



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Actuarial Note - Retirement

Short Title: The Sergeant Mickey Hutchinson Act.
Bill Number: House Bill 272 (First Edition)
Sponsor(s): Rep. Zenger, Rep. Chesser, Rep. Pyrtle, and Rep. Miller

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 272, V.1 (\$ in thousands)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund	No estimate available. See actuarial impact summary.				
Highway Fund	No estimate available. See actuarial impact summary.				
Other/Receipts	No estimate available. See actuarial impact summary.				

TOTAL STATE EXPENDITURES No estimate available. See actuarial impact summary.

Local Impact

Local Governments No estimate available. See actuarial impact summary.

TOTAL LOCAL EXPENDITURES No estimate available. See actuarial impact summary.

No estimate is available because it is not known how many people will purchase service under the provisions of the bill.

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), law enforcement special separation allowances.

House Bill 272 (First Edition) adds an option for law enforcement officers (LEOs), probation/parole officers, and correctional officers who have completed at least five years of membership service to purchase up to four years of service in TSERS or LGERS if they have earned the Advanced Law Enforcement Certificate or Advanced Corrections Certificate (TSERS only) awarded by the Criminal Justice Education and Training Standards Commission or the Advanced Law Enforcement Certificate awarded by the Sheriffs' Education and Training Standards Commission. The purchase would require a lump sum payment equal to the full actuarial cost of the additional service, calculated as the present value of TSERS or LGERS benefits with the purchase minus the present value of TSERS or LGERS benefits without the purchase. This present



value is currently calculated using a 6.5% interest rate, 3.5% assumed cost-of-living adjustment (COLA), the valuation salary increase assumption, and retirement at the earliest unreduced age determined using the amount of service with or without the purchase. The lump sum does not include the value of additional special separation allowance or retiree medical benefits. This would be the first type of purchase in TSERS or LGERS known as “air time” that is not tied to a specific period of time.

Both Gallagher, the actuary for the retirement systems, and Aon, the actuary for the General Assembly, estimate that this bill will have no material impact on the contribution rates or liabilities of TSERS or LGERS. 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 TSERS or LGERS measured using these alternative assumptions.

Gallagher estimates that the present value of the separation allowance is roughly \$236,000 for each member who receives the separation allowance as a result of the purchase and notes that 1,670 active participants would become immediately eligible for the separation allowance if they were allowed to purchase 4 years of service. Aon estimates that the bill will increase separation allowance payments by the following amounts if 100% of eligible officers purchase service under the provisions of the bill and states that the amounts could be scaled to match both the percentage of officers with advanced certificates as well as the percentage who then choose to purchase service. The 100% assumption is not intended to be the assumption most likely to reflect actual experience.

Additional Separation Allowance Payments		
<u>Fiscal Year</u>	<u>State Officers</u>	<u>Local Officers</u>
FY 2025-26	\$ 0.7 million	\$ 1.7 million
FY 2026-27	1.0 million	2.8 million
FY 2027-28	1.2 million	3.9 million
FY 2028-29	1.4 million	4.9 million
FY 2029-30	1.6 million	5.9 million
FY 2030-31	1.7 million	6.7 million
FY 2031-32	1.8 million	7.5 million
FY 2032-33	1.9 million	8.4 million
FY 2033-34	2.1 million	9.1 million
FY 2034-35	2.3 million	9.7 million

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, 2023 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	299,037	141,269
General Fund Compensation	\$12,657M (2024 Session)	
Valuation Compensation (Total)	\$18,382M	\$9,184M
Average Age	46	43
Average Service	10.8	9.3
Inactive Members		
Count	230,130	108,697
Retired Members		
Count	252,036	85,027
Annual Benefits	\$5,412M	\$1,818M
Average Age	72	70
New Retirees During 2024	11,336	4,295

Financial Statistics (as of 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$99,810M	\$39,519M
Actuarial Value of Assets (AVA)	\$88,619M	\$34,328M
Market Value of Assets (MVA)	\$83,643M	\$32,437M
Unfunded Accrued Liability (AL - AVA)	\$11,191M	\$5,191M
Funded Status (AVA / AL)	89%	87%
Required Employer Contribution for FY 2025-26 (as % of pay)	17.14%	14.35% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
Assumed Rate of Investment Return: 6.50%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019		

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 4.03% 30-year Treasury Bond yield. Aon used a cost-of-living adjustment assumption of 0.5% and a salary increase assumption 0.9% lower than that used in the valuation.

For calculating the present value of the separation allowance, Gallagher used a discount rate of 4.03%.

In recent years, the NC Department of Justice has awarded the following number of advanced professional certificates:

	Advanced Certificates Awarded		
	<u>Criminal Justice</u>		<u>Sheriffs'</u>
<u>Year</u>	Law Enforcement	Corrections	Law Enforcement (Deputy)
2023	633	406	315
2024	568	266	382

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

Gallagher, “House Bill 272”, March 24, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Aon, “House Bill 272: Allow Law Enforcement Officers with an Advanced Certificate to Purchase Creditable Service”, March 25, 2025, 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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Signed copy located in the NCGA Principal Clerk's Offices