



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Let Retired Municipal LEOs Work for Sheriffs.
Bill Number: Senate Bill 679 (First Edition)
Sponsor(s): Senator Britt

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 679, 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>
Local Impact					
Local Governments	\$2,687 to \$20,572	\$3,452 to \$21,918	\$4,218 to \$23,285	\$4,987 to \$24,674	\$5,758 to \$26,084
NET LOCAL IMPACT	\$2,687 to \$20,572	\$3,452 to \$21,918	\$4,218 to \$23,285	\$4,987 to \$24,674	\$5,758 to \$26,084

ACTUARIAL IMPACT SUMMARY

Systems Affected: Local Governmental Employees' Retirement System (LGERS), local law enforcement special separation allowances.

Senate Bill 679 (First Edition) allows any LGERS member who retired as a law enforcement officer (LEO) from a municipality to continue to receive benefits under both LGERS and the local LEO special separation allowance while working for a sheriff's office, with no limitations. The bill is effective July 1, 2021 and applies to both current and future retirees.

Under current law, LGERS retirees can work during retirement for participating LGERS employers with certain limitations and the following table compares the current law with the provisions of this bill:

	LGERS retirees under current law	Retired municipal LEOs working for a sheriff under Senate Bill 679
Earnings Limitation	Max of 50% of pre-retirement earnings or \$34,800 (in 2021)	Unlimited
Type of Employment	Part-time, temporary, interim, or fee-for-service	Any type for a sheriff
Contribute and Earn Service?	No	Unclear, probably depends on the type of employment
Required Break in Service after Retirement	One month	Unclear
Pre-arrangement to return	Prohibited	Unclear

Cavanaugh Macdonald, the actuary for the retirement systems, estimates that if all 8,900 LEO positions in sheriff's offices were filled with retired municipal LEOs, the actuarially determined employer contribution (ADEC) for LGERS would increase by approximately 3% of LEO payroll and that this result is linearly scalable.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will increase the ADEC for LGERS by 0.68% of LEO payroll and increase the LGERS accrued liability by \$45 million. Hartman & Associates also estimates that the special separation allowances paid by local governments would increase by roughly \$3.5 million per year after 5 years.

The figures in the Summary Table above were derived from these estimates assuming 5% (low end) to 50% (high end) of sheriff's office positions were filled with retired LEOs to scale the Cavanaugh Macdonald estimate of the impact on the LGERS ADEC. The increased ADEC percentage was applied to an LGERS LEO payroll of \$1,324,820,000 in FY 2021-22, growing at 3.25% per year in subsequent years. The Hartman & Associates estimate of additional separation allowances, phased in linearly over 5 years, was then added.

Reemployment under the provisions of this bill may violate federal tax law, but that determination is outside the scope of this note.

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)	
	LGERS
Active Members	
Count	132,058
General Fund Compensation	
Valuation Compensation (Total)	\$7,066M
Average Age	44
Average Service	9.9
Inactive Members	
Count	79,588
Retired Members	
Count	75,002
Annual Benefits	\$1,479M
Average Age	69
New Retirees During 2020	4,300

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	LGERS
Accrued Liability (AL)	\$30,701M
Actuarial Value of Assets (AVA)	\$27,435M
Market Value of Assets (MVA)	\$28,225M
Unfunded Accrued Liability (AL - AVA)	\$3,266M
Funded Status (AVA / AL)	89%
Required Employer Contribution for FY 2021-22 (as % of pay)	11.35% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 7.75%
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	
	LGERS
Formula	1.85% 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.

Hartman & Associates assumed a 15 percentage point increase in retirement rates for LEOs eligible for unreduced retirement. Cavanaugh Macdonald assumed that all retired municipal LEOs who fill positions in sheriff's offices would retire when first eligible for unreduced retirement and then work for an average of 3 more years in the sheriff's office. The increased costs estimated by both actuaries are due to members accelerating their retirements.

Cavanaugh Macdonald assumed retirees working under the provisions of the bill would contribute to LGERS and earn additional service credit if they meet the definition of Employee in statute. Hartman & Associates assumed they would not contribute and earn service. The bill does not explicitly address whether they would contribute and earn service or not.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Allowing Retired Municipal LEO Retirees to Work for County Sheriffs – Senate Bill 679", May 7, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 679: An Act Allowing Retired Municipal Law Enforcement Officers to Return to Work For a County Sheriff Without Any Earnings Limitation", April 27, 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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