



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** COLA for TSERS & CJRS.  
**Bill Number:** Proposed Committee Substitute to Senate Bill 408 (S408-CSSHap-40 [v.3])  
**Sponsor(s):**

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S408-CSSHap-40 [v.3] (\$ in thousands)

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
<b>State Impact</b>					
General Fund	95,064	98,391	101,835	105,399	109,088
Highway Fund	2,763	2,860	2,960	3,064	3,171
Other/Receipts	42,807	44,305	45,856	47,461	49,122
<b>TOTAL STATE EXPENDITURES</b>	<b>140,634</b>	<b>145,556</b>	<b>150,651</b>	<b>155,924</b>	<b>161,381</b>

### ACTUARIAL IMPACT SUMMARY

All sections have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS) and Consolidated Judicial Retirement System (CJRS)

The proposed legislation grants cost-of-living adjustments (COLAs) of two percent (2.0%), effective July 1, 2020, for retirees in TSERS and CJRS. These adjustments increase the ongoing monthly benefit for beneficiaries in those Systems.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of this proposed legislation will have an annual cost in FY 2020-21 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>
Percent of Payroll	0.84%	1.64%
General Fund	\$93,797,516	\$1,266,621
Highway Fund	\$2,763,138	\$0
Receipts/Other Funds	<u>\$42,806,963</u>	<u>\$0</u>
Total Annual Cost	\$139,367,617	\$1,266,621



Cavanaugh Macdonald estimates that the proposed legislation will increase the unfunded liability of the systems by roughly \$1,005 million. The TSERS liability was 86% funded at the end of 2018. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above and appropriated in Section 2 of the proposed legislation, although these contributions must be made in addition to continued increased contributions due to previous COLAs that are still being amortized.

Neither of the systems have gains available to cover a portion of these costs.

## **ASSUMPTIONS AND METHODOLOGY**

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The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2018 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2018 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>CJRS</u>
Active Members		
Count	304,575	557
General Fund Compensation	\$11,166M	\$77M
Valuation Compensation (Total)	\$15,623M	\$76M
Average Age	45	55
Average Service	10.8	13.3
Inactive Members		
Count	168,755	48
Retired Members		
Count	222,084	707
Annual Benefits	\$4,669M	\$45M
Average Age	71	73
New Retirees During 2019	11,000	40

Financial Statistics (as of 12/31/2018 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>CJRS</u>
Accrued Liability (AL)	\$82,106M	\$703M
Actuarial Value of Assets (AVA)	\$70,959M	\$602M
Market Value of Assets (MVA)	\$67,536M	\$573M
Unfunded Accrued Liability (AL - AVA)	\$11,147M	\$100M
Funded Status (AVA / AL)	86%	86%
Required Employer Contribution for FY 2020-21 (as % of pay)	14.78%	36.44%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 5.50%
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>CJRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5
Employee contribution (as % of pay)	6%	6%

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, "Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems", March 6, 2020, 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", April 27, 2020, 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**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

## **ESTIMATE PREPARED BY**

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## **ESTIMATE APPROVED BY**

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Fiscal Research Division

June 15, 2020

