



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 277 (Second Edition)
SHORT TITLE: Retirement Admin. Changes Act of 2015.-AB
SPONSOR(S): Representatives Ross, Gill, Goodman, and McNeill

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Local Governmental Employees' Retirement System (LGERS), pension and non-pension funds invested in fixed income investments under G.S. 147-69.2(b), and the supplemental retirement plans (NC 401(k), NC 457, NC 403(b)).

BILL SUMMARY: House Bill 277 (Second Edition) makes the following changes to retirement statutes:

Section 1: Changes the length of terms for members of the Supplemental Retirement Board of Trustees from two years to three years. This section also sets a limit of two consecutive terms and staggers the expiration of the terms.

Section 2: Authorizes the Department of State Treasurer to contract with vendors for food services for employees. The net proceeds from such contracts will be transferred to the Division of Services for the Blind.

Section 3: Amends the types of investment entity structures that are authorized for the State's externally managed fixed income investments. Currently, commingled vehicles such as limited partnerships, limited liability companies, and group trusts are authorized for the State Treasurer's other asset classes, but not fixed income. This section also increases the limit on exemptions for daily deposit requirements for public agencies.

Section 4: Clarifies the volunteer service provision in the definition of retirement under TSERS to allow retirees to work as volunteers in bona fide unpaid volunteer positions during the six months following their effective date of retirement.

Section 5: Requires participating employers to attest to the accuracy of their monthly data submissions as part of ongoing annual audit procedures for compliance with the latest standards from the Governmental Accounting Standards Board.

Section 6: Allows the Office of State Budget and Management (OSBM) to redirect a portion of State-appropriated funds equivalent to the amount of monthly contributions due to the Retirement Systems if an employer fails to submit payment within 90 days.

Section 7: Grants the Boards of Trustees the flexibility to prevent the expiration of administrative rules that protect inchoate rights of members of the Retirement System.

Section 8: Clarifies the application of the “1,000-Hour Rule” in LGERS and revises the definition of “regularly employed” to exclude temporary employees and statutorily defined interim city and county managers, allowing such employees to work in retirement.

Section 9: Provides an exemption from the State Human Resources Act for staff of the Supplemental Retirement Plans.

Section 10: Clarifies the procedures for paying a member’s Required Minimum Distributions at age 70-1/2.

Section 11: Changes the enforcement policy for situations in which a retiree performs a small amount of work during the six months following retirement in TSERS or the one month following retirement in LGERS. Under current law, a member who performs any work at all during this period is deemed to have never retired and must repay all benefits received. Under this provision, the repayment would be limited to three times the amount earned for work performed during the period.

EFFECTIVE DATE: October 1, 2015

ESTIMATED IMPACT ON STATE: Buck Consultants, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, both estimate that the required contribution rate to each of the systems will increase by less than 0.01% of payroll due to the provisions of the bill.

ASSUMPTIONS AND METHODOLOGY:

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, 2013 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	310,370	123,455	566	170
General Fund Compensation	\$9,914M		\$71M	\$4M
Valuation Compensation (Total)	\$13,608M	\$5,556M	\$71M	\$4M

Average Age	45	44	55	57
Average Service	10.6	10.3	13.1	5.9
Inactive Members				
Count	125,513	50,998	53	94
Retired Members				
Count	187,448	57,405	584	311
Annual Benefits	\$3,871M	\$1,039M	\$35M	\$2M
Average Age	70	68	72	76
New Retirees During 2014	11,500	4,400	30	3

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$65,806M	Not meaningful	\$549M	\$25M
Actuarial Value of Assets (AVA)	\$62,364M	\$21,498M	\$507M	\$29M
Market Value of Assets (MVA)	\$62,789M	\$21,784M	\$512M	\$30M
Unfunded Accrued Liability (AL - AVA)	\$3,442M	Not meaningful	\$43M	(\$5M)
Funded Status (AVA / AL)	95%	Not meaningful	92%	119%
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	6.52% (non-LEO)	26.37%	1.80%
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	4.25% - 8.55%	5.00% - 5.95%	7.50%
Cost Method	Entry Age Normal	Frozen Entry Age	Projected Unit Credit	Projected Unit Credit
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$	8 year, open, flat \$
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA, except for LRS which is based on GAM-71.				

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Buck Consultants, “Retirement Administrative Changes Act of 2015 (House Bill 277)”, April 7, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 277: An Act to Enact the Retirement Administrative Changes Act of 2015”, April 10, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

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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DATE: April 15, 2015



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