



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: Purchase Opt/Credit for Prior Year FT Service.
Bill Number: Proposed Committee Substitute to House Bill 777 (H777-CSTVxfp-34 [v.6])
Sponsor(s): Representatives Belk, Gill, Hurley, and Martin

SUMMARY TABLE

ACTUARIAL IMPACT OF H777-CSTVxfp-34 [v.6] (\$ 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

Sections 1, 9, 11, 12, 13, 14, 16, 17, 18, 19, 21, and 24 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), and National Guard Pension Fund (NGPF)

Section 1: Allows a TSERS or LGERS employee who was classified as part-time to request written notification of his hours worked in the preceding 12 months from his employer. If the employee was reported as part-time in error and pays a lump sum equal to the employee contributions for the related service within one year, then the employer is required to pay the employer contributions related to that service to complete the purchase.



Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section 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 this section will also have no material impact on this alternative basis.

Section 9: Requires the TSERS Board of Trustees to provide a financial stress test report containing specified elements every 5 years. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 11: Updates the CJRS funding policy statute to conform to current practice. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of CJRS.

Section 12: Updates the NGPF funding policy statute to conform to current practice. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of the NGPF.

Section 13: 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. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 14: Defines what constitutes an inactive employer in the state and local retirement systems. 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. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 16: Amends G.S. 135-18.1(a) to remove sections that applied to the pre-1963 configuration of the Retirement Systems. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 17: Repeals several archaic statutes related to TSERS. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 18: Removes archaic language related to services for blind employees who served prior to 1971. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 19: Fixes an incorrect reference to a repealed statute. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of LGERS.



Section 21: 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. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 24: Corrects a statute reference to G.S. 135-1 in G.S. 1-359(d).

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)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>NGPF</u>
Active Members				
Count	304,554	128,779	562	5,890
General Fund Compensation	\$11,005M		\$76M	
Valuation Compensation (Total)	\$15,059M	\$6,453M	\$76M	Not applicable
Average Age	45	44	55	38
Average Service	10.8	10.1	13.5	15.1
Inactive Members				
Count	160,087	68,243	44	5,679
Retired Members				
Count	215,008	68,766	682	4,574
Annual Benefits	\$4,521M	\$1,324M	\$43M	\$9M
Average Age	71	69	73	71
New Retirees During 2018	11,200	4,400	30	150

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>NGPF</u>
Accrued Liability (AL)	\$79,209M	\$27,746M	\$682M	\$179M
Actuarial Value of Assets (AVA)	\$69,568M	\$25,521M	\$587M	\$127M
Market Value of Assets (MVA)	\$70,608M	\$25,918M	\$596M	\$128M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$2,225M	\$95M	\$52M
Funded Status (AVA / AL)	88%	92%	87%	71%

Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	\$9M
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	Not applicable
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>NGPF</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	\$105 to \$210 per month
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	60/20
Employee contribution (as % of pay)	6%	6%	6%	Not applicable

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.

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.


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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