	647	N/A
Annual Benefits	\$4,202M	\$1,182M	\$40M	\$0.7M paid out
Average Age	71	68	72	N/A
New Retirees During 2016	11,100	4,100	20	N/A

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>SIBP</u>
Accrued Liability (AL)	\$71,522M	\$24,360M	\$616M	\$33M (total liability)
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M	\$550M	\$53M
Market Value of Assets (MVA)	\$62,669M	\$22,404M	\$521M	\$53M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M	\$66M	(\$19M)
Funded Status (AVA / AL)	93%	97%	89%	159%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)	30.23%	0%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	N/A

Assumed Rate of Investment Return	7.25%	3.75%
Cost Method	Entry Age Normal	N/A
Amortization	12 year, closed, flat dollar	N/A
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015		

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>SIBP</u>
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	\$5,000 for actives; \$4,000 for retirees; \$2,100 additional for line-of-duty deaths
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	Retirees must have 20 or more years of service to qualify
Employee contribution (as % of pay)	6%	6%	6%	None

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:**

Conduent, "Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems", February 27, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", March 1, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Conduent, "Probation/Parole Officers Retirement – House Bill 428 – Proposed Committee Substitute H428-CSBH-2 [v.2]", April 11, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 428 Proposed Committee Substitute H428-CSBH-2 [v.2]: An Act to Enhance the Benefits of Probation/Parole Officers Who Are Members of the TSERS", April 6, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

The Segal Group Inc., "Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of December 31, 2015 In accordance with GASB Statements No. 43 and No. 45",

September 6, 2016, 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:** June 26, 2017



**Signed Copy Located in the NCGA Principal Clerk's Offices**