



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

## Legislative Retirement Note

**Short Title:** Ret. Svc. Purchase/Omitted Membership Service.  
**Bill Number:** House Bill 392 (First Edition)  
**Sponsor(s):** Representatives Belk, Hurley, Gill, and Martin

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 392, 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) and Local Governmental Employees' Retirement System (LGERS)

House Bill 392 (First Edition) allows a TSERS or LGERS employee who was classified as part-time to request written notification of his hours worked in the preceding 12 months from his employer. If the employee was reported as part-time in error and pays a lump sum equal to the employee contributions for the related service within one year, then the employer is required to pay the employer contributions related to that service to complete the purchase.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS or LGERS using the valuation assumptions.

## 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, 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		
	TSERS	LGERS
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, "House Bill 392- Ret. Svc. Purchase/Omitted Membership Service", April 12, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 392: Retirement Service Purchase for Omitted Membership Service", April 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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David Vanderweide

**ESTIMATE APPROVED BY**

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Fiscal Research Division  
April 12, 2021

**Signed copy located in the NCGA Principal Clerk's Offices**

