NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: 2023 Appropriations Act.
Bill Number: House Bill 259 (Sixth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 259, V.6 ($ in thousands)

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
State Impact					
General Fund Impact	145,711 to 166,043	- to 41,985	- to 43,350	- to 44,759	- to 46,214
Highway Fund Impact	4,230 to 4,829	- to 1,237	- to 1,278	- to 1,319	- to 1,362
Other/Receipts Impact	80,909 to 59,977	- to (43,223)	- to (44,628)	- to (46,078)	- to (47,575)
NET STATE IMPACT	**230,849 to 230,849**	**- to -**	**- to -**	**- to -**	**- to -**

ACTUARIAL IMPACT SUMMARY

Sections 4.10, 16.14, and 39.27 have potential actuarial impacts on retirement systems.

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

Section 4.10: Closes TSERS to new hires of the University of North Carolina Health Care System (UNCHCS), ECU Medical Faculty Practice Plan, and ECU Dental School Clinical Operations on or after January 1, 2024 and states that members of TSERS or ORP at the affected employers prior to that date remain members unless they make a one-time, irrevocable election to cease membership in favor of a similar, but unspecified, benefit offered by those employers. Employees of the affected employers hired on or after January 1, 2024 would participate in ORP; participate in a similar, but unspecified benefit; or have a choice between these two programs. If an employee ceases to be employed by the affected employers and is later reemployed by the affected employers, they would be treated the same as an employee newly hired on or after January 1, 2024.

Buck, the actuary for TSERS, estimates that this section would increase the actuarially determined employer contribution of TSERS by at most 0.34% of compensation if all current TSERS members working for UNCHCS opted to instead participate in the new retirement benefit offered by UNCHCS. This estimate was used for one end of the range of impacts in the Summary Table above.

Hartman & Associates, the actuary for the General Assembly, estimates that this section will have a negligible financial impact on TSERS, assuming that current TSERS members elect to remain in TSERS. Hartman & Associates notes that the payroll basis over which unfunded accrued liability is amortized will begin to decrease as new hires no longer enter TSERS, but estimates that this will have minimal impact due to the 12-year amortization period and a funding policy that may result in even greater contributions than required by 12-year amortization. This estimate was used for the other end of the range of impacts in the Summary Table.

While legal considerations are outside the scope of this note, Buck also commented that the choice between TSERS or ORP and a new retirement benefit program, as well as a potential merger with a nonprofit corporation as described in G.S. 116-350.60, as enacted by the section, must adhere to strict standards to maintain compliance with federal law.

Section 16.14: Raises the mandatory retirement age for appellate judges from age 72 to age 76. We have estimated the actuarial impact of this section using the impact of 2021 House Bill 56, which would have increased the retirement age to 75 for all judges. Cavanaugh Macdonald, the actuary for the retirement systems at the time, estimated that bill would reduce the actuarially determined employer contribution (ADEC) of CJRS by 0.98% of pay. Hartman & Associates, the actuary for the General Assembly, estimated that bill would reduce the ADEC of CJRS by 0.69% of pay. Appellate judges make up only 5% of the judges in the Judicial Department, so this section is estimated to cause a much smaller reduction than 2021 House Bill 56 in the ADEC of CJRS.

Section 39.27: Grants a one-time cost-of-living supplement of one percent (4.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of October 1, 2023. The supplement will be paid in a lump sum on or before November 30, 2023.

Buck, 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 2023-24:

System	Buck	Hartman & Associates
TSERS	1.20% of pay	1.24% of pay
CJRS	2.44% of pay	2.80% of pay
LRS	2.04% of pay	2.48% of pay

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2023-24 because the additional contributions during the 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 these sections at the low end of the range of impacts for Section 4.10 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, 2021 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2021 unless otherwise noted, M = millions)			
	TSERS	CJRS	LRS
Active Members			
Count	300,310	569	170
General Fund Compensation	$11,960M	$87M	$4M
Valuation Compensation (Total)	$16,633M	$83M	$4M
Average Age	46	54	59
Average Service	11.0	11.9	6.8
Inactive Members			
Count	198,642	57	113
Retired Members			
Count	238,652	792	290
Annual Benefits	$5,045M	$52M	$2M
Average Age	72	74	78
New Retirees During 2022	12,700	33	6

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)			
	TSERS	CJRS	LRS
Accrued Liability (AL)	$92,356M	$832M	$30M
Actuarial Value of Assets (AVA)	$83,139M	$703M	$31M
Market Value of Assets (MVA)	$87,966M	$744M	$32M
Unfunded Accrued Liability (AL - AVA)	$9,217M	$129M	($1M)
Funded Status (AVA / AL)	90%	84%	102%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	32.84%	18.61%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 4.75%	3.25%
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	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.

For Section 4.10, Hartman & Associates assumed that all current TSERS members will elect to remain in TSERS. Buck assumed that all current TSERS members will elect to join the alternative retirement benefit program offered by the University of North Carolina Health Care System (UNCHCS). Buck does not anticipate that this assumption would fully represent employee behavior if Section 4.10 was enacted—rather, results using this assumption are intended to demonstrate the potential variability in the impact of the section. For several reasons, most notably because the alternative retirement benefit program that might be offered by UNCHCS is unspecified, it is difficult to predict how many current employees might elect to remain in TSERS.

Both actuaries based their analysis of Section 4.10 on data for only UNCHCS. Data for the affected employers at East Carolina University (ECU) was not available. However, we estimate that the count of affected employees at ECU is less than 20% of the count of affected employees at UNCHCS.

Technical Considerations

N/A.

Data Sources

Buck, "Transformational Investments in NC Health (SB 743)", April 24, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 743: Transformational Investments in NC Health (Sections 2.11 through 2.16)", April 24, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Actuarial Impact of Raising the Judicial retirement Age from 72 to 75 – HB 56", March 1, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 56: An Act Increasing the Mandatory Retirement Age for Justices and Judges of the General Court of Justice and for Magistrates", February 23, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Buck, "One-Time Pension Supplement for State, Local, Judicial, and Legislative Retirement Systems", March 14, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Non-Recurring Supplement for Retirees in the TSERS, LGERS, CJRS, and LRS", February 24, 2023, 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