



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: 2021 Appropriations Act.
Bill Number: Senate Bill 105 (Fifth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 105, V. 5 (\$ 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	72,795	72,769	17	17	17
Highway Fund	2,283	2,283	-	-	-
Other/Receipts	32,181	32,181	-	-	-
TOTAL STATE EXPENDITURES	107,259	107,233	17	17	17

ACTUARIAL IMPACT SUMMARY

Sections 39.23 and 39.24 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Teachers' and State Employees' Retirement System Death Benefit Plan (DBP)

Section 39.23: Grants a one-time cost-of-living supplement of two percent (2.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2021. The supplement will be paid in a lump sum on or before October 31, 2021. This section also grants an additional a one-time cost-of-living supplement of two percent (2.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2022. The supplement will be paid in a lump sum on or before October 31, 2022.

Cavanaugh Macdonald, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in both FY 2021-22 and FY 2022-23:

<u>System</u>	<u>Cavanaugh Macdonald</u>	<u>Hartman & Associates</u>
TSERS	0.64% of pay	0.64% of pay
CJRS	1.32% of pay	1.36% of pay
LRS	1.28% of pay	1.32% of pay

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2022-23 because the additional contributions during each fiscal year are estimated to offset the additional benefits paid out.

Section 39.24: Increases the death benefit for legislators who die in service from the legislator’s highest annual salary capped at \$15,000 to a fixed benefit of \$50,000 for deaths occurring on or after January 1, 2020. This section also clarifies that the benefit will be paid from the DBP.

The death benefit for legislators is currently paid from the DBP and is included in the calculation of the liabilities and costs for the DBP, although the State currently makes no contribution to the DBP specific to the payroll of legislators. Cavanaugh Macdonald, the actuary for the retirement systems, estimates the following impact of adding a contribution rate on the payroll of legislators and enacting the increase in the benefit amount contained in the bill:

Change	% of Payroll	General Fund Appropriation
Add contribution to DBP for existing death benefit	0.20%	\$7,240
Additional cost of increased death benefit in DBP	<u>0.46%</u>	<u>\$16,652</u>
Total contribution with increased death benefit	0.66%	\$23,892

The contribution rates in the bill reflect the total shown above.

Hartman & Associates, the actuary for the General Assembly, estimates that this section will have an annual cost to the State of \$36,000 and a one-time cost of \$72,000 for two death benefits paid retroactively. Hartman & Associates also estimates that the contribution rate for legislators to the DBP would need to be set at 1.38% of payroll to cover the full cost of the revised benefit.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of both sections and contribute the amount recommended by the actuary to properly fund existing benefits.

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>CIRS</u>	<u>LRS</u>	<u>DBP</u>
Active Members				
Count	305,962	560	170	306,132
General Fund Compensation	\$11,197M	\$79M	\$4M	\$11,197M
Valuation Compensation (Total)	\$16,112M	\$78M	\$4M	\$16,112M
Average Age	46	55	59	46
Average Service	10.8	12.7	6.5	10.8
Inactive Members				
Count	183,347	53	110	5,774
Retired Members				
Count	228,291	743	294	Not applicable
Annual Benefits	\$4,804M	\$48M	\$2M	Not applicable
Average Age	71	74	78	Not applicable
New Retirees During 2020	11,000	25	5	Not applicable

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CIRS</u>	<u>LRS</u>	<u>DBP</u>
Accrued Liability (AL)	\$84,873M	\$725M	\$30M	Not applicable
Actuarial Value of Assets (AVA)	\$73,354M	\$622M	\$28M	Not applicable
Market Value of Assets (MVA)	\$75,487M	\$639M	\$29M	\$59M
Unfunded Accrued Liability (AL - AVA)	\$11,520M	\$104M	\$2M	Not applicable
Funded Status (AVA / AL)	86%	86%	93%	Not applicable
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%	38.70%	27.15%	0.13%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 5.50%	5.50%	3.50% - 8.10%
Assumed Rate of Investment Return:	7.00%	7.00%	7.00%	3.75%
Cost Method:	Entry Age Normal			Not applicable
Amortization:	12 year, closed, flat dollar			Not applicable
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>CJRS</u>	<u>LRS</u>	<u>DBP</u>
Formula	1.82% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay	Annual salary up to \$15,000 for legislators
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5	Not applicable
Employee contribution (as % of pay)	6%	6%	7%	0%

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, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", February 18, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", February 17, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Changes to In-Service Death Benefit for Legislators", March 1, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 86: Increase In-Service Death Benefit/LRS", February 23, 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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Signed copy located in the NCGA Principal Clerk's Offices