



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Increase In-Service Death Benefit/LRS.  
**Bill Number:** House Bill 1042 (First Edition)  
**Sponsor(s):** Representatives Howard, Jackson, Moore, and Carney

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 1042, V. 1 (\$ 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>
<b>State Impact</b>					
General Fund	11	21	21	21	21
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	<b>11</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>

### ACTUARIAL IMPACT SUMMARY

Systems Affected: Legislative Retirement System (LRS) and Teachers' and State Employees' Retirement System Death Benefit Plan (DBP)

House Bill 1042 (First Edition) increases the death benefit for legislators who die in service from the legislator's highest annual salary capped at \$15,000 to a fixed benefit of \$50,000 for deaths occurring on or after January 1, 2020. The bill also clarifies that the benefit will be paid from the DBP.

The death benefit for legislators is currently paid from the DBP, but is included in the calculation of the actuarially determined employer contribution (ADEC) for the LRS and not the DBP. Cavanaugh Macdonald, the actuary for the retirement systems, estimates the following impact of moving the valuation of the benefit from the LRS to the DBP and enacting the increase in the benefit amount contained in the bill:

Change	% of Payroll	General Fund Appropriation
Remove death benefit from LRS ADEC	(0.34%)	\$(12,308)
Cost of existing death benefit in DBP	0.28%	\$10,136
Additional cost of increased death benefit in DBP	0.65%	\$23,530
Net Impact	0.59%	\$21,358

The contribution rates and General Fund appropriation in the bill reflect the net impact above.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will have an annual cost to the State of \$36,000. Hartman & Associates also estimates that the contribution rate for legislators to the DBP would need to be set at 1.38% of payroll to cover the full cost of the revised benefit.

## 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>DBP</u>	<u>LRS</u>
Active Members		
Count	304,554	170
General Fund Compensation	\$11,046M	\$4M
Valuation Compensation (Total)	\$13,914M	\$4M
Average Age	45	60
Average Service	10.8	6.3
Inactive Members		
Count	6,680	95
Retired Members		
Count	Not applicable	295
Annual Benefits	Not applicable	\$2M
Average Age	Not applicable	77
New Retirees During 2018	Not applicable	2

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)		
	<u>DBP</u>	<u>LRS</u>
Present Value of Future Benefits	\$174M	\$37M
Present Value of Future Contributions/Normal Costs	\$243M	\$6M
Market Value of Assets	\$44M	\$29M
Required Employer Contribution for FY 2019-20 (as % of pay)	0.16%	26.46%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return:	3.75%	7.00%
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015		

Benefit Provisions		
	DBP	LRS
Formula	Annual salary up to \$15,000 for legislators	4.02% x Service x Highest Pay
Unreduced retirement age/service	Not applicable	65/5
Employee contribution (as % of pay)	0%	7%

The actuaries also relied on information that there were 14 qualifying deaths of serving legislators for the years 2006 through 2019.

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.

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## TECHNICAL CONSIDERATIONS

N/A.

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## DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Changes to In Service Death Benefit for Legislators", March 23, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Increase In-Service Death Benefit in the LRS", March 17, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

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## 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.

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## CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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