# NORTH CAROLINA GENERAL ASSEMBLY

## Session 2017

# Legislative Retirement Note

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

## SUMMARY TABLE

**ACTUARIAL IMPACT OF H.B. 1055, V. 2 ($ in thousands)**

| | FY 2018-19 | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|---|---|---|---|---|---|
| **State Impact** | | | | | |
| General Fund | - | - | - | (1,181) | (3,667) |
| Highway Fund | - | - | - | (34) | (106) |
| Other/Receipts | - | - | - | (509) | (1,582) |
| **TOTAL STATE EXPENDITURES** | **-** | **-** | **-** | **(1,725)** | **(5,355)** |
| **Local Impact** | | | | | |
| Local Governments | - | - | - | (706) | (2,192) |
| **TOTAL LOCAL EXPENDITURES** | **-** | **-** | **-** | **(706)** | **(2,192)** |

## ACTUARIAL IMPACT SUMMARY

Sections 1, 2, 5, and 6 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 Legislative Retirement System (LRS)

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.

Section 5: Clarifies a number of statutes governing service purchases in TSERS, LGERS, CJRS, and LRS. This section caps the amount of most types of service that can be purchased at 5 years and changes the cost of purchasing withdrawn service from a repayment of the withdrawal with 6.5% interest to full actuarial cost. Conduent estimates that the change to the purchase of withdrawn service will reduce annual actuarial losses across all systems by $25 million starting with the 12/31/2019 valuation. Conduent further estimates that this change will reduce the actuarially determined contribution in both TSERS and LGERS by 0.01% of pay in FY 2021-22 and 0.03% of pay in FY 2022-23. Hartman & Associates estimates that this change will reduce actuarially determined contributions by less than 0.01% of pay in FY 2021-22, increasing to 0.03% to 0.05% of pay in TSERS and 0.05% to 0.07% of pay in LGERS after 12 years.

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. Conduent estimates that the impact measured using these alternative assumptions would be roughly the same as the impact provided above using the valuation assumptions. Hartman & Associates estimates that the reduction in actuarially determined contributions would be 0.04% to 0.06% of pay in TSERS and 0.06% to 0.08% of pay in LGERS after 12 years measured using these alternative assumptions, i.e. 0.01% of pay more than the reduction provided above using the valuation assumptions.

Section 6: Eliminates the following forms of payment in TSERS and LGERS for retirements after 2018: Social Security leveling (option 4) and pop-up (options 6-2 and 6-3). Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS measured using the valuation assumptions below.

## 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 | CJRS |
| Active Members | | | |
| 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 |

| | | | |
|---|---|---|---|
| Inactive Members | | | |
| Count | 151,581 | 63,682 | 42 |
| Retired Members | | | |
| 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 | CJRS |
| 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 | | | |
|---|---|---|---|
| | TSERS | LGERS | CJRS |
| 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% |

For the measurement required in G.S. 120-114(g), both actuaries assumed a 3.06% 30-year Treasury Bond yield and a cost-of-living adjustment assumption of 0.5%. Conduent used a 1% wage inflation assumption and Hartman & Associates used 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

Conduent, "Retirement Complexity Reduction Act of 2018 – House Bill 1055 – Proposed Committee Substitute", June 6, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1055-Second Edition: An Act to Reduce Complexity and Add Value to the Retirement Benefits of Public Employees and to Increase Administrative Efficiencies", June 11, 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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June 11, 2018


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