

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: Senate Bill 199 (First Edition)

SHORT TITLE: Law Enforcement Officer Retirement/25 Years.

SPONSOR(S): Senators Britt, Cook, and Sanderson

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), State and local Special Separation Allowances.

BILL SUMMARY: Senate Bill 199 (First Edition) allows both State and local law enforcement officers (LEOs) to retire with unreduced benefits from TSERS or LGERS at any age if they have 25 years of service. The First Edition also provides the Special Separation Allowance to LEOs retiring with 25 years of service. The Special Separation Allowance is payable from unreduced retirement to age 62. The following table further summarizes the reduced and unreduced retirement ages under TSERS and LGERS:

	<u>Current Law</u>	<u>SB 199</u>
Unreduced for LEOs	Age 55 w/ 5 years of service Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for LEOs	Age 50 w/ 15 years of service	Unchanged
Unreduced for non-LEOs	Age 65 w/ 5 years of service Age 60 w/ 25 years Any age w/ 30 years	Unchanged
Reduced for non-LEOs	Age 50 w/ 20 years of service Age 60 w/ 5 years	Unchanged

EFFECTIVE DATE: January 1, 2018. The provisions are written to only apply to those retiring on or after that date.

ESTIMATED IMPACT ON STATE:

Conduent, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of this bill will have an annual cost for additional contributions to TSERS and LGERS in FY 2017-18 and subsequent years as follows:

	<u>Conduent</u>	<u>Hartman & Associates</u>
TSERS		
Percent of Payroll	0.07%	0.04%
General Fund	\$ 6,905,500	\$ 3,946,000
Highway Fund	\$ 212,100	\$ 121,200
Receipt Funds	\$ 3,119,276	\$ 1,782,444
Total Annual Cost	\$ 10,236,876	\$ 5,849,644
LGERS		
Percent of Payroll	0.53% for non-LEO plus 1.64% for LEO	0.45% for all or 2.59% for LEO only
Local Funds	\$ 44,136,514	\$27,082,179

In addition, the actuaries estimate the following cash flow increases due to the additional Separation Allowances:

Year	<u>Conduent</u>		<u>Hartman & Associates</u>	
	<u>State</u>	<u>Local</u>	<u>State</u>	<u>Local</u>
FY 2017-18	\$0	\$0	\$77,974	\$389,204
FY 2018-19	\$2,600,000	\$6,111,000	\$692,400	\$2,778,173
FY 2019-20	\$5,958,000	\$15,740,000	\$1,454,947	\$5,206,143
FY 2020-21	\$7,381,000	\$22,006,000	\$2,242,915	\$7,800,101
FY 2021-22	\$7,869,000	\$26,988,000	\$2,869,615	\$9,960,508
FY 2022-23	\$7,842,000	\$30,331,000	\$3,132,285	\$11,364,381
FY 2023-24	\$7,743,000	\$32,363,000	\$3,166,289	\$12,425,784
FY 2024-25	\$7,500,000	\$33,227,000	\$3,243,476	\$13,550,710
FY 2025-26	\$7,103,000	\$32,712,000	\$3,303,398	\$14,188,332
FY 2026-27	\$6,734,000	\$31,521,000	\$3,478,888	\$14,387,035

Conduent estimates that the present value of additional benefits payable from TSERS is \$44 million and from the State for Separation Allowances is \$94 million. The present value of additional benefits payable from LGERS is \$154 million and from local governments for Separation Allowances is \$447 million. The present values for TSERS and LGERS are calculated using the valuation assumptions and the present value of the Separation Allowances is calculated at a discount rate of 3.20%, which is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2015.

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, 2015 actuarial valuations, except that both actuaries assumed rates of retirement at 25 years of service equivalent to the current assumptions at 30 years of service. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	305,291	124,974
General Fund Compensation	\$10,185M	
Valuation Compensation (Total)	\$13,897M	\$5,869M
Average Age	45	44
Average Service	10.7	10.2
Inactive Members		
Count	143,214	59,289
Retired Members		
Count	201,522	63,110
Annual Benefits	\$4,202M	\$1,182M
Average Age	71	68
New Retirees During 2016	11,100	4,100

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$71,522M	\$24,360M
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M
Market Value of Assets (MVA)	\$62,669M	\$22,404M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M
Funded Status (AVA / AL)	93%	97%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
Assumed Rate of Investment Return: 7.25%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
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>Separation Allowance</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	0.85% x Service x Final Pay; Payable until age 62
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 55/5
Employee contribution (as % of pay)	6%	6%	None

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:

Conduent, “Law Enforcement Officer Retirement / 25 Years – Senate Bill 199”, March 24, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Senate Bill 199: An Act to Allow Law Enforcement Officers Who Are Members of the TSERS or the LGERS to Retire with Unreduced Benefits After Achieving Twenty-Five Years of Creditable Service and to Make Conforming Changes”, March 13, 2017, 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: March 29, 2017



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