NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Actuarial Note - Retirement

Short Title: Ret. & Treasury Admin. Changes Act of 2022.-AB
Bill Number: House Bill 1056 (First Edition)
Sponsor(s): Rep. McNeill and Rep. C. Smith

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1056, V.1 ($ in thousands)

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	**-**	**-**	**-**	**-**	**-**
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**-**	**-**

ACTUARIAL IMPACT SUMMARY

Parts I through VI have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), North Carolina Public School Teachers' and Professional Educators' Investment Plan (NC 403(b)), Line of Duty Death Benefit (LODD), and Disability Income Plan (DIP)

Part I: Requires the offset of DIP benefits by lump sum workers' compensation settlements for those who become entitled to workers' compensation benefits on or after July 1, 2022. Currently, DIP benefits are offset by monthly workers' compensation benefits, but not lump sums. The lump sum offset would be applied to DIP payments over 9.6 years (equal to 500 weeks) if the settlement is not in reference to a stated weekly or monthly amount. Cavanaugh Macdonald, the actuary for the retirement systems, estimates that this section will have no material impact on the contribution rates or liabilities of DIP. Hartman & Associates, the actuary for the General

Assembly, notes that the available data is insufficient to estimate the reduction in DIP contribution rates, but that the reduction is likely to be small.

Part II: Provides an exception to the irrevocability of the Transfer Benefit when it is determined that the member was ineligible or not permitted by law to elect the Transfer Benefit. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Part III: Clarifies treatment of inactive employers in TSERS and LGERS. Inactive employers are those not reporting any participating employees. This Part allows the Retirement System to deem an employer formally inactive if it fails to report employees for six consecutive months. The Board of Trustees could extend an employer's inactive status for up to one additional year if the employer provides clear and convincing evidence that it plans to have retirement-eligible employees. Otherwise, any employer that has become inactive is deemed to have withdrawn from TSERS or LGERS and could be required to pay a withdrawal liability. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Part IV: Establishes a default provider option for members of the NC 403(b) whose participation ended with the discontinuation of the plan earlier this year. Hartman & Associates estimates that this section will have no material financial impact on the NC 403(b).

Part V: Clarifies that LODD benefits cannot be paid to any person other than the beneficiary or their legal guardian. Both actuaries estimate that this section will have no material impact on the contribution rates for the LODD benefit.

Part VI: Amends G.S. 135-106 to explicitly state that employees who had five years of service as of July 31, 2007, are entitled to the DIP provisions that existed at that time. This is identical to how benefits are being administered under current law, but there is currently no statutory reference to this treatment. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of DIP.

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, 2020 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2020 unless otherwise noted, M = millions)			
	TSERS	LGERS	DIP
Active Members			
Count	302,771	132,397	324,037
General Fund Compensation	$11,444M		$12,755M
Valuation Compensation (Total)	$16,446M	$7,409M	$18,617M
Average Age	46	44	Not avail.
Average Service	11.0	10.0	Not avail.
Inactive Members			
Count	190,875	84,914	0
Retired Members			
Count	233,751	77,556	5,328
Annual Benefits	$4,928M	$1,554M	$60M
Average Age	72	69	Not avail.
New Retirees During 2021	11,800	4,600	350

Financial Statistics (as of 12/31/2020 unless otherwise noted, M = millions)			
	TSERS	LGERS	DIP
Accrued Liability (AL)	$89,809M	$33,485M	$323M
Actuarial Value of Assets (AVA)	$77,922M	$29,388M	$341M
Market Value of Assets (MVA)	$81,969M	$30,906M	$352M
Unfunded Accrued Liability (AL - AVA)	$11,887M	$4,098M	($17M)
Funded Status (AVA / AL)	87%	88%	105%
Required Employer Contribution for FY 2022-23 (as % of pay)	17.07%	12.10% (non-LEO)	0.10%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%	3.25% - 8.05%
Assumed Rate of Investment Return:	6.50%		3.00%
Cost Method:	Entry Age Normal		Aggregate
Amortization:	12 year, closed, flat dollar		Not applicable
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019			

Benefit Provisions			
	TSERS	LGERS	DIP
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	65% of base salary up to a maximum of $3,900 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/5
Employee contribution (as % of pay)	6%	6%	0%

Both actuaries relied on an estimate from Retirement Systems staff that there are roughly 50 to 80 lump sum workers' compensation settlements paid to DIP participants per year.

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 & Treasury Administrative Changes Act of 2022 – House Bill 1056", May 31, 2022, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1056: Retirement and Treasury Administrative Changes Act of 2022.-AB (Parts I-VI)", May 30, 2022, 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.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
May 31, 2022

Official Fiscal Research Division Publication

Signed copy located in the NCGA Principal Clerk's Offices