



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 1011 (First Edition)

SHORT TITLE: Retirement Technical Corrections Act of 2016.-AB

SPONSOR(S): Representatives Ross, McNeill, and Hardister

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds.

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), and the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF).

BILL SUMMARY:

Section 1: Clarifies wording of the service purchase provision for FRSWPF for those not yet 35 years of age, consistent with current administrative practice.

Section 2: Repeals G.S. 128-25, which affected how local governments paid for past service when they first joined LGERS. Due to statute changes in 2015, past service can no longer be granted so this section is no longer needed.

Section 3: Conforms a service purchase statute in LGERS to federal law related to the treatment of active duty military service and clarifies that the employer's required payment includes the employer and employee portions of the service purchase.

Section 4: Provides that if a member dies after having filed an application for retirement, but before selecting payment options and selecting a beneficiary, the administrator or executor of the member's estate may select an option and name the beneficiary or beneficiaries. This change clarifies how to handle a situation not explicitly named in the current statute and is consistent with similar statutes.

Section 5: Clarifies long time interpretation and practice that choosing the "transfer benefit" is an irrevocable option, just like selecting any other benefit payment option.

Section 6: Corrects a typo in a change made to educational leave for TSERS in Session Law 2015-241 and makes a conforming change for LGERS, in order to simplify communication and administration of the two systems.

Section 7: Clarifies that funds collected under the anti-pension spiking contribution-based benefit cap will be included in the Pension Accumulation Fund, which is consistent with other required employer payments. Additionally, clarifies that to receive a one-time exception to payment of the

penalty for late payment of retirement contributions an agency must make arrangements in advance with the Retirement System.

Section 8: Corrects spelling of name of the FRSWPF in the State Health Plan statute.

Section 9: Makes technical changes to statutes governing the Achieving a Better Life Experience (ABLE) Program Trust, which is not a retirement system or pension fund and therefore not addressed in this note.

EFFECTIVE DATE: Sections 3 and 6 become effective January 1, 2017. The remainder of the bill becomes effective when it becomes law.

ESTIMATED IMPACT ON STATE: Both Buck Consultants, the System’s Actuary, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of any of the systems affected.

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, 2014 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2014 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>
Active Members			
Count	307,313	123,184	43,134
General Fund Compensation	\$9,865M		
Valuation Compensation (Total)	\$13,737M	\$5,652M	Not applicable
Average Age	45	44	40
Average Service	10.7	10.3	11.7
Inactive Members			
Count	134,871	55,298	153
Retired Members			
Count	194,607	60,408	12,730
Annual Benefits	\$4,058M	\$1,109M	\$26M
Average Age	70	68	68
New Retirees During 2015	11,400	4,100	600

Financial Statistics (as of 12/31/2014 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>
Accrued Liability (AL)	\$67,715M	Not meaningful	\$419M
Actuarial Value of Assets (AVA)	\$64,734M	\$22,682M	\$381M

Market Value of Assets (MVA)	\$64,587M	\$22,745M	\$383M
Unfunded Accrued Liability (AL - AVA)	\$2,981M	Not meaningful	\$38M
Funded Status (AVA / AL)	96%	Not meaningful	91%
Annual Required Contribution (ARC) for FY 2016-17 (as % of pay)	9.48% (new assumptions)	7.25% (non-LEO)	\$17.6M
Assumed Rate of Investment Return	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 6.86%	3.50% - 6.71%	Not applicable
Cost Method	Entry Age Normal	Frozen Entry Age	Entry Age Normal
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$
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>LGERS</u>	<u>FRSWPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	\$170 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	55/20
Employee contribution (as % of pay)	6%	6%	\$10 per month

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, "Retirement Technical Corrections Act of 2016 – House Bill 1011", May 19, 2016, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1011: An Act to Enact the Retirement Technical Corrections Act of 2016", May 4, 2016, 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: May 23, 2016



Signed Copy Located in the NCGA Principal Clerk's Offices