

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: House Bill 497 (First Edition)
SHORT TITLE: Retirement Systems 2% COLAs/Funds.
SPONSOR(S): Representatives Jordan, Hurley, Strickland, and Malone

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), and the Local Governmental Employees' Retirement System (LGERS).

BILL SUMMARY: Grants cost-of-living adjustments (COLAs) of two percent (2.0%), effective July 1, 2017, for retirees in TSERS, CJRS, LRS, and LGERS.

EFFECTIVE DATE: July 1, 2017

ESTIMATED IMPACT ON STATE:

State

Conduent, the actuary for the Retirement Systems, estimates that the provisions of this bill will have an annual cost in FY 2017-18 and subsequent years as follows:

Table with 5 columns: Category, TSERS, CJRS, LRS, Total. Rows include Percent of Payroll, General Fund, Highway Fund, Receipt Funds, and Total Annual Cost.

Conduent estimates that the bill will increase the unfunded liability of TSERS by roughly \$861 million. The TSERS liability was 93% funded at the end of 2015. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2017-18 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>Total</u>
Percent of Payroll	0.84%	1.60%	1.54%	
General Fund	\$ 82,866,000	\$ 1,120,000	\$ 55,748	\$84,041,748
Highway Fund	\$ 2,545,200	\$ 0	\$ 0	\$2,545,200
Receipt Funds	\$ 37,431,316	\$ 0	\$ 0	\$37,431,316
Total Annual Cost	\$ 122,842,516	\$ 1,120,000	\$ 55,748	\$124,018,264

None of the systems have gains available to cover a portion of the cost of the COLA.

Local

Both Conduent and Hartman & Associates estimate that the provisions of this bill will have an annual cost in FY 2017-18 and subsequent years as follows:

	<u>LGERS</u>
Percent of Payroll	0.60%
Local Funds	\$ 36,109,572

Conduent estimates that the bill will increase the unfunded liability of LGERS by roughly \$256 million. The LGERS liability was 97% funded at the end of 2015. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above.

LGERS does not have gains available to cover a portion of the cost of the COLA.

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, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	305,291	124,974	561	170
General Fund Compensation	\$10,185M		\$70M	\$4M
Valuation Compensation (Total)	\$13,897M	\$5,869M	\$70M	\$4M
Average Age	45	44	55	59
Average Service	10.7	10.2	12.9	6.2
Inactive Members				
Count	143,214	59,289	45	90
Retired Members				
Count	201,522	63,110	647	300
Annual Benefits	\$4,202M	\$1,182M	\$40M	\$2M

Average Age	71	68	72	77
New Retirees During 2016	11,100	4,100	20	2

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$71,522M	\$24,360M	\$616M	\$29M
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M	\$550M	\$28M
Market Value of Assets (MVA)	\$62,669M	\$22,404M	\$521M	\$27M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M	\$66M	\$0M
Funded Status (AVA / AL)	93%	97%	89%	99%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)	30.23%	18.27%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return: 7.25%				
Cost Method: Entry Age Normal				
Amortization: 12 year, closed, flat dollar				
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>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.

The annual costs in this note are based on the payroll estimates for the 2016 session of the General Assembly because the estimates for 2017 are not yet available.

SOURCES OF DATA:

Conduent, “Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems”, February 27, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems”, March 1, 2017, 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 3, 2017



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