GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 803 (Third Edition)

SHORT TITLE: Retirement Administrative Changes.

SPONSOR(S):

FUNDS AFFECTED: State and Local Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System**,** Legislative Retirement System and the Local Governmental Employees' Retirement System.

EFFECTIVE DATE: July 1, 2012

BILL SUMMARY:

Section 1: Clarify Access for Fiscal Research Division Retirement Database Users

This section clarifies that online access to retirement databases provided to the Fiscal Research Division of the North Carolina General Assembly may not include tax information on members of the retirement system that is not allowed by other state and federal laws.

Section 2: Clarify Role of Retirement Board of Trustees

This change clarifies that the Board of Trustees of the Local Governmental Employees' Retirement System has full discretion over the granting of post-retirement increases as long as any changes are not inconsistent with actions of the General Assembly. The long-time policy of the State of North Carolina is to provide ad hoc Cost of Living Adjustments (COLAs) to retirees, rather than automatic COLAs. This clarification is being sought in anticipation of forthcoming standards from the Governmental Accounting Standards Board that would potentially create unfunded long-term liabilities for local government employers based on an alternate reading of this statute that would require trustees to give automatic COLAs.

Section 3: Allow Board of Trustees to Require Full Payment of Unfunded Liability

This section would allow the Board of Trustees of the Local Governmental Employees' Retirement System to institute a new policy that would ensure that local governments that enter the retirement system would pay the full amount they owe to liquidate their unfunded accrued liability. A study conducted by the system's actuary and staff in 2011 found that 50 of the 240 local governments with unfunded liability would not finish paying off their liability before the state is required to stop collecting payments. Under current law, the units cease paying after their allotted time to pay is over, regardless of whether they have fully funded their liability.

Section 4: Clarify that Retirees Can Have Their Health Premiums Deducted
This section clarifies that the Retirement Systems Division can deduct premiums for the State Health Plan and supplemental insurance plans from a retiree's benefits if requested by the retiree. Currently, there is no explicit statutory authorization allowing the department to collect these premiums.

Section 5: Correct 2011 Change that Prevents Conversion from Disability Retirement
The eligibility requirements for Long Term Disability (LT) under the Disability Income Plan of N.C. (DIPNC) did not change under the new 10-year vesting law enacted in 2011. While there was no change in the DIPNC laws or disability retirement laws, there is now a discrepancy between DIPNC law requiring only five years to qualify for LT and the new 10-year vesting law regarding eligibility for a service retirement. The DIPNC law provides that a person on LT will "convert" to a service retirement once he or she becomes eligible for an unreduced retirement. However, that time for conversion from DIPNC to service retirement will never occur for an employee who becomes a TSERS member on or after 8/1/2011 who has less than 10 years but more than 5 years of TSERS membership service at the time of disability onset. That person will never convert to a service retirement, but will stay on LT at a 65 percent rate until death. This provision provides a mechanism for an individual to convert to service retirement.

Section 6: Allow Retiree Health Benefit Trust to be Invested with Pension Funds
This change would create greater efficiency in the use of staff resources by treating the Retiree Health Benefit Trust as part of the retirement systems for investment purposes. Currently, the department is not allowed to use the same investment strategy on this trust fund.

ESTIMATED IMPACT ON STATE: Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, does not expect these administrative and clarifying changes to have a material financial impact on any of the systems.

ASSUMPTIONS AND METHODOLOGY:
Teachers' & State Employees' Retirement System
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2010 actuarial valuation of the System. The data included 317,740 active members with an annual payroll of $13.1 billion, 163,938 retired members in receipt of annual pensions totaling $3.3 billion and actuarial value of assets equal to $57.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and an amortization period of nine years. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Consolidated Judicial Retirement System
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2010 actuarial valuation of the System. The data included 566 active members with an annual payroll of $66.6 million, 543 retired members in receipt of annual pensions totaling $30.8 million and actuarial value of assets equal to $451 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of nine years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Legislative Retirement System
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2010 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.6 million, 258 retired members in receipt of annual pensions totaling $157,577 and actuarial value of assets equal to $29.8 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with an amortization period of eight years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Local Governmental Employees' Retirement System
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2010 actuarial valuation of the fund. The data included 122,585 active members with an annual payroll of $5.1 billion, 49,204 retired members in receipt of annual pensions totaling $853.4 million and actuarial value of assets equal to $18.6 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation

from active service based on System experience. The actuarial cost method used was the frozen entry age. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910. The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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Fiscal Research Division

DATE: June 25, 2012

Signed Copy Located in the NCGA Principal Clerk's Offices