



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 1030 (Fourth Edition)

SHORT TITLE: 2016 Appropriations Act.

SPONSOR(S): Representatives Dollar, L. Johnson, Lambeth, and McGrady

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), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Local Governmental Employees' Retirement System (LERS), Separate Insurance Benefit Plan (SIBP).

BILL SUMMARY:

Section 36.21: Grants cost-of-living adjustments (COLAs) of one and six-tenths percent (1.6%), effective July 1, 2016, for retirees in the TSERS, CJRS, and LRS.

Section 36.22: Defines a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer in G.S. 135-1(11c) to include probation/parole officers with respect to service rendered on or after July 1, 2016. Changing the definition of law-enforcement officer has the following impacts in other areas of the General Statutes:

- G.S. 135-5(b19) says "A member who is a law enforcement officer" will be eligible for unreduced retirement at age 55 with 5 years of service as a law-enforcement officer or reduced retirement at age 50 with 15 years of service as a law-enforcement officer. Because G.S. 135-5 is in the same chapter as G.S. 135-1(11c), changing the definition of law-enforcement officer extends those retirement age provisions to probation/parole officers.
- G.S. 143-166.41(a) says that the separation allowance is available to "every sworn law-enforcement officer as defined by G.S. 135-1(11c)...". By changing the definition in G.S. 135-1(11c), this section causes probation/parole officers to start earning service toward the separation allowance. While only service on or after July 1, 2016 counts toward the requirement to have 5 years of law enforcement service immediately prior to retirement, probation/parole officer service prior to July 1, 2016 will count toward the requirement that half of an employee's career be as a law enforcement officer.
- G.S. 143-166.60 says that the SIBP is established for "all law enforcement officers, as defined in G.S. 135-1(11c)...". By changing the definition in G.S. 135-1(11c), the bill makes probation/parole officers eligible for the SIBP.

The bill does not change the definition of law enforcement officer in G.S. 143-166.30(a)(4). That is the definition that applies to the NC 401(k) Plan. Thus, the bill does not extend the law-enforcement 401(k) benefits to probation/parole officers.

Because the bill only changes the definition of law-enforcement officer with respect to service rendered on or after July 1, 2016, most probation/parole officers would have to work for at least five more years to be eligible to retire at a different age or receive the separation allowance.

Section 36.23: Amends G.S. 135-151(j) and G.S. 128-38.10(k) to extend eligibility for benefits under the Qualified Excess Benefits Arrangement (QEBA) to everyone who became a member of TSERS or LGERS prior to 2015. The QEBA provides benefits in excess of the limits in Section 415 of the Internal Revenue Code. Under current law, only those members retiring prior to August 2016 are eligible.

No other sections of the bill modify retirement benefits or statutes.

EFFECTIVE DATE: All of these sections are effective July 1, 2016

ESTIMATED IMPACT ON STATE:

Section 36.21

Buck Consultants, the actuary for the TSERS, CJRS, and LRS, estimates that the provisions of this bill will have an annual cost in FY 2016-17 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.68%	1.19%	1.38%
General Fund	\$ 67,082,000	\$ 833,000	\$ 49,956
Highway Fund	\$ 2,060,400	\$ 0	\$ 0
Receipt Funds	<u>\$ 30,301,541</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 99,443,941	\$ 833,000	\$ 49,956

Buck Consultants estimates that this Section will increase the unfunded liability of TSERS by roughly \$667 million. The TSERS liability was 96% funded at the end of 2014. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2016-17 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.66%	1.17%	1.33%
General Fund	\$ 65,109,000	\$ 819,000	\$ 48,146
Highway Fund	\$ 1,999,800	\$ 0	\$ 0
Receipt Funds	<u>\$ 29,410,319</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 96,519,119	\$ 819,000	\$ 48,146

None of the systems have gains available to cover a portion of the cost of the COLA.

