



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Retirement Tech./ Protect./ & Other Changes
Bill Number: Proposed Committee Substitute to Senate Bill 719 (S719-CSSHp-36 [v.6])
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S719-CSSHp-36 [v.6] (\$ 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>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Sections 1.1, 1.2, 1.3, 1.6, 1.7, 1.8, 1.9, 1.11, 1.12, 1.13, 1.14, 1.15, 1.16, 1.19, 2.1, 2.2, 4.1, 4.2, 4.3, 4.4, 4.5, and 5.1 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), National Guard Pension Fund (NGPF), Supplemental Retirement Income Plan (NC 401(k)), Public School Teachers' and Professional Educators' Investment Plan (NC 403(b)), and Separate Insurance Benefits Plan (SIBP).

Section 1.1: Allows the Retirement System to use online identity authentication in lieu of notarization for TSERS and LGERS.

Section 1.2: Adopts the newly increased age of 72 for minimum required distributions under federal law (the SECURE Act) in TSERS, LGERS, CJRS, and LRS.



Section 1.3: Amends statutes governing eligibility for the NC 401(k) that were inconsistent with federal law.

Section 1.6: Updates the CJRS funding policy statute to conform to current practice.

Section 1.7: Updates the NGPF funding policy statute to conform to current practice.

Section 1.8: Clarifies that the Retirement System may provide a credit to an employing agency that paid an additional contribution-based benefit cap purchase contribution on a retiree who subsequently was subject to a felony forfeiture that would have changed the amount of the additional contribution.

Section 1.9: Defines what constitutes an inactive employer in TSERS and LGERS. Requires an annual report to the Boards of Trustees by the Retirement Director of the agencies that were inactive at any point during the year.

Section 1.11: Amends G.S. 135-18.1(a) to remove sections that applied to the pre-1963 configuration of the Retirement Systems.

Section 1.12: Repeals several archaic statutes related to TSERS.

Section 1.13: Removes archaic language related to services for blind employees who served prior to 1971.

Section 1.14: Fixes an incorrect reference to a repealed statute.

Section 1.15: Inserts rulemaking provisions into Community Colleges 403(b) program that were omitted in 2017 policy changes.

Section 1.16: Clarifies that the 2017 provision requiring that chief financial officers of participating employers transmit a copy of pension spiking “watch reports” to chief executive officers and to governing boards means that if an agency has a governing board, the report must be transmitted to that board. Further provides that for purposes of transmitting this report to the agency’s governing board, the information contained therein is to be treated as a retirement record as if it were still held by the Retirement System under the public records law.

Section 1.19: Corrects a statute reference to G.S. 135-1 in G.S. 1-359(d).

Section 2.1: Requires the TSERS Board of Trustees to provide a financial stress test report containing specified elements every 5 years.

Section 2.2: Directs certain rebates received by the Department of State Treasurer on supplemental voluntary insurance benefits to the Unfunded Liability Solvency Reserve, which is used to provide additional contributions to TSERS, and specifies that funds in the Reserve do not revert to the General Fund.



Section 4.1 and 4.2: Clarify that actuarial factors selected by the Board of Trustees do not require rule-making and that the contribution-based benefit cap factor set by the Board of Trustees is an actuarial factor. This change is consistent with current administrative practices. These sections also clarify that certain actuarial costs may be paid directly from the Retirement System investment portfolios.

Section 4.3: Clarifies felony forfeiture of pension benefits when a plea bargain results in a finding of guilt.

Sections 4.4 and 4.5: Clarify that felony forfeiture of pension service applies to sick leave converted into service at retirement, service transferred from one system to another, purchased service, and eligibility service for reciprocity between systems.

Section 5.1: Repeals an accident and sickness disability insurance benefit in the SIBP.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the proposed legislation will have no material negative impact on the contribution rates or liabilities of the systems affected.

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 or 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>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	304,575	129,986	557	170
General Fund Compensation	\$11,166M		\$77M	\$4M
Valuation Compensation (Total)	\$15,623M	\$6,772M	\$76M	\$4M
Average Age	45	44	55	61
Average Service	10.8	10.0	13.3	7.3
Inactive Members				
Count	168,755	73,835	48	92
Retired Members				
Count	222,084	72,087	707	289
Annual Benefits	\$4,669M	\$1,400M	\$45M	\$2M
Average Age	71	69	73	77
New Retirees During 2019	11,000	4,500	40	15

Financial Statistics (as of 12/31/2018 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$82,106M	\$29,223M	\$703M	\$30M
Actuarial Value of Assets (AVA)	\$70,959M	\$26,307M	\$602M	\$28M
Market Value of Assets (MVA)	\$67,536M	\$25,045M	\$573M	\$27M
Unfunded Accrued Liability (AL - AVA)	\$11,147M	\$2,916M	\$100M	\$2M
Funded Status (AVA / AL)	86%	90%	86%	92%
Required Employer Contribution for FY 2020-21 (as % of pay)	14.78%	10.15% (non-LEO)	36.44%	27.30%
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: 7.00%				
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>	<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 the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Retirement Technical Corrections Act of 2020 – House Bill 1069", May 18, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1069: Retirement Technical Corrections Act of 2020", May 19, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Realistic Evaluation of Actuarial Liabilities – Senate Bill 488", April 12, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 488: An Act to Require Stress Testing for TSERS, to Make Amendments Relating to the Pension Solvency Fund, and to Make Technical Corrections to Various Retirement Plans and the SHP", April 11, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Retirement Protection Act – Senate Bill 719", May 19, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 719: An Act to Make Certain Changes to the TSERS, the LGERS, the CJRS, and the LRS", May 15, 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

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

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