



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Purchase Opt/Credit for Prior Year FT Service.
Bill Number: House Bill 777 (First Edition)
Sponsor(s): From FNTS

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 777, V. 1 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS) and Local Governmental Employees' Retirement System (LGERS)

House Bill 777 (First Edition) allows an individual who did not earn TSERS or LGERS membership service during a calendar year solely because that individual was not expected to work full-time to purchase that service if their actual work hours and months during the calendar year exceed the specified amount. The specified amount is 30 hours per week for nine or more months of the year in TSERS and 1,000 hours per year in LGERS. All TSERS and LGERS employers would be required to provide a notification by January 31 of hours worked in the preceding year to all individuals who were classified as part-time but whose hours exceeded the specified amount. If the individual elects to purchase the service, he would remit a lump sum equal to the employee contributions on the applicable service within 30 days of the notification. The individual's employer would then be required to remit the employer contributions on the same service. The cumulative amount of service purchased under this provision could not exceed five years and the provision does not

apply to retired members. The bill would apply to the purchase of service for work performed on or after January 1, 2020.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS or LGERS using the valuation assumptions. G.S. 120-114(g) requires actuarial notes on bills modifying service purchases to contain an estimate of the impact measured using Treasury Bond yields and cost-of-living adjustment and salary increase assumptions consistent with those yields. Both actuaries estimate that the bill will also have no material impact on this alternative basis.

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, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)		
	TSERS	LGERS
Active Members		
Count	304,554	128,779
General Fund Compensation	\$11,046M	
Valuation Compensation (Total)	\$15,059M	\$6,453M
Average Age	45	44
Average Service	10.8	10.1
Inactive Members		
Count	160,087	68,243
Retired Members		
Count	215,008	68,766
Annual Benefits	\$4,521M	\$1,324M
Average Age	71	69
New Retirees During 2018	11,200	4,400

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)		
	TSERS	LGERS
Accrued Liability (AL)	\$79,209M	\$27,746M
Actuarial Value of Assets (AVA)	\$69,568M	\$25,521M
Market Value of Assets (MVA)	\$70,608M	\$25,918M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$2,225M
Funded Status (AVA / AL)	88%	92%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%

Assumed Rate of Investment Return: 7.00%
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>
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%

For the measurement required in G.S. 120-114(g), both actuaries assumed a 2.74% 30-year Treasury Bond yield. Hartman & Associates used a cost-of-living adjustment assumption of 0.5% and a 2% wage inflation assumption.

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

Cavanaugh Macdonald Consulting, LLC, "House Bill 777 - Purchase Opt/Credit for Prior Year Full Time Service", April 29, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 777: Purchase Option for Prior Year Full-Time Service", May 3, 2019, 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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Fiscal Research Division
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Signed copy located in the NCGA Principal Clerk's Offices