



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2015**

**Legislative Retirement Note**

**BILL NUMBER:** House Bill 97 (Sixth Edition)

**SHORT TITLE:** 2015 Appropriations Act.

**SPONSOR(S):**

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**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System (TSERS) and Consolidated Judicial Retirement System (CJRS).

**BILL SUMMARY:**

Section 30.29: Requires the Board of Trustees that oversees TSERS and CJRS to use an interest rate assumption of 7.20% for calculating the employer contribution rate in the December 31, 2013 valuations, which determines the contributions for FY 2015-16. The current assumption is 7.25%. This section requires the Board to further reduce the interest rate assumption by 0.05% in each subsequent annual valuation. The Board retains any existing authority to set interest rate assumptions for purposes other than calculating the employer contribution rate.

Section 30.30: Amends G.S. 135-8(b)(5), the statute governing service credit for educational leave in TSERS, to establish the following conditions for granting educational leave credit when the member is not working in a charter school:

- (i) During the period of leave the member must be enrolled in a full-time degree program at an accredited institution of higher education, and
- (ii) The member cannot be paid for the activity that qualifies for educational leave, and
- (iii) During any month in which retirement credit is granted, the member may not perform services for any organization listed in G.S. 135-27(a) or (f), or a successor to those organizations. The organizations listed in these statutes are non-governmental organizations that once participated in TSERS, but are not currently allowed to participate in a governmental plan under federal tax law.

No other sections of the Sixth Edition modify retirement benefits or statutes.

**EFFECTIVE DATE:** Both sections are effective July 1, 2015

**ESTIMATED IMPACT ON STATE:**

Section 30.29

Buck Consultants, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, estimate the following increases in the FY 2015-16 contribution rate due to lowering the interest rate assumption:

	Buck Consultants	Hartman & Associates
TSERS	0.45% of pay	0.45% of pay
CJRS	0.71% of pay	0.60% of pay

Changing the interest rate assumption does not change the total contributions, adjusted for timing, over the lifespan of the Systems. The assumption change increases contributions in the early years and decreases contributions in the later years.

Section 30.30

Buck Consultants estimate that this section will change the required contribution by less than 0.01% of pay. Hartman & Associates estimate that this section will have a negligible impact on TSERS.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the impact of these sections and contribute the amount recommended by the actuary to properly fund existing benefits.

**ASSUMPTIONS AND METHODOLOGY:**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2013 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>CJRS</u>
Active Members		
Count	310,370	566
General Fund Compensation	\$9,914M	\$71M
Valuation Compensation (Total)	\$13,608M	\$71M
Average Age	45	55
Average Service	10.6	13.1
Inactive Members		
Count	125,513	53
Retired Members		
Count	187,448	584

Annual Benefits	\$3,871M	\$35M
Average Age	70	72
New Retirees During 2014	11,500	30

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>CJRS</u>
Accrued Liability (AL)	\$65,806M	\$549M
Actuarial Value of Assets (AVA)	\$62,364M	\$507M
Market Value of Assets (MVA)	\$62,789M	\$512M
Unfunded Accrued Liability (AL - AVA)	\$3,442M	\$43M
Funded Status (AVA / AL)	95%	92%
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	26.37%
Assumed Rate of Investment Return	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	5.00% - 5.95%
Cost Method	Entry Age Normal	Projected Unit Credit
Amortization	12 year, closed, flat \$	12 year, closed, flat \$
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA		

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%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

**SOURCES OF DATA:**

Buck Consultants, "Purchase of Service for Educational Leave (Special Provision 2015-RET-S8)", June 15, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Special Provision 2015-RET-S8: Clarify and Amend the Law Providing for Purchase of Service by Members of the TSERS for Educational Leave", June 12, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Buck Consultants, "Decrease in Assumed Interest Rate", May 27, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, “ARC Using 7.20% Interest Rate in the TSERS and CJRS”, May 26, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

**TECHNICAL CONSIDERATIONS:**

**FISCAL RESEARCH DIVISION: (919) 733-4910.**

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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**APPROVED BY:**

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Fiscal Research Division

**DATE:** June 17, 2015



**Signed Copy Located in the NCGA Principal Clerk's Offices**