



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** COVID-19 Recovery Act.  
**Bill Number:** Senate Bill 704 (Sixth Edition)  
**Sponsor(s):**

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S.B. 704, V. 6 (\$ 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                    | No estimate available. See Actuarial Impact Summary.        |                   |                   |                   |                   |
| Highway Fund                    | No estimate available. See Actuarial Impact Summary.        |                   |                   |                   |                   |
| Other/Receipts                  | No estimate available. See Actuarial Impact Summary.        |                   |                   |                   |                   |
| <b>TOTAL STATE EXPENDITURES</b> | <b>No estimate available. See Actuarial Impact Summary.</b> |                   |                   |                   |                   |
| <b>Local Impact</b>             |   |                   |                   |                   |                   |
| Local Governments               | No estimate available. See Actuarial Impact Summary.        |                   |                   |                   |                   |
| <b>TOTAL LOCAL EXPENDITURES</b> | <b>No estimate available. See Actuarial Impact Summary.</b> |                   |                   |                   |                   |

### ACTUARIAL IMPACT SUMMARY

Sections 4.22 and 4.23 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 4.22: Allows the Director of the Retirement Systems Division to make interim determinations that a member is eligible for disability benefits under TSERS, LGERS, CJRS, LRS, or DIP until August 1, 2020. 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 TSERS, LGERS, CJRS, LRS, or DIP.

**Section 4.23:** Modifies retiree return-to-work laws in TSERS and LGERS by:

- Reducing the six-month separation period in TSERS to one month for work performed before August 1, 2020 by those who retired prior to April 1, 2020 who return to positions certified by the employing agency as being needed due to the COVID-19 pandemic;
- Exempting earnings between March 10 and August 1, 2020 from the TSERS and LGERS retiree earnings limits for those who retired prior to April 1, 2020, provided the earnings are related to a position certified by the employing agency as being needed due to the COVID-19 pandemic; and
- Specifying that law enforcement special separation allowance benefits will not be impacted by work performed between March 10 and August 1, 2020 in positions documented by the employing agency as being needed due to the COVID-19 pandemic.

Cavanaugh Macdonald estimates that the contribution rate will increase by 0.01% of payroll for every \$1.6 million of TSERS payroll (roughly 30 annual positions) or \$0.7 million of LGERS payroll (roughly 13 annual positions) replaced by rehired retirees. Cavanaugh Macdonald did not estimate the amount of payroll that would in fact be replaced by rehired retirees. Cavanaugh Macdonald’s estimate was based on a less restrictive version of this provision in Section 21 of House Bill 1043 (First Edition) and the number of rehired retirees is likely to be lower under the more restrictive version in this bill. The significant uncertainty in the number of rehired retirees is the reason that no estimate is available in the Summary Table.

Hartman & Associates estimates that this section will not have a material financial impact due to the limited timeframe and the application of the separation period change to only those retired prior to April 1.

**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> | <u>CJRS</u> | <u>DIP</u> |
| 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)  |               |                    |               |                |
|---|---------------|--------------------|---------------|----------------|
|   | <u>TSERS</u>  | <u>LGERS</u>       | <u>CJRS</u>   | <u>DIP</u>     |
| 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%<br>(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                  |                                  |                                  |                                      |   |
|-------------------------------------|----------------------------------|----------------------------------|--------------------------------------|---|
|                                     | <u>TSERS</u>                     | <u>LGERS</u>                     | <u>CJRS</u>                          | <u>DIP</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 | 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**

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N/A.

## **DATA SOURCES**

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Cavanaugh Macdonald Consulting, LLC, "Bill Draft 2019-STfzp-47A [v.3]", April 27, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Draft Bill 2019-STfzp-47A [v.3]: An Act to Make Various Changes to the Law Related to the COVID-19 Public Health Crisis (Sections 19, 20, and 21)", April 24, 2020, 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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David Vanderweide

## **ESTIMATE APPROVED BY**

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Mark Trogdon, Director of Fiscal Research  
Fiscal Research Division  
May 14, 2020



Signed copy located in the NCGA Principal Clerk's Offices