



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 423 (First Edition)

SHORT TITLE: Increase Contributory Death Benefit.

SPONSOR(S): Representatives L. Bell and Lucas

FUNDS AFFECTED: Contributions paid by retired State and local government employees

SYSTEM OR PROGRAM AFFECTED: Retirees' Contributory Death Benefit Plan (CDB).

BILL SUMMARY: House Bill 423 (First Edition) increases the CDB benefit from \$10,000 to \$12,000 for participants who die on or after July 1, 2015. This benefit is an optional life insurance benefit available to retirees in the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System. If a retiree elects to participate at the time of retirement and dies after paying contributions for at least two years, his or her beneficiary will receive \$12,000. If a retiree dies before paying contributions for at least two years, the beneficiary will receive a refund of the contributions paid.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE: Because the CDB is funded entirely by contributions paid by retirees, there is no impact on the State. However, the fund currently has a deficit which will only be increased by the bill. The deficit exists because the current assets and contribution rates are inadequate to fund the current anticipated benefits. The bill does not address how the deficit will be closed.

Buck Consultants, the actuary for the Retirement Systems, estimates that the bill will increase the deficit by about \$85.6 million, from \$35.2 million to \$120.8 million.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will increase the deficit by about \$86.0 million and that contribution rates paid by retirees would need to increase by approximately 47% to cover the increased liabilities, even without addressing the existing deficit.

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>CDB</u>
Retired Members	
Count	105,672
Annual Benefits	\$19.3M
Average Age	68

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)	
	<u>CDB</u>
Liability	\$429.9M
Assets	\$213.4M
Value of Prospective Contributions	\$181.3M
Deficit (Liability – Assets – Value of Contributions)	\$35.2M
Assumed Rate of Investment Return	5.75%
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>CDB</u>
Formula	\$10,000; payable upon death after at least two years of participation
Retiree contribution	\$8 to \$89 per month, depending on age

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, "Increase Contributory Death Benefit (House Bill 423)", April 10, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 423: An Act to Increase the Contributory Death Benefit Payable for Retired Members of the TSERS, LGERS, LRS, and CJRS", April 16, 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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DATE: April 21, 2015



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