NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Retirement Technical Corrections Act of 2019.-AB
Bill Number: House Bill 214 (First Edition)
Sponsor(s): Representatives C. Smith, Gill, and McNeill

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 214, V. 1 ($ in thousands)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	**-**	**-**	**-**	**-**	**-**
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**-**	**-**

ACTUARIAL IMPACT SUMMARY

Sections 2, 3, 4, 5, 7, 8, 9, 10, and 12 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 National Guard Pension Fund (NGPF)

Section 2: Updates the CJRS funding policy statute to conform to current practice. 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 3: Updates the NGPF funding policy statute to conform to current practice. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of the NGPF.

Section 4: Clarifies that the Retirement System may provide a credit to an employing agency that paid an additional contribution-based benefit cap purchase contribution on a retiree who subsequently was subject to a felony forfeiture that would have changed the amount of the additional contribution. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 5: Defines what constitutes an inactive employer in the state and local retirement systems. Requires an annual report to the Boards of Trustees by the Retirement Director of the agencies that were inactive at any point during the year. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 7: Amends G.S. 135-18.1(a) to remove sections that applied to the pre-1963 configuration of the Retirement Systems. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 8: Repeals several archaic statutes related to TSERS. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 9: Removes archaic language related to services for blind employees who served prior to 1971. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 10: Fixes an incorrect reference to a repealed statute. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

Section 12: Clarifies that the 2017 provision requiring that chief financial officers of participating employers transmit a copy of pension spiking "watch reports" to chief executive officers and to governing boards means that if an agency has a governing board, the report must be transmitted to that board. Further provides that for purposes of transmitting this report to the agency's governing board, the information contained therein is to be treated as a retirement record as if it were still held by the Retirement System under the public records law. 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, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	NGPF
Active Members				
Count	304,554	128,779	562	5,890
General Fund Compensation	$11,005M		$76M	
Valuation Compensation (Total)	$15,059M	$6,453M	$76M	Not applicable
Average Age	45	44	55	38
Average Service	10.8	10.1	13.5	15.1
Inactive Members				
Count	160,087	68,243	44	5,679
Retired Members				
Count	215,008	68,766	682	4,574
Annual Benefits	$4,521M	$1,324M	$43M	$9M
Average Age	71	69	73	71
New Retirees During 2018	11,200	4,400	30	150

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	NGPF
Accrued Liability (AL)	$79,209M	$27,746M	$682M	$179M
Actuarial Value of Assets (AVA)	$69,568M	$25,521M	$587M	$127M
Market Value of Assets (MVA)	$70,608M	$25,918M	$596M	$128M
Unfunded Accrued Liability (AL - AVA)	$9,641M	$2,225M	$95M	$52M
Funded Status (AVA / AL)	88%	92%	87%	71%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	$9M
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	Not applicable
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				
	TSERS	LGERS	CJRS	NGPF
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	$105 to $210 per month
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	60/20
Employee contribution (as % of pay)	6%	6%	6%	Not applicable

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, "Retirement Technical Corrections Act of 2019 –HB 214", March 8, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 214: Retirement Technical Corrections Act of 2019", March 8, 2019, 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.

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