



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: 2021 Appropriations Act.
Bill Number: Senate Bill 105 (Eighth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 105, V. 8 (\$ 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	72,752	105,769	-	-	-
Highway Fund	2,283	3,318	-	-	-
Other/Receipts	32,181	46,762	-	-	-
TOTAL STATE EXPENDITURES	107,216	155,850	-	-	-

ACTUARIAL IMPACT SUMMARY

Section 39.23 has a potential actuarial impact on retirement systems.

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

Section 39.23: Grants a one-time cost-of-living supplement of two percent (2.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2021. The supplement will be paid in a lump sum on or before December 31, 2021. This section also grants an additional one-time cost-of-living supplement of three percent (3.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2022. The supplement will be paid in a lump sum on or before October 31, 2022.

Cavanaugh Macdonald, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in FY 2021-22 and FY 2022-23:

<u>System</u>	<u>Cavanaugh Macdonald</u>		<u>Hartman & Associates</u>	
	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
TSERS	0.64% of pay	0.93% of pay	0.64% of pay	0.96% of pay
CJRS	1.32% of pay	1.98% of pay	1.36% of pay	2.04% of pay
LRS	1.28% of pay	1.92% of pay	1.32% of pay	1.98% of pay

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2022-23 because the additional contributions during each fiscal year are estimated to offset the additional benefits paid out.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of Section 39.23 and contribute the amount recommended by the actuary to properly fund existing benefits.

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:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members			
Count	305,962	560	170
General Fund Compensation	\$11,197M	\$79M	\$4M
Valuation Compensation (Total)	\$16,112M	\$78M	\$4M
Average Age	46	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)			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
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%	7.00%	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			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
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, "One-Time Pension Supplement 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, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", February 17, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Teachers' and State Employees' Retirement System Principal Results of Actuarial Valuation as of December 31, 2020", presentation to October 28, 2021 Board of Trustees Meeting, slide 30.

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