NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: State and Local Disability Benefit Reform.
Bill Number: Senate Bill 599 (First Edition)
Sponsor(s): Senators Edwards, Wells, and Horner

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 599, 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

All sections 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 Disability Income Plan (DIP)

Section 1: Transfers responsibility for administering short-term disability benefits in DIP from the TSERS Board of Trustees and Medical Board to the employing unit, eliminates extended short-term disability, and separates the application process for short-term and long-term disability. Cavanaugh Macdonald, the actuary for the retirement systems, estimates that this section will reduce the contribution rates of DIP by less than 0.01% of pay. Hartman & Associates, the actuary for the General Assembly, states that the impact of this section is not quantifiable.

Section 2: Renames the Medical Board the Medical Review Board, allows the retirement Boards of Trustees to alter the Medical Review Board composition, and grants the Medical Review Board and retirement Boards of Trustees broad authority to delegate the review of disability benefit applications, hire outside entities to perform examinations and assessments, and adopt rules to expedite reviews of simple cases. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, CJRS, LRS, or DIP.

Section 3: Provides that a member of the Optional Retirement Program (ORP) who owes any overpayments to DIP must repay the amount owed in full prior to being eligible for retiree health coverage under the State Health Plan. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of DIP.

Section 4: Makes varies technical changes. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of the retirement systems.

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	DIP
Active Members				
Count	304,554	128,779	562	325,236
General Fund Compensation	$11,046M		$76M	$12,296M
Valuation Compensation (Total)	$15,059M	$6,453M	$76M	$17,085M
Average Age	45	44	55	Not avail.
Average Service	10.8	10.1	13.5	Not avail.
Inactive Members				
Count	160,087	68,243	44	0
Retired Members				
Count	215,008	68,766	682	6,594
Annual Benefits	$4,521M	$1,324M	$43M	$78M
Average Age	71	69	73	Not avail.
New Retirees During 2018	11,200	4,400	30	500

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	DIP
Accrued Liability (AL)	$79,209M	$27,746M	$682M	$383M
Actuarial Value of Assets (AVA)	$69,568M	$25,521M	$587M	$424M

Market Value of Assets (MVA)	$70,608M	$25,918M	$596M	$417M
Unfunded Accrued Liability (AL - AVA)	$9,641M	$2,225M	$95M	($41M)
Funded Status (AVA / AL)	88%	92%	87%	111%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	0.10%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	3.50% - 8.10%
Assumed Rate of Investment Return: 7.00%				3.75%
Cost Method: Entry Age Normal				Aggregate
Amortization: 12 year, closed, flat dollar				Not applicable
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	DIP
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	65% of base salary up to a maximum of $3,900 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	Any/5
Employee contribution (as % of pay)	6%	6%	6%	0%

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, “State and Local Disability Benefit Reform – Senate Bill 599”, April 30, 2019, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Senate Bill 599: State and Local Disability Benefit Reform”, April 30, 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.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
May 1, 2019

Official
Fiscal Research Division
Publication

Signed copy located in the NCGA Principal Clerk's Offices