



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Realistic Evaluation of Actuarial Liabilities.  
**Bill Number:** House Bill 626 (First Edition)  
**Sponsor(s):** Representatives McNeill and Ross

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 626, V. 1 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	-

### ACTUARIAL IMPACT SUMMARY

Sections 1, 2, 4, and 6 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS)

Section 1: Requires the TSERS Board of Trustees to provide a financial stress test report containing specified elements every 5 years. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 2: Directs certain rebates received by the Department of State Treasurer on supplemental voluntary insurance benefits to the Unfunded Liability Solvency Reserve, which is used to provide additional contributions to TSERS. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 4: Specifies that funds in the Unfunded Liability Solvency Reserve do not revert to the General Fund. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 6: Modifies Section 3 of Session Law 2018-84 to make it expire in 2023. That section allows the TSERS Board of Trustees to permit charter schools to pay their withdrawal liability upon withdrawing from TSERS on an installment payment plan and gives TSERS a lien upon the real property of the school. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

## 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)	
	<u>TSERS</u>
Active Members	
Count	304,554
General Fund Compensation	\$11,005M
Valuation Compensation (Total)	\$15,059M
Average Age	45
Average Service	10.8
Inactive Members	
Count	160,087
Retired Members	
Count	215,008
Annual Benefits	\$4,521M
Average Age	71
New Retirees During 2018	11,200

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)	
	<u>TSERS</u>
Accrued Liability (AL)	\$79,209M
Actuarial Value of Assets (AVA)	\$69,568M
Market Value of Assets (MVA)	\$70,608M
Unfunded Accrued Liability (AL - AVA)	\$9,641M
Funded Status (AVA / AL)	88%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%
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	
	<u>TSERS</u>
Formula	1.82% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%

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**

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N/A.

## **DATA SOURCES**

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Cavanaugh Macdonald Consulting, LLC, "Realistic Evaluation of Actuarial Liabilities – House Bill 626", April 5, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 626: An Act to Require Stress Testing for TSERS, to Make Amendments Relating to the Pension Solvency Fund, to Make Amendments Related to Subrogation Under the State Health Plan, and to Clarify the Lien Priority of TSERS as It Pertains to Charter School Payment Plans", April 11, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

## **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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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**

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

## **ESTIMATE PREPARED BY**

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## **ESTIMATE APPROVED BY**

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April 12, 2019



Signed copy located in the NCGA Principal Clerk's Offices