



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Repeal Risky Retirement Payments.  
**Bill Number:** Senate Bill 374 (First Edition)  
**Sponsor(s):** Senators Wells and Brown

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S.B. 374, V. 1 (\$ in thousands)

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

### ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS) and Local Governmental Employees' Retirement System (LGERS)

Senate Bill 374 (First Edition) eliminates the following forms of payment in TSERS and LGERS for retirements after July 1, 2020: Social Security leveling (option 4) and pop-up (options 6-2 and 6-3). 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 or LGERS measured using the valuation assumptions below.

Cavanaugh Macdonald further notes that the final impact of the bill will depend on the distribution of options actually elected, actual returns, and other factors such as mortality. In particular, if actual investment returns are less than the assumed 7%, eliminating option 4 will result in an increase in liabilities and eliminating options 6-2 and 6-3 will result in a decrease in liabilities. The inverse is true if actual investment returns are more than the assumed 7%.

## 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)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	304,554	128,779
General Fund Compensation	\$11,005M	
Valuation Compensation (Total)	\$15,059M	\$6,453M
Average Age	45	44
Average Service	10.8	10.1
Inactive Members		
Count	160,087	68,243
Retired Members		
Count	215,008	68,766
Annual Benefits	\$4,521M	\$1,324M
Average Age	71	69
New Retirees During 2018	11,200	4,400

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$79,209M	\$27,746M
Actuarial Value of Assets (AVA)	\$69,568M	\$25,521M
Market Value of Assets (MVA)	\$70,608M	\$25,918M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$2,225M
Funded Status (AVA / AL)	88%	92%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
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		
	<u>TSERS</u>	<u>LGERS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%	6%

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**

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N/A.

### **DATA SOURCES**

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Cavanaugh Macdonald Consulting, LLC, "Senate Bill 374 - Elimination of Option 4 and Option 6 Retirement Optional Allowances under the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System", April 8, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 374: An Act to Eliminate Option 4 and Option 6 Retirement Allowances under the TSERS and LGERS", April 1, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

### **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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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**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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**Signed copy located in the NCGA Principal Clerk's Offices**