



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

## Legislative Retirement Note

**Short Title:** Retirement Administrative Changes Act of 2021.-AB  
**Bill Number:** House Bill 168 (First Edition)  
**Sponsor(s):** Representatives C. Smith, Kidwell, and McNeill

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 168, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
<b>State Impact</b>					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	-
<b>Local Impact</b>					
Local Governments	-	-	-	-	-
<b>TOTAL LOCAL EXPENDITURES</b>	-	-	-	-	-

### ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Disability Income Plan (DIP), Supplemental Retirement Income Plan (NC 401(k)), Public Employee Deferred Compensation Plan (NC 457), and Public School Teachers' and Professional Educators' Investment Plan (NC 403(b))

Section 1.1: Allows employing local governments to use the already established post-employment benefits investment pool to also save funds for contribution-based benefit cap liabilities under LGERS. 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 LGERS.

Section 1.2: Allows employing units to satisfy contribution-based benefit cap liabilities by paying an additional contribution rate based on the amortization schedule selected by the Board of Trustees that has been applied to unfunded liabilities in the most recent actuarial valuation. Both

actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 1.3: Clarifies when contribution-based benefit cap liability payments are due for purposes of triggering interceptions of State appropriations to the employing units as the later of one year after the effective date of the retirement or six months after the initial invoice. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 2.1: Clarifies requirement for payment of withdrawal liabilities for units that leave TSERS or LGERS for reasons other than new legislation by the General Assembly. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 3.1: Clarifies that the definition of “actuarial equivalence” in TSERS and LGERS includes all actuarial assumptions selected by the Boards of Trustees and standardizes the definition. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 4.1: Requires an employing unit to have a written policy in place that would not allow employees to choose between accepting the lump sum separation buyout as a cash payment or transferring the lump sum separation buyout to TSERS or LGERS, if the unit allows members to use the transfer benefit for this purpose. This clarification was recommended by federal tax counsel and is needed for IRS compliance. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 5.1: Grants the Department of State Treasurer and the Supplemental Retirement Board of Trustees more flexibility in setting administrative fees under the NC 401(k), NC 457, and NC 403(b). Both actuaries estimate that this section will have no material impact on the affected plans.

Section 6.1: Requires a participant in the UNC Optional Retirement Program to make a payment in full to DIP of the total amount of any overpayment due within six months after the earliest age at which the participant could retire on an unreduced retirement allowance. If the member fails to make the payment within this timeframe then the participant shall not be allowed to enroll in a new year of coverage under the State Health Plan until the payment is made in full or a payment arrangement is approved by the Executive Director of the Retirement System. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of DIP.

## **ASSUMPTIONS AND METHODOLOGY**

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The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods,



and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	305,962	132,058
General Fund Compensation	\$11,166M (2020 session)	
Valuation Compensation (Total)	\$16,112M	\$7,066M
Average Age	45	44
Average Service	10.8	9.9
Inactive Members		
Count	183,347	79,588
Retired Members		
Count	228,291	75,002
Annual Benefits	\$4,804M	\$1,479M
Average Age	71	69
New Retirees During 2020	11,000	4,300

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$84,873M	\$30,701M
Actuarial Value of Assets (AVA)	\$73,354M	\$27,435M
Market Value of Assets (MVA)	\$75,487M	\$28,225M
Unfunded Accrued Liability (AL - AVA)	\$11,520M	\$3,266M
Funded Status (AVA / AL)	86%	89%
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%	11.35% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
Assumed Rate of Investment Return: 7.00%		
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>	<u>LGERS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%	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, "Retirement Administrative Changes Act of 2021 – House Bill 168", March 11, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 168: Retirement Administrative Changes Act of 2021", March 2, 2021, 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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Signed copy located in the NCGA Principal Clerk's Offices