



NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Legislative Retirement Note

Short Title: Retirement Complexity Reduction Act of 2018.-AB
Bill Number: House Bill 1055 (First Edition)
Sponsor(s): Representatives Collins, Ross, Dulin, and McNeill

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1055, 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>
State Impact					
General Fund Impact	-	-	-	-	-
Highway Fund Impact	-	-	-	-	-
Other/Receipts Impact	-	-	-	-	-
NET STATE IMPACT	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
NET LOCAL IMPACT	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Sections 1 and 2 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS)

Section 1: Clarifies 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. 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 contribution rates or liabilities of TSERS or LGERS.

Section 2: 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, this section 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.

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)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	305,013	126,647
General Fund Compensation	\$10,652M	
Valuation Compensation (Total)	\$14,282M	\$6,049M
Average Age	45	44
Average Service	10.7	10.2
Inactive Members		
Count	151,581	63,682
Retired Members		
Count	208,443	65,930
Annual Benefits	\$4,343M	\$1,252M
Average Age	71	68
New Retirees During 2017	11,100	4,200

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$74,548M	\$25,654M
Actuarial Value of Assets (AVA)	\$67,377M	\$24,425M
Market Value of Assets (MVA)	\$64,247M	\$23,309M
Unfunded Accrued Liability (AL - AVA)	\$7,171M	\$1,229M
Funded Status (AVA / AL)	90%	95%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
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>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/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

Conduent, "Retirement Complexity Reduction Act of 2018 – House Bill 1055", June 5, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1055: An Act to Reduce Complexity and Add Value to the Retirement Benefits of Public Employees and to Increase Administrative Efficiencies", June 1, 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.

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Signed copy located in the NCGA Principal Clerk's Offices

