



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Give State Retirees 2% COLA/Funds.
Bill Number: House Bill 269 (First Edition)
Sponsor(s): Representatives Hurley, Zenger, Wheatley, and Shepard

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 269, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund	92,915	96,167	99,533	103,017	106,622
Highway Fund	2,697	2,792	2,889	2,991	3,095
Other/Receipts	41,788	43,250	44,764	46,331	47,952
TOTAL STATE EXPENDITURES	137,400	142,209	147,187	152,338	157,670

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), and Legislative Retirement System (LRS)

House Bill 269 (First Edition) grants cost-of-living adjustments (COLAs) of two percent (2.0%), effective July 1, 2021, for retirees in TSERS, CJRS, and LRS. These adjustments increase the ongoing monthly benefit for beneficiaries in those Systems.

Cavanaugh Macdonald, the actuary for TSERS, CJRS, and LRS, estimates that the provisions of this bill will have an annual cost in FY 2021-22 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.82%	1.68%	1.48%
General Fund	\$91,564,242	\$1,297,514	\$53,576
Highway Fund	\$2,697,349	\$0	\$0
Receipt Funds	\$41,787,749	\$0	\$0
Total Annual Cost	\$136,049,341	\$1,297,514	\$53,576

Cavanaugh Macdonald estimates that this bill will increase the unfunded liability of the systems by roughly \$1,065 million. The TSERS liability was 86% funded at the end of 2019. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown

above, although these contributions must be made in addition to continued increased contributions due to previous COLAs that are still being amortized.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2021-22 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.82%	1.70%	1.44%
General Fund	\$91,564,242	\$1,312,961	\$52,128
Highway Fund	\$2,697,349	\$0	\$0
Receipt Funds	\$41,787,749	\$0	\$0
Total Annual Cost	\$136,049,341	\$1,312,961	\$52,128

None of the systems have gains available to cover a portion of these costs. The bill appropriates a total of \$96 million from the General Fund in both FY 2021-22 and FY 2022-23.

The costs above use estimated State payrolls from the 2020 Session, as the estimates are not yet available for the 2021 Session.

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, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

<u>Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)</u>			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members			
Count	305,962	560	170
General Fund Compensation	\$11,166M (2020 session)	\$77M (2020 session)	\$4M
Valuation Compensation (Total)	\$16,112M	\$78M	\$4M
Average Age	45	55	59
Average Service	10.8	12.7	6.5
Inactive Members			
Count	183,347	53	110
Retired Members			
Count	228,291	743	294
Annual Benefits	\$4,804M	\$48M	\$2M
Average Age	71	74	78
New Retirees During 2020	11,000	25	5

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)			
	TSERS	CJRS	LRS
Accrued Liability (AL)	\$84,873M	\$725M	\$30M
Actuarial Value of Assets (AVA)	\$73,354M	\$622M	\$28M
Market Value of Assets (MVA)	\$75,487M	\$639M	\$29M
Unfunded Accrued Liability (AL - AVA)	\$11,520M	\$104M	\$2M
Funded Status (AVA / AL)	86%	86%	93%
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%	38.70%	27.15%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	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	CJRS	LRS
Formula	1.82% 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	50/24; 65/5	65/5
Employee contribution (as % of pay)	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, "Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems", February 18, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", February 17, 2021, 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
March 16, 2021



Signed copy located in the NCGA Principal Clerk's Offices