



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 555 (First Edition)

SHORT TITLE: Probation/Parole Officers Retirement.

SPONSOR(S): Representatives McNeill, Faircloth, Boles, and Hurley

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Separate Insurance Benefits Plan (SIBP), special separation allowance.

BILL SUMMARY: House Bill 555 (First Edition) defines a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer in G.S. 135-1(11c) to include probation/parole officers with respect to service rendered on or after July 1, 2015. Changing the definition of law-enforcement officer has the following impacts in other areas of the General Statutes:

- G.S. 135-5(b19) says “A member who is a law enforcement officer” will be eligible for unreduced retirement at age 55 with 5 years of service as a law-enforcement officer or reduced retirement at age 50 with 15 years of service as a law-enforcement officer. Because G.S. 135-5 is in the same chapter as G.S. 135-1(11c), changing the definition of law-enforcement officer extends those retirement age provisions to probation/parole officers.
- G.S. 143-166.41(a) says that the separation allowance is available to “every sworn law-enforcement officer as defined by G.S. 135-1(11c)...”. By changing the definition in G.S. 135-1(11c), the bill causes probation/parole officers to start earning service toward the separation allowance.
- G.S. 143-166.60 says that the SIBP is established for “all law enforcement officers, as defined in G.S. 135-1(11c)...”. By changing the definition in G.S. 135-1(11c), the bill makes probation/parole officers eligible for the SIBP.

The bill does not change the definition of law enforcement officer in G.S. 143-166.30(a)(4). That is the definition that applies to the NC 401(k) Plan. Thus, the bill does not extend the law-enforcement 401(k) benefits to probation/parole officers.

Because the bill only changes the definition of law-enforcement officer with respect to service rendered on or after July 1, 2015, most probation/parole officers would have to work for at least five more years to be eligible to retire at a different age or receive the separation allowance.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE:

Buck Consultants, the actuary for the Retirement System, estimates that the change to the TSERS retirement ages will result in an increase in the annual required contribution of 0.02% of payroll, or \$2.0 million from the General Fund. Buck estimates an increase in the SIBP liability of \$0.1 million, which would not eliminate the surplus in the SIBP. Buck also estimated negligible decreases in the contributions and/or liability for the Disability Income Plan and Death Benefit Plan due to the expected change in retirement patterns.

Hartman & Associates, the actuary for the General Assembly, estimates that the change to the TSERS retirement ages will result in an increase in the annual required contribution of 1.39% of the probation/parole officer payroll, or roughly \$1.0 million. Hartman & Associates estimates an increase in the SIBP liability of \$0.2 million, which would not eliminate the surplus in the SIBP.

The actuaries estimated the following cash flow impact due to the additional separation allowances:

<u>Year</u>	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
FY 2015-16	\$0	\$0
FY 2016-17	\$0	\$0
FY 2017-18	\$0	\$0
FY 2018-19	\$0	\$0
FY 2019-20	\$0	\$0
FY 2020-21	\$10,000	\$8,209
FY 2021-22	\$32,000	\$25,463
FY 2022-23	\$57,000	\$50,182
FY 2023-24	\$96,000	\$91,250
FY 2024-25	\$143,000	\$145,794

ASSUMPTIONS AND METHODOLOGY:

A listing of current probation/parole officers was obtained from the Department of Public Safety containing a total of 1,761 officers with a total payroll of \$69 million. The Department also stated that it was close to hiring an additional 80 officers.

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:

<u>Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)</u>		
	<u>TSERS</u>	<u>SIBP</u>
Active Members		
Count	310,370	23,840
General Fund Compensation	\$9,914M	\$190M
Average Age	45	39
Average Service	10.6	11.3

Inactive Members		
Count	125,513	N/A
Retired Members		
Count	187,448	N/A
Annual Benefits	\$3,871M	\$0.5M paid out
Average Age	70	N/A
New Retirees During 2014	11,500	N/A

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>SIBP</u>
Accrued Liability (AL)	\$65,806M	\$23M (total liability)
Actuarial Value of Assets (AVA)	\$62,364M	\$80M *
Market Value of Assets (MVA)	\$62,789M	\$80M *
Unfunded Accrued Liability (AL - AVA)	\$3,442M	(\$57M)
Funded Status (AVA / AL)	95%	343%
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	0%
Assumed Rate of Investment Return	7.25%	5.75%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	N/A
Cost Method	Entry Age Normal	N/A
Amortization	12 year, closed, flat \$	N/A
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA		
* The 2013 Appropriations Act amended G.S. 143-166.60 to allow the assets of the SIBP to be used to pay employer health insurance contributions for law enforcement officers. Expected payments for this purpose total roughly \$33M over the 2013-2015 biennium.		

Benefit Provisions			
	<u>TSERS</u>	<u>SIBP</u>	<u>Separation Allowance</u>
Formula	1.82% x Service x 4 Year Avg Pay	\$5,000 for actives; \$4,000 for retirees; \$2,100 additional for line-of-duty deaths	0.85% x Service x Final Base Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Retirees must have 20 or more years of service to qualify	Any/30; 55/5; the greater of 5 years or 50% of the total must be as a LEO
Employee contribution	6% of pay	None	None

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, "Probation/Parole Officers Retirement (House Bill 555)", April 10, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 555: An Act to Enhance the Benefits of Probation/Parole Officers Who Are Members of the TSERS", April 8, 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 13, 2015



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