



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: 25-Year Retirement for First Responders.
Bill Number: House Bill 846 (First Edition)
Sponsor(s): Representatives Saine and Clampitt

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 846, 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>
State Impact					
General Fund	15,542	21,855	23,358	24,267	24,097
Highway Fund	328	338	349	361	372
Other/Receipts	4,523	4,670	4,822	4,979	5,141
TOTAL STATE EXPENDITURES	20,393	26,863	28,529	29,607	29,611
Local Impact					
Local Governments	87,068	106,099	113,766	120,802	125,535
TOTAL LOCAL EXPENDITURES	87,068	106,099	113,766	120,802	125,535

This impact reflects the estimate from Cavanaugh Macdonald, which would be used in calculating the official actuarially determined employer contribution. See below for further details.

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), law enforcement special separation allowances.

House Bill 846 (First Edition) allows law enforcement officers (LEOs), firefighters, and emergency medical services personnel (EMS personnel) in TSERS and LGERS to retire with unreduced benefits at any age with 25 years of service. The bill also allows law enforcement officers to qualify for the special separation allowance if they retire with 25 years of service and meet any other requirements. These changes would apply to those retiring on or after January 1, 2022. The following table summarizes the current and proposed requirements to qualify for retirement:

	<u>Current Law</u>	<u>HB 846</u>
Unreduced for LEOs	Age 55 w/ 5 years of service Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for LEOs	Age 50 w/ 15 years of service Any age w/ 25 years	Age 50 w/ 15 years of service
Unreduced for Firefighters and EMS Personnel	Age 65 w/ 5 years of service Age 60 w/ 25 years Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for Firefighters and EMS Personnel	Age 50 w/ 20 years of service Age 55 (LGERS) or 60 (TSERS) w/ 5 years	Age 50 w/ 15 years of service

Impact on TSERS

Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have the following impacts on TSERS in FY 2021-22:

	Cavanaugh Macdonald	Hartman & Associates
Increase in Accrued Liability	\$66,000,000	\$53,800,000
Increase in Required Contribution (as % of pay)	0.09%	0.06%
General Fund	\$10,077,000	\$6,718,000
Highway Fund	\$328,000	\$219,000
Receipt Funds	\$4,523,000	\$3,016,000
Total Annual Cost	\$14,928,000	\$9,952,000

Impact on LGERS

The actuaries estimate that the bill will have the following impacts on LGERS in FY 2021-22:

	Cavanaugh Macdonald	Hartman & Associates
Increase in Accrued Liability	\$378,000,000	\$390,300,000
Increase in Required Contribution (as % of pay)	0.54% non-LEO 3.01% LEO	1.05%
Total Annual Cost	\$72,623,000	\$77,584,000

The Cavanaugh Macdonald figures in the table above assume that the increased accrued liability for non-LEOs is amortized over non-LEO payroll only and the increased accrued liability for LEOs is amortized over LEO payroll only. The Hartman & Associates figures assume that the total liability increase is amortized over total payroll.

Additional Law Enforcement Special Separation Allowance

The actuaries estimate that the bill will increase special separation allowance payments by the following amounts:

Year Beginning	Cavanaugh Macdonald		Hartman & Associates	
	State	Local	State	Local
2022	\$ 10,930,000	\$ 28,890,000	\$ 3,459,098	\$ 6,118,075
2023	11,970,000	33,340,000	6,665,630	14,206,678
2024	13,260,000	39,350,000	7,743,240	19,331,652
2025	13,090,000	42,380,000	7,427,362	21,852,016
2026	12,200,000	43,620,000	7,425,935	23,325,443
2027	11,050,000	42,490,000	7,289,578	23,771,619
2028	10,220,000	41,040,000	7,055,976	23,311,911
2029	9,440,000	39,190,000	6,777,299	22,845,772
2030	8,750,000	36,710,000	6,468,762	22,224,832

The Summary Table at the top of this note assumes all State special separation allowances are paid from the General Fund and that both State and local allowances are funded on a pay-as-you go basis rather than in advance.

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)		
	TSERS	LGERS
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)		
	TSERS	LGERS
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	LEO Separation Allowance
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	0.85% x Service x Base Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 55/5 Payable until age 62
Employee contribution (as % of pay)	6%	6%	None

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.

Hartman & Associates provided the following summary of the employees to whom the provisions of the bill would apply:

Membership Statistics (M = millions)				
Occupation	State		Local	
	Count	Payroll	Count	Payroll
Law Enforcement Officer	5,500	\$319.6M	22,492	\$1,218.4M
Firefighters	113	\$5.0M	7,766	\$420.5M
EMS Personnel (including Telecommunicators)	243	\$9.6M	7,599	\$346.1M
Total First Responders	5,856	\$334.2M	37,857	\$1,985.0M

Telecommunicators are not identified in the TSERS and LGERS valuation data but are included in the definition of EMS Personnel in the bill, so both actuaries used data from the U.S. Bureau of Labor Statistics and N.C. Department of Commerce on the number of telecommunicators in North Carolina to estimate the count and payroll for these employees.

Both actuaries assumed that the provisions of the bill would result in higher retirement decrements at 25 to 29 years of service than assumed under current law.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "25-Year Retirement for First Responders – House Bill 846", May 24, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 846: An Act Allowing First Responder Who Are Members of the TSERS or the LGERS to Retire with Unreduced Benefits After Achieving Twenty-Five Years of Creditable Service", May 18, 2021, 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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