



NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Actuarial Note - Retirement

Short Title: Ret. & Treasury Tech. Corrections Act of 2022.-AB
Bill Number: House Bill 1058 (First Edition)
Sponsor(s): Rep. C. Smith and Rep. McNeill

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1058, V.1 (\$ in thousands)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Sections 1.1, 1.2, 2.1, 2.2, 2.3, 3.1, 4.1, 4.2, 4.3, and 4.4 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), and Death Benefit Plans (DBP)

Section 1.1: Amends G.S. 135-4(j2) to correct a typographical error. 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.

Section 1.2: Amends G.S. 135-5.3(b6) to remove a reference to reports that are no longer held by the Local Government Commission. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 2.1: Amends G.S. 128-24(5)c1 to correct a typographical error. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

Section 2.2: Amends G.S. 128-26(h2) to correct a typographical error. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

Section 2.3: Amends G.S. 128-27 to correct a subsection reference and change the month of eligibility for one-time pension supplements in LGERS. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

Section 3.1: Amends G.S. 135-60(a) to correct a subsection reference. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of CJRS.

Sections 4.1 through 4.4: Allows the DBP to be funded through a trust other than one qualified under Section 501(c)(9) of the Internal Revenue Code and removes a reference to language repealed in S.L. 2020-48. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of the DBP.

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, 2020 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2020 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>DBP</u>
Active Members				
Count	302,771	132,397	558	411,702
General Fund Compensation	\$11,444M		\$83M	
Valuation Compensation (Total)	\$16,446M	\$7,409M	\$80M	Not available
Average Age	46	44	55	45
Average Service	11.0	10.0	13.2	10.7
Inactive Members				
Count	190,875	84,914	52	Not available
Retired Members				
Count	233,751	77,556	761	Not applicable
Annual Benefits	\$4,928M	\$1,554M	\$49M	\$59M
Average Age	72	69	74	Not applicable
New Retirees During 2021	11,800	4,600	50	Not applicable

Financial Statistics (as of 12/31/2020 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>DBP</u>
Accrued Liability (AL)	\$89,809M	\$33,485M	\$796M	\$1,744M
Actuarial Value of Assets (AVA)	\$77,922M	\$29,388M	\$661M	Not applicable
Market Value of Assets (MVA)	\$81,969M	\$30,906M	\$695M	\$522M
Unfunded Accrued Liability (AL - AVA)	\$11,887M	\$4,098M	\$135M	Not applicable
Funded Status (AVA / AL)	87%	88%	83%	Not applicable
Required Employer Contribution for FY 2022-23 (as % of pay)	17.07%	12.10% (non-LEO)	38.99%	Varies by plan segment
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%	3.25% - 4.75%	Varies by plan segment
Assumed Rate of Investment Return:	6.50%			3.00%
Cost Method:	Entry Age Normal			Not applicable
Amortization:	12 year, closed, flat dollar			Not applicable
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019				

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>DBP</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	Varies by plan segment
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	Varies by plan segment
Employee contribution (as % of pay)	6%	6%	6%	Varies by plan segment

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, "Retirement & Treasury Technical Corrections Act of 2022 – House Bill 1058", May 31, 2022, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1058: Retirement and Treasury Technical Corrections Act of 2022.-AB. (Parts I-IV)", May 30, 2022, 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 31, 2022



Signed copy located in the NCGA Principal Clerk's Offices