



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Retirement Service Purchase Rewrite Part II.-AB
Bill Number: House Bill 160 (Second Edition)
Sponsor(s): Representatives McNeill and C. Smith

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 160, V. 2 (\$ 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	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

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

House Bill 160 (Second Edition) modifies a number of statutes governing service purchases in TSERS, LGERS, and CJRS to, in most cases, cap the amount of service that can be purchased at 5 years, require 5 years of membership service prior to making the purchase, require the member to be in service at the time of the purchase, standardize the description of the full actuarial cost calculation, and allow the employer to pay some or all of the cost of the purchase. The bill also repeals some statutes that apply only to service purchases made in the past or that are superfluous.

The only substantive change to the purchase calculation is for those who elected not to participate in LGERS when their employer joined and then later wish to purchase the service with that employer. Fewer than 5 of these purchases are made per year.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or CJRS.

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. Both actuaries also estimate that the bill will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or CJRS using these alternative assumptions.

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>LGERS</u>	<u>CJRS</u>
Active Members			
Count	305,962	132,058	560
General Fund Compensation (2020 session)	\$11,166M		\$77M (2020 session)
Valuation Compensation (Total)	\$16,112M	\$7,066M	\$78M
Average Age	45	44	55
Average Service	10.8	9.9	12.7
Inactive Members			
Count	183,347	79,588	53
Retired Members			
Count	228,291	75,002	743
Annual Benefits	\$4,804M	\$1,479M	\$48M
Average Age	71	69	74
New Retirees During 2020	11,000	4,300	25

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>
Accrued Liability (AL)	\$84,873M	\$30,701M	\$725M
Actuarial Value of Assets (AVA)	\$73,354M	\$27,435M	\$622M
Market Value of Assets (MVA)	\$75,487M	\$28,225M	\$639M
Unfunded Accrued Liability (AL - AVA)	\$11,520M	\$3,266M	\$104M
Funded Status (AVA / AL)	86%	89%	86%
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%	11.35% (non-LEO)	38.70%
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: 7.00%			
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>LGERS</u>	<u>CJRS</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%

For the measurement required in G.S. 120-114(g), both actuaries assumed a 2.39% 30-year Treasury Bond yield and a cost-of-living adjustment assumption of 0.5%. 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

Cavanaugh Macdonald Consulting, LLC, "Retirement Service Purchase - Proposed Committee Substitute House Bill 160-CSSHp-18 [v.2]", April 14, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 160 Proposed Committee Substitute H160-CSSHp-18 [v.2]: An Act Making Technical, Clarifying, and Administrative Changes to Laws Relating to Service Purchases Under the TSERS, LGERS, and CJRS", April 13, 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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