



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Remove Judicial Age Limit.
Bill Number: House Bill 34 (First Edition)
Sponsor(s): Representatives Warren, C. Smith, Moffitt, and Zachary

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 34, V. 1 (\$ in thousands)

| | <u>FY 2021-22</u> | <u>FY 2022-23</u> | <u>FY 2023-24</u> | <u>FY 2024-25</u> | <u>FY 2025-26</u> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State Impact | | | | | |
| General Fund | (1,298) | (1,343) | (1,390) | (1,439) | (1,489) |
| Highway Fund | - | - | - | - | - |
| Other/Receipts | - | - | - | - | - |
| TOTAL STATE EXPENDITURES | (1,298) | (1,343) | (1,390) | (1,439) | (1,489) |

ACTUARIAL IMPACT SUMMARY

All sections of the bill either have potential actuarial impacts on retirement systems or are related to the sections that have potential actuarial impacts.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS) and Consolidated Judicial Retirement System (CJRS)

House Bill 34 (First Edition) removes the mandatory retirement age of 72 for justices, judges, and magistrates. Justices and judges participate in CJRS and magistrates participate in TSERS.

Cavanaugh Macdonald, the actuary for the retirement systems, estimates that the bill will reduce the CJRS actuarially determined employer contribution by 1.68% of pay. Hartman & Associates, the actuary for the General Assembly, estimates that the bill will reduce the CJRS actuarially determined employer contribution by 1.07% of pay.

Both actuaries estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS.

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, 2019 actuarial valuations, except where

new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

| Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions) | | |
|---|-----------------------------|-------------------------|
| | <u>TSERS</u> | <u>CIRS</u> |
| Active Members | | |
| Count | 305,962 | 560 |
| General Fund Compensation | \$11,166M (2020 session) | \$77M (2020 session) |
| Valuation Compensation (Total) | \$16,112M | \$78M |
| Average Age | 45 | 55 |
| Average Service | 10.8 | 12.7 |
| Inactive Members | | |
| Count | 183,347 | 53 |
| Retired Members | | |
| Count | 228,291 | 743 |
| Annual Benefits | \$4,804M | \$48M |
| Average Age | 71 | 74 |
| New Retirees During 2020 | 11,000 | 25 |

| Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions) | | |
|---|---------------|---------------|
| | <u>TSERS</u> | <u>CIRS</u> |
| Accrued Liability (AL) | \$84,873M | \$725M |
| Actuarial Value of Assets (AVA) | \$73,354M | \$622M |
| Market Value of Assets (MVA) | \$75,487M | \$639M |
| Unfunded Accrued Liability (AL - AVA) | \$11,520M | \$104M |
| Funded Status (AVA / AL) | 86% | 86% |
| Required Employer Contribution for FY 2021-22 (as % of pay) | 15.74% | 38.70% |
| Salary Increase Assumption (includes 3.50% inflation and productivity) | 3.50% - 8.10% | 3.50% - 5.50% |
| Assumed Rate of Investment Return: 7.00% | | |
| 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>CJRS</u> |
| Formula | 1.82% 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 | 50/24; 65/5 |
| Employee contribution (as % of pay) | 6% | 6% |

Both actuaries relied on additional data showing 402 justice and judge positions with total annual budgeted salaries of \$51.8 million and 674 magistrate positions with total annual budgeted salaries of \$35.9 million.

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

Cavanaugh Macdonald Consulting, LLC, "Actuarial Impact of Removing the Judicial Retirement Age Limit – HB 34", March 1, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 34: An Act to Remove the Age Limit for Justices and Judges of the General Court of Justice and Magistrates", February 23, 2021, 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