NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Retirement Administrative Changes 2019.-AB
Bill Number: House Bill 188 (First Edition)
Sponsor(s): Representatives Ross and McNeill

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 188, V. 1 ($ in thousands)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
State Impact					
General Fund	-	-	-	(2,449)	(2,535)
Highway Fund	-	-	-	(76)	(79)
Other/Receipts	-	-	-	(1,059)	(1,096)
TOTAL STATE EXPENDITURES	**-**	**-**	**-**	**(3,585)**	**(3,710)**
Local Impact					
Local Governments	-	-	-	(1,486)	(1,538)
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**(1,486)**	**(1,538)**

ACTUARIAL IMPACT SUMMARY

Sections 1, 2, 3, 5, 6, and 8 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), and the Contributory Death Benefit (CDB)

Section 1: Clarifies a number of statutes governing service purchases in TSERS, LGERS, CJRS, and LRS. This section caps the amount of most types of service that can be purchased at 5 years and changes the cost of purchasing withdrawn service from a repayment of the withdrawal with 6.5% interest to full actuarial cost. Cavanaugh Macdonald, the actuary for the retirement systems, estimates that the change to the purchase of withdrawn service will reduce annual actuarial losses across all systems by $25 million starting with the 12/31/2020 valuation. Cavanaugh Macdonald further estimates that this change will reduce the actuarially determined contribution in both TSERS and LGERS by 0.02% of pay starting in FY 2022-23. Hartman & Associates, the actuary for the General Assembly, estimates that this change will reduce actuarially determined contributions by less than 0.01% of pay in FY 2022-23, increasing to 0.03% to 0.05% of pay in TSERS and 0.05% to 0.07% of pay in LGERS after 12 years.

G.S. 120-114(g) requires actuarial notes on bills modifying service purchases to contain an estimate of the impact measured using Treasury Bond yields and cost-of-living adjustment and salary increase assumptions consistent with those yields. Cavanaugh Macdonald estimates that the impact measured using these alternative assumptions would be roughly the same as the impact provided above using the valuation assumptions. Hartman & Associates estimates that the reduction in actuarially determined contributions would be 0.04% to 0.06% of pay in TSERS and 0.06% to 0.08% of pay in LGERS after 12 years measured using these alternative assumptions, i.e. 0.01% of pay more than the reduction provided above using the valuation assumptions.

Section 2: Clarifies that actuarial factors selected by the Board of Trustees do not require rule-making and that the contribution-based benefit cap factor set by the Board of Trustees is an actuarial factor. This change is consistent with current administrative practices. This section also clarifies that certain actuarial costs may be paid directly from the Retirement System investment portfolios. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 3: Requires that any actions by the TSERS & LGERS Board of Trustees related to the Contributory Death Benefit must be decided jointly, but requires a majority vote of both boards. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or the CDB.

Section 5: Allows electronic identity authentication by the Retirement System in lieu of notarization. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 6: Sets the date of intercept of State funds from an employing agency for a contribution-based benefit cap liability as the later of one-year following the effective date of the retirement or December 1, 2019, consistent with a policy that has been adopted by the Boards. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 8: Removes sunset on Section 5(b) of SL 2017-128 that allows sheriffs to use accumulated sick leave that typically would be used for LGERS creditable service to be used for the Sheriff's Supplemental Pension Fund instead, provided the same leave is not used for both plans. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Active Members				
Count	304,554	128,779	562	170
General Fund Compensation	$11,005M		$76M	$4M
Valuation Compensation (Total)	$15,059M	$6,453M	$76M	$4M
Average Age	45	44	55	60
Average Service	10.8	10.1	13.5	6.3
Inactive Members				
Count	160,087	68,243	44	95
Retired Members				
Count	215,008	68,766	682	295
Annual Benefits	$4,521M	$1,324M	$43M	$2M
Average Age	71	69	73	77
New Retirees During 2018	11,200	4,400	30	2

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Accrued Liability (AL)	$79,209M	$27,746M	$682M	$30M
Actuarial Value of Assets (AVA)	$69,568M	$25,521M	$587M	$28M
Market Value of Assets (MVA)	$70,608M	$25,918M	$596M	$29M
Unfunded Accrued Liability (AL - AVA)	$9,641M	$2,225M	$95M	$2M
Funded Status (AVA / AL)	88%	92%	87%	93%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	26.46%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return: 7.00%				
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				
	TSERS	LGERS	CJRS	LRS
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%

For the measurement required in G.S. 120-114(g), both actuaries assumed a 2.74% 30-year Treasury Bond yield. Hartman & Associates used a cost-of-living adjustment assumption of 0.5% and a 2% wage inflation assumption.

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Retirement Administrative Changes 2019 – H.B. 188", March 25, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 188: Retirement Administrative Changes 2019", March 21, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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