

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2019

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HOUSE BILL 626  
Committee Substitute Favorable 5/2/19

Short Title: Realistic Evaluation of Actuarial Liabilities. (Public)

Sponsors:

Referred to:

April 8, 2019

1 A BILL TO BE ENTITLED  
2 AN ACT TO REQUIRE STRESS TESTING FOR THE TEACHERS' AND STATE  
3 EMPLOYEES' RETIREMENT SYSTEM, AS RECOMMENDED BY THE PEW  
4 FOUNDATION; TO MAKE AMENDMENTS RELATED TO THE PENSION  
5 SOLVENCY FUND; TO MAKE AMENDMENTS TO SUBROGATION AND THE  
6 RIGHT OF RECOVERY OF THE NORTH CAROLINA STATE HEALTH PLAN FOR  
7 TEACHERS AND STATE EMPLOYEES; AND TO CLARIFY THE LIEN PRIORITY OF  
8 THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AS IT  
9 PERTAINS TO CHARTER SCHOOL PAYMENT PLANS.

10 The General Assembly of North Carolina enacts:

11 **SECTION 1.(a)** G.S. 135-6(n) reads as rewritten:

12 "(n) In 1943, and at least once in each five-year period thereafter, the actuary shall ~~make~~  
13 complete an actuarial investigation into experience review of the mortality, service and  
14 compensation experience of the members and beneficiaries of the Retirement System, and shall  
15 make a valuation of the assets and liabilities of the funds of the System, and taking into account  
16 the result of such investigation and valuation, the Board of Trustees ~~shall~~shall do all of the  
17 following:

- 18 (1) Adopt for the Retirement System such mortality, service and other tables as  
19 shall be deemed ~~necessary~~and necessary.  
20 (2) Certify the rates of contributions payable by the State of North Carolina on  
21 account of new entrants at various ages."

22 **SECTION 1.(b)** G.S. 135-6 is amended by adding two new subsections to read:

23 "(n1) Prior to undertaking each quinquennial actuarial experience review as required by this  
24 section, the Board of Trustees shall provide the General Assembly and the Governor a report that  
25 includes all of the following, as these items apply to the Retirement System:

- 26 (1) A description of and the process used to determine the investment return  
27 assumption utilized by the Board of Trustees when determining the  
28 contribution rates.  
29 (2) Projections of assets, liabilities, pension debt, service costs, employee  
30 contributions, employer contributions, net amortization, benefit payments,  
31 payroll, and funded ratio for the Retirement System for each of the next 30  
32 years based upon the then-current actuarial assumptions, including the  
33 assumed rate of return.  
34 (3) Projections of assets, liabilities, pension debt, service costs, employee  
35 contributions, employer contributions, net amortization, benefit payments,  
36 payroll, and funded ratio for the Retirement System assuming that investment



- 1 returns are two and four percentage points lower than the assumed rate of  
2 return and that the State makes employer contributions meeting all of the  
3 following:
- 4 a. The contributions are based upon the then-current funding policy for  
5 the Retirement System.
- 6 b. The contributions are held constant at the levels calculated for  
7 subdivision (2) of this subsection.
- 8 c. The contributions never exceed fifteen percent (15%) of projected total  
9 revenue available for appropriation by the General Assembly.
- 10 (4) Estimates for assets, liabilities, pension debt, service costs, employee  
11 contributions, employer contributions, net amortization, benefit payments,  
12 payroll, and funded ratio for the Retirement System if there is a one-year loss  
13 on planned investments of twenty percent (20%) followed by a 20-year period  
14 of investment returns two percentage points below plan assumptions, with the  
15 following assumptions regarding contributions:
- 16 a. The contributions are based upon the then-current funding policy for  
17 the Retirement System.
- 18 b. The contributions are held constant at the levels calculated for  
19 subdivision (2) of this subsection.
- 20 c. The contributions never exceed fifteen percent (15%) of projected total  
21 revenue available for appropriation by the General Assembly.
- 22 (5) The estimated actuarially accrued liability, the total plan normal cost for all  
23 benefit tiers, if multiple tiers exist, and the employer normal cost for all benefit  
24 tiers, if multiple tiers exist, calculated using all of the following:
- 25 a. A discount rate equal to the assumed rate of return. If the discount rate  
26 used by the Retirement System is different from the investment return  
27 assumption, then the report shall provide a calculation of actuarially  
28 accrued liability based upon a discount rate that is two percent (2%)  
29 and four percent (4%) above and below the long-term rate of return  
30 actually used by the Board of Trustees.
- 31 b. The 10-year average of the yield of 30-year treasury notes.
- 32 (6) A description of the amortization period for any unfunded liabilities utilized  
33 by the Board of Trustees when determining the contribution rates.
- 34 (7) A calculation of the contribution rates based on an amortization period equal  
35 to the estimated average remaining service periods of employees covered by  
36 the contributions.
- 37 (8) A description of the interest assumption rate utilized by the Board of Trustees  
38 for reporting liabilities and the process used to determine that assumption.
- 39 (9) The market value of the assets controlled by the Board of Trustees and an  
40 explanation of how the actuarial value assigned to those assets differs from  
41 the market value of those assets.
- 42 (10) An assessment of how the changes of assumptions adopted by the Board of  
43 Trustees in the experience review affect any of the other results in the report.
- 44 (11) Any additional information deemed useful by the Board of Trustees or the  
45 Investment Advisory Committee under G.S. 147-69.2 to evaluate or adjust the  
46 investment policy statement or to evaluate adherence to or risk associated with  
47 statutory constraints on investments.
- 48 (12) Any additional information deemed useful by the Board to evaluate current or  
49 prospective funding or contribution policies.
- 50 (n2) With regards to payment for the administration of subsections (n), (n1), and (o) of this  
51 section, the Retirement Systems Division of the Department of State Treasurer may increase

