



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: DST Technical Corrections.-AB
Bill Number: House Bill 203 (First Edition)
Sponsor(s): Rep. Wheatley and Rep. Carson Smith

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 203, V.1 (\$ in thousands)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Parts 1, 2, and 3 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Death Benefit Plans (DBP), and Disability Income Plan (DIP)

Part 1: Expands the repayment option for beneficiaries that retired and subsequently returned to work within six months to allow them to repay TSERS by means of their monthly retirement benefit being withheld until TSERS has recovered the required amount. This part also clarifies that for TSERS members to be eligible for certain DBP benefits the member must have been working in a qualifying position (not just "employed" in some other capacity) in the 180 days before death and fixes statute references and minor grammatical errors in TSERS statutes. Both Buck, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General

Assembly, estimate that this part will have no material impact on the contribution rates or liabilities of TSERS or DBP.

Part 2: Clarifies that for LGERS members to be eligible for certain DBP benefits the member must have been working in a qualifying position (not just “employed” in some other capacity) in the 180 days before death. This part also fixes statute references and minor grammatical errors in LGERS statutes. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of LGERS or DBP.

Part 3: Clarifies that some provisions of DIP are administered by the employer and that for short term disability eligibility the physician certifying the participant is mentally or physically incapacitated to perform further duties does not have to be the “attending” physician. 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, 2021 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	300,310	132,235
General Fund Compensation	\$11,960M	
Valuation Compensation (Total)	\$16,633M	\$7,550M
Average Age	46	44
Average Service	11.0	9.9
Inactive Members		
Count	198,642	93,473
Retired Members		
Count	238,652	79,318
Annual Benefits	\$5,045M	\$1,633M
Average Age	72	69
New Retirees During 2022	12,700	4,800

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$92,356M	\$34,884M
Actuarial Value of Assets (AVA)	\$83,139M	\$31,643M
Market Value of Assets (MVA)	\$87,966M	\$33,460M
Unfunded Accrued Liability (AL - AVA)	\$9,217M	\$3,241M
Funded Status (AVA / AL)	90%	91%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	12.85% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
Assumed Rate of Investment Return: 6.50%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019		

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

N/A.

DATA SOURCES

Buck, "HB 203 – DST Technical Corrections", March 10, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 203: DST Technical Corrections.-AB", March 8, 2023, 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