NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Teacher Licensure/Retired Educator Program.
Bill Number: House Bill 428 (First Edition)
Sponsor(s): Representatives Elmore, Brody, Miller, and Clemmons

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 428, V. 1 ($ in thousands)

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
State Impact					
General Fund	No estimate available. See Actuarial Impact Summary.				
Highway Fund	No estimate available. See Actuarial Impact Summary.				
Other/Receipts	No estimate available. See Actuarial Impact Summary.				
TOTAL STATE EXPENDITURES	**No estimate available. See Actuarial Impact Summary.**				

ACTUARIAL IMPACT SUMMARY

Section 2 has a potential actuarial impact on a retirement system.

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

Section 2: Amends the expiration date of Session Law 2019-110 from June 30, 2021 to June 30, 2024. Session Law 2019-110 allows TSERS retirees to serve as classroom teachers under certain conditions. The law specifies the following:

1. The retiree must have retired on or before February 1, 2019 with an unreduced benefit and must have retired at least six months prior to reemployment as a teacher.
2. The retiree must be reemployed by a local education agency (LEA) to teach in a school that is either a Title I school or received a State school performance grade of D or F.
3. The retiree would continue to receive his or her pension in addition to the salary for teaching.
4. The salary for teaching would be equal to the salary on the first step of the teacher salary schedule, except for STEM and special education teachers who would be paid on the sixth step of the schedule. The teacher would not receive any supplement or bonus.
5. The teaching salary would not count against the retiree earnings limit in G.S. 135-3(8).
6. The LEA hiring the teacher would be required to report to the Department of State Treasurer on the teacher's employment and earnings.

7. TSERS would receive neither employee nor employer contributions on the teaching salary and the retiree would not earn any TSERS service credit for the period.
8. The retiree would be enrolled in the State Health Plan as an active employee and the LEA would pay the employer premium to the State Health Plan.

This section also expands the roles in which the TSERS retiree may serve under Session Law 2019-110 to include instructional support roles. Those serving as school psychologists, speech pathologists, or audiologists would be paid on the sixth step of the schedule.

Hartman & Associates, the actuary for the General Assembly, states that in its current form this bill is not expected to affect retirement or termination rates in TSERS, and thus is not expected to increase the accrued liability. However, if the February 1, 2019 date were changed to a later date, the bill would likely increase retirement rates, resulting in increased costs to TSERS.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates note that the amortization of unfunded accrued liability is being collected as a percentage of the active payroll. If a significant number of retirees are hired in place of contributing employees, this would shift the unfunded liability amortization to future years and to the non-LEA employing units or to LEAs that hired relatively few retirees. Cavanaugh Macdonald estimates that the increase in contribution rate will be as follows, depending on the number of retirees hired as teachers:

Number per school	Total Number	Decrease in TSERS Active Payroll	Increase in Contribution Rate
0.25	500	$20,925,000	0.016%
0.50	1,000	$41,850,000	0.031%
1.00	2,000	$83,700,000	0.063%
2.50	5,000	$209,250,000	0.156%
5.00	10,000	$418,500,000	0.313%

The significant uncertainty in the number of retirees hired under these provisions is the reason that no estimate is available in the Summary Table.

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)	
	TSERS
Active Members	
Count	305,962
General Fund Compensation	$11,166M (2020 session)
Valuation Compensation (Total)	$16,112M
Average Age	45
Average Service	10.8
Inactive Members	
Count	183,347
Retired Members	
Count	228,291
Annual Benefits	$4,804M
Average Age	71
New Retirees During 2020	11,000

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	TSERS
Accrued Liability (AL)	$84,873M
Actuarial Value of Assets (AVA)	$73,354M
Market Value of Assets (MVA)	$75,487M
Unfunded Accrued Liability (AL - AVA)	$11,520M
Funded Status (AVA / AL)	86%
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%
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	
	TSERS
Formula	1.82% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	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.

Both actuaries also used information on the Title I and D/F schools. There are 1,826 Title I schools in LEAs across the state, using the 2018-19 list. In addition, there are 18 D/F schools, using the 2017-18 school performance grades, that are not Title I schools.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Rehiring High-Need Teachers – House Bill 428 and Senate Bill 298", April 20, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 428/Senate Bill 298 (Section 2): Extend and Expand the Program to Allow Retired Educators to Return to Work in High-Need Schools", April 7, 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.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
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