



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Actuarial Note - Retirement

Short Title: LEOs Return to Work.
Bill Number: House Bill 753 (First Edition)
Sponsor(s): Rep. Carson Smith, Rep. Pyrtle, Rep. Greene, and Rep. Miller

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 753, V.1 (\$ in thousands)					
	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</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), Disability Income Plan (DIP), Death Benefit Plans (DBP), State and local special separation allowances (SSA), Sheriffs' Supplemental Pension Fund (SSPF)

House Bill 753 (First Edition) allows law enforcement officers (LEOs) who are in service at age 59.5 or later to commence retirement benefits while remaining in service and allows retired LEOs to return to service after a bona fide separation and continue receiving retirement benefits. The retirement benefits the LEO would continue to receive include those from TSERS, LGERS, SSA, and SSPF.



The bill specifies the following about the individual in-service retired LEOs working under the provisions of the bill:

- The individual would be required at the time they commence benefits to make any elections and creditable service purchases they would normally be required to make prior to retirement.
- The individual would not accrue any additional membership service.
- The individual's employer would make both the employee and employer contributions to TSERS or LGERS.
- The individual's gross salary or wage would be reduced as if they were making the employee contribution to TSERS or LGERS.
- The individual would be able to work on a full-time or part-time basis and on a permanent, temporary, or contract basis.
- The individual would not be subject to an earnable allowance.
- The individual would not be eligible for disability benefits.
- The individual would not be eligible for the employer contribution to the NC 401(k).
- The individual would be eligible for the line-of-duty death benefit.
- The individual would be treated as retired for the DBP.
- If the individual separates from service for reasons other than death, then they will be treated as retired for all purposes.
- Any changes to the retirement allowances of beneficiaries will apply to the individual.
- The individual may revoke the election to receive retirement benefits under the provisions of the bill if they have not yet separated from service, in which case they would be subject to existing laws governing retirees returning to work.

The bill states that a separation will be deemed under state law, but not necessarily federal law, to be a bona fide separation if the individual has severed the employment relationship and the individual and employer file sworn affidavits attesting that there was no explicit understanding of subsequent employment or anticipation that the individual would work more than 20% of the average level prior to retirement.

Most sections of the bill are effective October 1, 2025 and expire on December 31, 2029. Any retired LEO who is in service under the provisions of the bill at the expiration date will be allowed to continue in service while receiving benefits.

Gallagher, the actuary for the retirement systems, estimates that the bill will have no material impact on the contribution rates or liabilities of any of the systems affected and will have no material impact on the amount of SSA payments. Gallagher noted concerns about the individual's ability to revoke their election, in particular the potential for anti-selection risk related to optional form of payment selection and choosing the optimal years in which to earn additional service, which could lead to increased costs. Gallagher also noted the limited experience on which to base assumptions of individual behavior under the provisions of the bill.



Aon, the actuary for the General Assembly, estimates that the bill will have no material impact on the contribution rates or liabilities of any of the systems affected and will increase State or local SSA payments by at most \$100,000 in any single year.

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, 2023 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	299,037	141,269
General Fund Compensation	\$13,450M	
Valuation Compensation (Total)	\$18,382M	\$9,184M
Average Age	46	43
Average Service	10.8	9.3
Inactive Members		
Count	230,130	108,697
Retired Members		
Count	252,036	85,027
Annual Benefits	\$5,412M	\$1,818M
Average Age	72	70
New Retirees During 2024	11,336	4,295

Financial Statistics (as of 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$99,810M	\$39,519M
Actuarial Value of Assets (AVA)	\$88,619M	\$34,328M
Market Value of Assets (MVA)	\$83,643M	\$32,437M
Unfunded Accrued Liability (AL - AVA)	\$11,191M	\$5,191M
Funded Status (AVA / AL)	89%	87%
Required Employer Contribution for FY 2025-26 (as % of pay)	17.14%	14.35% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
Assumed Rate of Investment Return: 6.50%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019		

Benefit Provisions		
	<u>TSERS</u>	<u>LGERS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%	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.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Gallagher, "HB 753 – LEOs Return to Work", April 28, 2025, original of which is on file in the General Assembly's Fiscal Research Division.

Aon, "House Bill 753: Allow Continuation of Retirement Benefits for Certain Law Enforcement Officers", April 28, 2025, original of which is on file in the General Assembly's FRD.

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 doesn't address sections with 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