



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Retirement Systems Admin. Changes.  
**Bill Number:** Senate Bill 379 (Third Edition)  
**Sponsor(s):**

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S.B. 379, V. 3 (\$ in thousands)

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
<b>State Impact</b>					
General Fund	-	-	-	-	(2,563)
Highway Fund	-	-	-	-	(75)
Other/Receipts	-	-	-	-	(1,170)
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	<b>(3,808)</b>
<b>Local Impact</b>					
Local Governments	-	-	-	-	(1,612)
<b>TOTAL LOCAL EXPENDITURES</b>	-	-	-	-	<b>(1,612)</b>

### ACTUARIAL IMPACT SUMMARY

Sections 1, 2, 4, 6, 7, and 8 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 Contributory Death Benefit (CDB)

Section 1: Clarifies a number of statutes governing service purchases in TSERS, LGERS, CJRS, and LRS. This section caps the amount of most types of service that can be purchased at 5 years and changes the cost of purchasing withdrawn service from a repayment of the withdrawal with 6.5% interest to full actuarial cost. Cavanaugh Macdonald, the actuary for the retirement systems, estimated in 2019 that a similar change to the purchase of withdrawn service would reduce annual actuarial losses across all systems by \$25 million in the first year it had an impact. Cavanaugh Macdonald further estimated that the change will reduce the actuarially determined contribution in both TSERS and LGERS by 0.02% of pay starting in the first year it had an impact.

Hartman & Associates, the actuary for the General Assembly, estimated in 2019 that a similar change would reduce actuarially determined contributions by less than 0.01% of pay in the first year it had an impact, increasing to 0.03% to 0.05% of pay in TSERS and 0.05% to 0.07% of pay in LGERS after 12 years.

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 estimates that the reduction in actuarially determined contributions would be 0.04% to 0.06% of pay in TSERS and 0.06% to 0.08% of pay in LGERS after 12 years measured using these alternative assumptions, i.e. 0.01% of pay more than the reduction provided above using the valuation assumptions.

Section 2: Requires that any actions by the TSERS & LGERS Board of Trustees related to the Contributory Death Benefit must be decided jointly, but requires a majority vote of both boards. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or the CDB.

Section 4: Sets the date of intercept of State funds from an employing agency for a contribution-based benefit cap liability as one year following the effective date of the retirement, consistent with a policy that has been adopted by the Boards. Both actuaries estimate that this section will have no material negative impact on the contribution rates or liabilities of TSERS or LGERS.

Section 6: Removes sunset on Section 5(b) of SL 2017-128 that allows sheriffs to use accumulated sick leave that typically would be used for LGERS creditable service to be used for the Sheriff's Supplemental Pension Fund instead, provided the same leave is not used for both plans. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

Section 7: Allows the Retirement Systems to require an employing agency to pay a portion of a return to work overpayment assessed to a retiree if actions by the employer are found to have partially caused the overpayment. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 8: Extends the sunset of the Legislative Enactment Implementation Arrangement (LEIA) for an additional five years. The LEIA provision allows the Department to pay for the cost of implementing certain benefit changes that result in cost savings by reinvesting some of those savings in the implementation. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

## **ASSUMPTIONS AND METHODOLOGY**

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The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2017 or 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)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
<b>Active Members</b>				
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
<b>Inactive Members</b>				
Count	168,755	73,835	48	92
<b>Retired Members</b>				
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)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
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				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</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	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%

For the measurement required in G.S. 120-114(g), both actuaries assumed a 2.74% 30-year Treasury Bond yield. Hartman & Associates used a cost-of-living adjustment assumption of 0.5% and a 2% wage inflation assumption.

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, "Retirement Amendments – Senate Bill 379", April 8, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 188: Retirement Administrative Changes 2019", March 21, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Pension Benefits Revision – Senate Bill 408", March 29, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 408: Pensions Benefits Revisions", April 5, 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.

**ESTIMATE PREPARED BY**

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