1 receipts from the retirement assets of the corresponding retirement system or may pay the costs  
2 directly from the retirement assets."

3 **SECTION 2.** G.S. 143C-4-10(c) is amended by adding a new subdivision to read:

4 "(3) Any funds, in an amount directed by the State Treasurer to be transferred, that  
5 meet all of the following criteria:

6 a. The funds are the result of rebates received by the Department of State  
7 Treasurer from a company administering supplemental voluntary  
8 insurance benefits authorized under G.S. 120-4.32(b), 128-38.3(b),  
9 135-18.8(b), or 135-75(b).

10 b. The funds are not owed to a company administering, or individuals  
11 participating in, supplemental voluntary insurance benefits.

12 c. As determined by the Board of Trustees of the Retirement System, the  
13 funds are not to be needed to pay future administrative costs of the  
14 supplemental voluntary insurance benefits."

15 **SECTION 3.** G.S. 135-48.5(a) reads as rewritten:

16 "(a) There are hereby established two health benefit trust funds, to be known as the Public  
17 Employee Health Benefit Fund and the Health Benefit Reserve Fund for the payment of hospital  
18 and medical benefits. As used in this section, the term "health benefit trust funds" refers to the  
19 fund type described under G.S. 143C-1-3(a)(10).

20 All premiums, fees, charges, rebates, refunds or any other receipts including, but not limited  
21 to, earnings on investments, occurring or arising in connection with health benefits programs  
22 established by this Article, shall be deposited into the Public Employee Health Benefit Fund.  
23 Disbursements from the Fund shall include any and all amounts required to pay the benefits and  
24 administrative costs of such programs as may be determined by the Executive Administrator and  
25 Board of Trustees.

26 Any unencumbered balance in excess of prepaid premiums or charges in the Public Employee  
27 Health Benefit Fund at the end of each fiscal year shall be used ~~first, in the following order:~~

28 (1) ~~First, to provide an actuarially determined Health Benefit Reserve Fund for~~  
29 ~~incurred but unrepresented ~~claims, second, claims.~~~~

30 (2) Second, an amount determined by the State Treasurer, subject to approval by  
31 the Board of Trustees, that does not exceed fifty percent (50%) of any  
32 unencumbered balance remaining after providing for incurred but unrepresented  
33 claims may be transferred to the Retiree Health Benefit Fund, established  
34 under G.S. 135-7(f). Upon the direction and approval of, and in the amount  
35 specified by, the State Treasurer, the Office of State Budget Management shall  
36 transfer the amount in accordance with this subdivision.

37 (3) ~~Third, to reduce the premiums required in providing the benefits of the health~~  
38 ~~benefits programs, and third programs.~~

39 (4) Fourth, to improve the plan, as may be provided by the General  
40 Assembly. State Treasurer, subject to approval by the Board of Trustees.

41 The balance in the Health Benefits Reserve Fund may be transferred from time to time to the  
42 Public Employee Health Benefit Fund to provide for any deficiency occurring therein. The Public  
43 Employee Health Benefit Fund and the Health Benefit Reserve Fund shall be deposited with the  
44 State Treasurer and invested as provided in G.S. 147-69.2 and G.S. 147-69.3."

45 **SECTION 4.** G.S. 143C-4-10 is amended by adding a new subsection to read:

46 "(g) Funds Do Not Revert. – No portion of the Fund shall be transferred to the General  
47 Fund and any appropriation made to the Fund shall not revert."

48 **SECTION 5.** Section 3(b) of Session Law 2018-84 reads as rewritten:

49 "**SECTION 3.(b)** This section is effective when it becomes law and applies to charter  
50 schools electing to cease participation in the Teachers' and State Employees' Retirement System  
51 on or after that date. Priority of the lien over nongovernmental liens and rights, created under

1 subsection (a) of this section, shall apply only to nongovernmental liens and rights that have  
2 attached to the applicable property on or after the effective date of this section. This section  
3 expires June 14, 2023. Any charter school entering a withdrawal liability payment plan before  
4 June 14, 2023, shall have the full three years to complete the payment plan and the lien priority  
5 shall apply during the entire period of the payment plan."

6 **SECTION 6.** Except as otherwise provided, this act becomes effective July 1, 2019.