

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

RETIREMENT

BILL NUMBER: House Bill 359 (Third Edition)

SHORT TITLE: Retirement Administrative Changes Act of 2013.

FUNDS AFFECTED: State and Local Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Disability income Plan and Local Governmental Employees' Retirement System.

EFFECTIVE DATE: Section 3 of the bill is effective January 1, 2014. Section 5 of the bill is effective January 1, 2012 and the remainder of the bill is effective July 1, 2013.

BILL SUMMARY:

Section 1: Extend Transfer Benefit Option to 403(b) Participants

This provision would allow members of the Teachers' and State Employees' Retirement System to transfer balances that they have in other qualified plans (for example 403(b) plans, local 457 plans, and IRAs) to the Teachers' and State Employees' Retirement System and convert the transferred amount into a monthly benefit. The transfer would be completed by first transferring the funds to the NC 401(k) Plan and then to the Teachers' and State Employees' Retirement System. The plan from which the balance is being transferred would not be allowed to charge a fee for the transfer and it would be required to disclose any existing surrender charges. The transfer is completely voluntary and the conversion to a monthly benefit is based on expected mortality and market interest rates. Teachers' and State Employees' Retirement System members are already allowed to convert NC 401(k) and NC 457 balances into a monthly benefit from Teachers' and State Employees' Retirement System.

Section 2: Clarify Timing of Social Security Offset for Long-Term Disability Benefits

Clarifies that the amount of any primary Social Security disability benefits that a member was eligible to receive during a given month will be subtracted from the member's long-term disability benefit payment in the month in which such benefits are payable. Currently, the statute allows benefits to be reduced in the month prior to the month in which the beneficiary receives his or her first Social Security benefit payment.

Section 3: Establish Preservation of Benefits Plan

Creates a Qualified Excess Benefit Arrangement for the purpose of providing benefits to retirees and/or beneficiaries of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System, whose benefits would otherwise be limited by Section 415 of the Internal Revenue Code. This will sunset for new retirees who retire on or after January 1, 2015 but will not affect any retirees retired as of that date.

Section 4: Approval of Domestic Relation Order

Requires members entering into domestic relations order to have a template complete detailing the order. The template is to be provided on the System website for members of the Teachers’ and State Employees’ Retirement System and the Local Governmental Employees’ Retirement System

Section 5: Creditable Service While on Disability

Allows creditable service, while in receipt of benefits from the Disability Income Plan, to count as membership service for the purpose of recalculation of retirement benefits for those retirees who have returned to service on fulltime basis.

Section 6: Retroactive Membership Service

Allows members, who are reinstated to service with back pay and benefits to receive service credits for the period of time they were not working by:

1. When reinstatement is by court order, final decision of ALJ or decision of the State Personnel Commission, the payment will be the employee and employer contributions (plus interest if more than 90 days) that would have been paid, or
2. When reinstatement is by settlement agreement by the effected parties, the payment for the service shall equal the full actuarial liability that the additional service puts upon the System.

ESTIMATED IMPACT ON STATE:

Section 2: Buck Consultants, the Retirement Systems’ actuary, and Hartman & Associates, the General Assembly’s actuary estimates the annual cost to the Disability Income Plan will increase by 0.01% of total payroll. The estimated annual cost is as follows:

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
General Fund	\$1,106,100	\$1,126,784	\$1,147,855	\$1,169,320	\$1,191,186
Highway Fund	\$31,150	\$31,733	\$32,326	\$32,930	\$33,546
Receipts Fund	<u>\$417,000</u>	<u>\$424,798</u>	<u>\$432,742</u>	<u>\$440,834</u>	<u>\$449,077</u>
Grand Total	\$1,554,250	\$1,583,314	\$1,612,922	\$1,643,084	\$1,673,810

Section 3: Buck Consultants, the Retirement Systems’ actuary, estimates the liability that will be put upon the System is \$159,065. Hartman & Associates, the General Assembly’s actuary, estimates the liability that will be put upon the System is \$175,000. The estimated cost will not increase the employer contribution rate.

ASSUMPTIONS AND METHODOLOGY:

Teachers’ & State Employees' Retirement System

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2011 actuarial valuation of the System. The data included 310,627 active members with an annual payroll of \$12.8 billion, 171,786 retired members in receipt of annual pensions totaling \$3.5 billion and actuarial value of assets equal to \$58.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teaches and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set

forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of twelve years. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Local Governmental Employees' Retirement System

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2011 actuarial valuation of the fund. The data included 121,638 active members with an annual payroll of \$5.1 billion, 51,700 retired members in receipt of annual pensions totaling \$909 million and actuarial value of assets equal to \$19.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Disability Income Plan of North Carolina

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2011 actuarial valuation of the Plan. The data included 324,2906 active members with an annual payroll of \$14.1 billion and 6,754 disabled members in receipt of annual long term benefits totaling \$80.4 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) across-the-board salary increases of 5.75%, (c) Social Security disability benefits are assumed to increase 3% per year and (d) rates of approval for Social Security benefits prior to completion of four years of disability is 50%. Claims cost for LTD benefits is calculated using aggregate cost method. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910. The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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Fiscal Research Division

DATE: June 26, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices