

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

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BILL NUMBER: House Bill 1030 (Ratified)

SHORT TITLE: 2016 Appropriations Act.

SPONSOR(S):

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), and Local Governmental Employees' Retirement System (LGERS).

BILL SUMMARY:

Section 36.21: Grants a one-time cost-of-living supplement of one and six-tenths percent (1.6%) of the annual benefit to retirees in the TSERS, CJRS, and LRS who were retired as of September 1, 2016. The supplement will be paid in a lump sum on or before October 31, 2016.

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. Also requires employers (e.g. school districts, community colleges, or the University of North Carolina) to reimburse the QEBA annually for the benefits paid to their retirees who retire on or after August 1, 2016.

No other sections of House Bill 1030 (Ratified) modify retirement benefits or statutes.

EFFECTIVE DATE: These two 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 section will have a non-recurring cost in FY 2016-17 as follows:

	TSERS	CJRS	LRS
Percent of Payroll	0.48%	0.93%	1.17%
General Fund	\$ 47,352,000	\$ 651,000	\$ 42,354
Highway Fund	\$ 1,454,400	\$ 0	\$ 0
Receipt Funds	\$ 21,389,323	\$ 0	\$ 0
Total Annual Cost	\$ 70,195,723	\$ 651,000	\$ 42,354

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2016-17 because the additional contributions during the fiscal year are estimated to offset the additional benefits paid out.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this section will have a non-recurring cost in FY 2016-17 as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.50%	0.92%	1.16%
General Fund	\$ 49,325,000	\$ 644,000	\$ 41,992
Highway Fund	\$ 1,515,000	\$ 0	\$ 0
Receipt Funds	\$ 22,280,545	\$ 0	\$ 0
Total Annual Cost	\$ 73,120,545	\$ 644,000	\$ 41,992

None of the systems have gains available to cover a portion of these costs.

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. In addition, the reimbursements from the last employers of the retirees should offset all additional benefit payments, so there should be no net impact on the general employer contribution rate.

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

HB 1030 (Ratified) appropriates funds and sets contribution rates sufficient to cover the increased cost of these two 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	\$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)	9.50% (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%
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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, “One-Time Cost of Living Lump Sum for State, Local, Judicial and Legislative Retirement Systems”, June 16, 2016, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “1% Non-Recurring COLA for Retirees in the TSERS, CJRS, and LRS Systems”, June 14, 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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APPROVED BY:
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Fiscal Research Division

DATE: August 2, 2016



Signed Copy Located in the NCGA Principal Clerk's Offices