NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title:	Retirement Technical Corrections Act of 2020.
Bill Number:	House Bill 1069 (First Edition)
Sponsor(s):	Representatives C. Smith and McNeill

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1069, V. 1 ($ in thousands)

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	**-**	**-**	**-**	**-**	**-**
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**-**	**-**

ACTUARIAL IMPACT SUMMARY

Sections 1, 2, and 3 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), Legislative Retirement System (LRS), and Supplemental Retirement Income Plan (NC 401(k))

Section 1: Allows the Retirement System to use online identity authentication in lieu of notarization for TSERS and LGERS.

Section 2: Adopts the newly increased age of 72 for minimum required distributions under federal law (the SECURE Act) in TSERS, LGERS, CJRS, and LRS.

<u>Section 3</u>: Amends statutes governing eligibility for the NC 401(k) that were inconsistent with federal law.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS, LGERS, CJRS, or LRS.

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, 2018 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2018 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Active Members				
Count	304,575	129,986	557	170
General Fund Compensation	$11,166M		$77M	$4M
Valuation Compensation (Total)	$15,623M	$6,772M	$76M	$4M
Average Age	45	44	55	61
Average Service	10.8	10.0	13.3	7.3
Inactive Members				
Count	168,755	73,835	48	92
Retired Members				
Count	222,084	72,087	707	289
Annual Benefits	$4,669M	$1,400M	$45M	$2M
Average Age	71	69	73	77
New Retirees During 2019	11,000	4,500	40	15

Financial Statistics (as of 12/31/2018 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Accrued Liability (AL)	$82,106M	$29,223M	$703M	$30M
Actuarial Value of Assets (AVA)	$70,959M	$26,307M	$602M	$28M
Market Value of Assets (MVA)	$67,536M	$25,045M	$573M	$27M
Unfunded Accrued Liability (AL - AVA)	$11,147M	$2,916M	$100M	$2M
Funded Status (AVA / AL)	86%	90%	86%	92%

Required Employer Contribution for FY 2020-21 (as % of pay)	14.78%	10.15% (non-LEO)	36.44%	27.30%
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: 7.00%				
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	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, "Retirement Technical Corrections Act of 2020 – House Bill 1069", May 18, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1069: Retirement Technical Corrections Act of 2020", May 19, 2020, 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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