Section 36.22

Buck Consultants, the actuary for the Retirement System, estimates that the change to the TSERS retirement ages will result in an increase in the annual required contribution of 0.02% of payroll, or \$2.0 million from the General Fund. Buck estimates an increase in the SIBP liability of \$0.2 million, which would not eliminate the surplus in the SIBP. Buck also estimated negligible decreases in the contributions and/or liability for the Disability Income Plan and Death Benefit Plan due to the expected change in retirement patterns.

Hartman & Associates, the actuary for the General Assembly, estimates that the change to the TSERS retirement ages will result in an increase in the actuarially determined contribution of 2.41% of the probation/parole officer payroll, or roughly \$1.7 million. Hartman & Associates estimates an increase in the SIBP liability of under \$0.2 million, which would not eliminate the surplus in the SIBP.

The actuaries estimated the following cash flow impact due to the additional separation allowances:

<u>Year</u>	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
FY 2016-17	\$0	\$0
FY 2017-18	\$0	\$0
FY 2018-19	\$0	\$0
FY 2019-20	\$0	\$0
FY 2020-21	\$0	\$0
FY 2021-22	\$143,000	\$153,780
FY 2022-23	\$423,000	\$422,569
FY 2023-24	\$741,000	\$746,870
FY 2024-25	\$1,097,000	\$1,083,946
FY 2025-26	\$1,506,000	\$1,420,648

Both actuaries used data provided by the Department of Public Safety showing 1,812 active probation/parole officers with a total annual payroll of \$71 million as of May 2016.

Section 36.23

Buck Consultants, the actuary for the Retirement System, estimates that the change to QEBA eligibility will increase benefit payments by \$600,000 or less in each of the next 10 years, which is less than 0.01% of the projected active member payroll in each of those years.

Hartman & Associates, the actuary for the General Assembly, estimates that the change to QEBA eligibility will have no impact on the employer contribution rates to TSERS and LGERS.

Appropriations

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

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>CJRS</u>	<u>LRS</u>
Active Members				
Count	307,313	123,184	566	170
General Fund Compensation	\$9,865M		\$70M	\$4M
Valuation Compensation (Total)	\$13,737M	\$5,652M	\$71M	\$4M
Average Age	45	44	55	58
Average Service	10.7	10.3	13.0	6.4
Inactive Members				
Count	134,871	55,298	50	92
Retired Members				
Count	194,607	60,408	610	300
Annual Benefits	\$4,058M	\$1,109M	\$37M	\$2M
Average Age	70	68	72	77
New Retirees During 2015	11,400	4,100	50	10

Financial Statistics (as of 12/31/2014 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$67,715M	Not meaningful	\$567M	\$24M
Actuarial Value of Assets (AVA)	\$64,734M	\$22,682M	\$534M	\$29M
Market Value of Assets (MVA)	\$64,587M	\$22,745M	\$534M	\$29M
Unfunded Accrued Liability (AL - AVA)	\$2,981M	Not meaningful	\$33M	\$(5)M
Funded Status (AVA / AL)	96%	Not meaningful	94%	121%
Actuarially Determined Contribution (ADC) for FY 2016-17 (as % of pay)	9.48% (new assumptions)	7.25% (non-LEO)	28.53%	17.05%
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%

Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 6.86%	3.50% - 6.71%	3.50% - 5.50%	5.50%
Cost Method	Entry Age Normal	Frozen Entry Age	Entry Age Normal	Entry Age Normal
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$	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>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% 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	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

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, "Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems", May 16, 2016, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", May 16, 2016, original of which is on file in the General Assembly's Fiscal Research Division.

Buck Consultants, "Probation/Parole Officers Retirement – Special Provision 2016-RET-H1", May 16, 2016, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Special Provision 2016-RET-H1: Enhance the Benefits of Probation/Parole Officers Who Are Members of the TSERS", May 16, 2016, original of which is on file in the General Assembly's Fiscal Research Division.

Buck Consultants, “Qualified Excess Benefit Arrangement Sunset Modification”, July 13, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Special Provision: Qualified Excess Benefit Arrangement Sunset Modification for Members of the TSERS and LGERS”, July 13, 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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Fiscal Research Division

DATE: May 19, 2016



Signed Copy Located in the NCGA Principal Clerk's Offices