



NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Actuarial Note - Retirement

Short Title: Extend Spiking Moratorium/LGERS Surety.
Bill Number: House Bill 177 (Second Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 177, V.2 (\$ 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

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS)

Section 1: Extends the litigation pause preventing local boards of education from filing legal actions against the State regarding the Contribution Based Benefit Cap (CBBC) by one year, to June 30, 2023. During the pause, the Retirement System may not request interception of State appropriations for unpaid contributions attributable to CBBC liabilities arising during the pause. This section also delays the reporting date for the working group reviewing the CBBC from April 1, 2022 to December 15, 2022. 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 2: Requires any employer that is not a taxing authority to obtain a surety in order to be able to join LGERS after September 1, 2023. The LGERS Board of Trustees will establish rules defining the surety to address how these employers will cover any withdrawal liability they incur if they cease participation in LGERS. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

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>
Active Members		
Count	302,771	132,397
General Fund Compensation	\$11,444M	
Valuation Compensation (Total)	\$16,446M	\$7,409M
Average Age	46	44
Average Service	11.0	10.0
Inactive Members		
Count	190,875	84,914
Retired Members		
Count	233,751	77,556
Annual Benefits	\$4,928M	\$1,554M
Average Age	72	69
New Retirees During 2021	11,800	4,600

Financial Statistics (as of 12/31/2020 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$89,809M	\$33,485M
Actuarial Value of Assets (AVA)	\$77,922M	\$29,388M
Market Value of Assets (MVA)	\$81,969M	\$30,906M
Unfunded Accrued Liability (AL - AVA)	\$11,887M	\$4,098M
Funded Status (AVA / AL)	87%	88%
Required Employer Contribution for FY 2022-23 (as % of pay)	17.07%	12.10% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
Assumed Rate of Investment Return: 6.50%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019		

Benefit Provisions		
	TSERS	LGERS
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%	6%

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, "Extend Spiking Moratorium/LGERS Surety – House Bill 177 – 2nd Edition", June 22, 2022, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 177 – Second Edition: An Act to Extend the Pension-Spiking Litigation Pause and the Report Deadline and to Clarify Requirements for Participation in the LGERS For Eligible Employers That Do Not Have Taxing Authority", June 22, 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.

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Signed copy located in the NCGA Principal Clerk's Offices