

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note
Retirement Benefits

BILL NUMBER: House Bill 276 (First Edition)
SHORT TITLE: Agency Participation Procedures Act of 2015.-AB
SPONSOR(S): Representatives Ross, Gill, Goodman, and McNeill

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts for TSERS; local government funds for LGERS

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS) and Local Governmental Employees' Retirement System (LGERS).

BILL SUMMARY:

House Bill 276 (First Edition) makes several changes to laws governing how charter schools and local governments begin or stop participating in TSERS and LGERS.

Section 1: Modifies the provisions for a charter school to elect to join TSERS and permits a charter school to stop participating in TSERS. Currently charter schools are only allowed to join in the first 30 days after signing the charter. The bill allows charter schools to join at any time, but requires a charter school to undergo an actuarial, financial, and legal review by the Board of Trustees prior to joining. Currently charter schools are not allowed to stop participating, unless they cease to exist as a charter school. The bill allows charter schools to stop participating in TSERS, but requires the charter school to first notify its employees and the Retirement System and pay a withdrawal liability.

Section 2: Requires the Fiscal Research Division of the General Assembly to obtain an advisory letter from the Attorney General for any bill that would allow an employer to join TSERS or LGERS and an estimate of the withdrawal liability for any bill that would allow a unit to cease participation in TSERS or LGERS. The advisory letter would assess whether the employer is eligible to participate.

Section 3: Imposes a lump sum withdrawal liability in both TSERS and LGERS equal to the actuarial present value of the additional liabilities imposed upon the System by the withdrawal of the unit, as determined by the System's consulting actuary.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the Retirement Systems, estimates that the bill will not impact the contribution rates of TSERS or LGERS, assuming that the withdrawal liability covers the withdrawing employer’s unfunded liability plus a risk premium.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will have no current financial impact on TSERS or LGERS and notes that the withdrawal liability provision prevents the cost of a withdrawing employer from being shifted to the remaining employers.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2013 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	310,370	123,455
General Fund Compensation	\$9,914M	
Valuation Compensation (Total)	\$13,608M	\$5,556M
Average Age	45	44
Average Service	10.6	10.3
Inactive Members		
Count	125,513	50,998
Retired Members		
Count	187,448	57,405
Annual Benefits	\$3,871M	\$1,039M
Average Age	70	68
New Retirees During 2014	11,500	4,400

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$65,806M	Not meaningful
Actuarial Value of Assets (AVA)	\$62,364M	\$21,498M
Market Value of Assets (MVA)	\$62,789M	\$21,784M
Unfunded Accrued Liability (AL - AVA)	\$3,442M	Not meaningful
Funded Status (AVA / AL)	95%	Not meaningful
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	6.52% (non-LEO)
Assumed Rate of Investment Return	7.25%	7.25%
Salary Increase Assumption (includes	4.25% - 9.10%	4.25% - 8.55%

3.50% inflation and productivity)		
Cost Method	Entry Age Normal	Frozen Entry Age
Amortization	12 year, closed, flat \$	Not applicable
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA		

Benefit Provisions		
	<u>TSERS</u>	<u>LGERS</u>
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 David Vanderweide.

SOURCES OF DATA:

Buck Consultants, “Agency Participation Procedures Act of 2015 (House Bill 276)”, March 27, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 276: An Act to Enact the Agency Participation Procedures Act of 2015”, March 26, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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APPROVED BY:
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Fiscal Research Division

DATE: April 1, 2015



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