



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

## Legislative Retirement Note

**Short Title:** Retirement Technical Corrections Act of 2018.-AB  
**Bill Number:** House Bill 985 (First Edition)  
**Sponsor(s):** Representatives Dulin, Ross, and McNeill

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 985, V.1 (\$ in thousands)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
<b>State Impact</b>					
General Fund Impact	-	-	-	-	-
Highway Fund Impact	-	-	-	-	-
Other/Receipts Impact	-	-	-	-	-
<b>NET STATE IMPACT</b>	-	-	-	-	-
<b>Local Impact</b>					
Local Governments	-	-	-	-	-
<b>NET LOCAL IMPACT</b>	-	-	-	-	-

### ACTUARIAL IMPACT SUMMARY

All Sections except Section 6 have potential actuarial impacts on a retirement system.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), Disability Income Plan (DIP), and Legislative Retirement System (LRS).

Section 1: Codifies that governance of post-disability benefit adjustments for recipients of extended short-term disability is the responsibility of the TSERS Board of Trustees. Both Conduent, 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 contributions or liabilities for the DIP.

Section 2: Modifies the deadlines for a disability beneficiary in the LGERS to provide a statement of income. The dates would conform to those under the Disability Income Plan. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for LGERS.

Section 3: Excludes purchased military services for purposes of the contribution based benefit cap in the TSERS and LGERS. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS or LGERS.

Section 4: Clarifies that separation from service for retirement under the CJRS excludes performance of work in a position covered by an Optional Retirement Program, the same as TSERS. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for CJRS.

Section 5: Repeals G.S. 120-4.14 which is no longer applicable. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for LRS.

Section 7: Repeals G.S. 135-4(c), which is no longer applicable. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS.

Section 8: Clarifies that the public records provision applies to both State employees and local government employees. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS or LGERS.

Section 9: Clarifies that the benefit in the FRSWPF for a member killed in the line of duty is not paid if the member has previously received a return of contributions. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for FRSWPF.

Section 10: Clarifies language regarding various service that is not considered employment for retirement purposes under the TSERS. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS.

Section 11: Eliminates a requirement for the TSERS and LGERS to annually report the number of members transferring accumulated contributions to receive a special separation allowance. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS or LGERS.

Section 12: Amends G.S. 128-28(g) to correct a reference from Chapter to Article. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for LGERS.

Section 13: Amends G.S. 128-30(j) to correct a reference to another statute. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for LGERS.

Section 14: Amends G.S. 135-4(jj) to correct a reference to another statute. Both actuaries estimate that this section will have no material impact on the contributions or liabilities for TSERS.

Conduent notes with regard to Section 2 that these measures could possibly result in more contributions or lower administrative costs for the Retirement System, which would be a positive outcome for the Retirement System. That being said, within the actuarial framework, they are unable to quantify the actuarial impact based on the information provided.

## 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, 2016 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2016 unless otherwise noted, M = millions)			
	TSERS	LGERS	CIRS
<b>Active Members</b>			
Count	305,013	126,647	560
General Fund Compensation	\$10,652M		\$74M
Valuation Compensation (Total)	\$14,282M	\$6,049M	\$72M
Average Age	45	44	55
Average Service	10.7	10.2	13.6
<b>Inactive Members</b>			
Count	151,581	63,682	42
<b>Retired Members</b>			
Count	208,443	65,930	654
Annual Benefits	\$4,343M	\$1,252M	\$41M
Average Age	71	68	73
New Retirees During 2017	11,100	4,200	30

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)			
	TSERS	LGERS	CIRS
Accrued Liability (AL)	\$74,548M	\$25,654M	\$643M
Actuarial Value of Assets (AVA)	\$67,377M	\$24,425M	\$565M
Market Value of Assets (MVA)	\$64,247M	\$23,309M	\$539M
Unfunded Accrued Liability (AL - AVA)	\$7,171M	\$1,229M	\$78M
Funded Status (AVA / AL)	90%	95%	88%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)	32.35%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%

Assumed Rate of Investment Return: 7.20%
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>CIRS</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
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
Employee contribution (as % of pay)	6%	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

---

Conduent, "Retirement Technical Corrections Act of 2018 – House Bill 985", May 24, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 985: An Act to Make Technical Corrections and Other Conforming and Clarifying Changes to the Laws Governing the TSERS, LGERS, State Health Plan, and Other Related Statutes", May 23, 2018, 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.

**ESTIMATE PREPARED BY**

---

David Vanderweide

**ESTIMATE APPROVED BY**

---

Mark Trogon, Director  
Fiscal Research Division  
May 30, 2018

**Signed copy located in the NCGA Principal Clerk's Offices**

