



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

## Legislative Retirement Note

**Short Title:** Technical Corrections.  
**Bill Number:** Senate Bill 469 (Fifth Edition)  
**Sponsor(s):**

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF S.B. 469, V. 5 (\$ in thousands)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
<b>State Impact</b>					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	-
<b>Local Impact</b>					
Local Governments	-	-	-	-	-
<b>TOTAL LOCAL EXPENDITURES</b>	-	-	-	-	-

### ACTUARIAL IMPACT SUMMARY

Sections 6 and 22.5 have potential actuarial impacts on retirement systems.

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

Section 6: Corrects the dates in the statutes amended by Session Law 2018-22 to match the effective dates of those amendments and prevent retroactive impact. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have no material impact on the contribution rates or liabilities of TSERS and LGERS.

Section 22.5: Allows the boards of directors of municipal charter schools to elect to become participating employers in TSERS under the same conditions as charter schools operated by private nonprofit corporations and allows TSERS members to purchase creditable service at full actuarial cost for periods of employment in municipal charter schools whose boards of directors elect not to participate in TSERS. Under Session Law 2018-3, only the Towns of Cornelius,

Huntersville, Matthews, and Mint Hill are permitted to operate such schools. Both Conduent, the actuary for the retirement systems at the time of the actuarial analysis, and Hartman & Associates estimate that this sections will have no material impact on the contribution rates or liabilities of TSERS.

## 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, 2016 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2016 unless otherwise noted, M = millions)		
	TSERS	LGERS
Active Members		
Count	305,013	126,647
General Fund Compensation	\$10,652M	
Valuation Compensation (Total)	\$14,282M	\$6,049M
Average Age	45	44
Average Service	10.7	10.2
Inactive Members		
Count	151,581	63,682
Retired Members		
Count	208,443	65,930
Annual Benefits	\$4,343M	\$1,252M
Average Age	71	68
New Retirees During 2017	11,100	4,200

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)		
	TSERS	LGERS
Accrued Liability (AL)	\$74,548M	\$25,654M
Actuarial Value of Assets (AVA)	\$67,377M	\$24,425M
Market Value of Assets (MVA)	\$64,247M	\$23,309M
Unfunded Accrued Liability (AL - AVA)	\$7,171M	\$1,229M
Funded Status (AVA / AL)	90%	95%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
Assumed Rate of Investment Return: 7.20%		
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>
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**

---

Cavanaugh Macdonald Consulting, LLC, "Forfeiture of Retirement Benefits/Judges, Anti-Spiking, and other Technical Changes– Senate Bill 117 – Proposed House Committee Substitute CSTVp-29 (v.15)", December 1, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Proposed House Committee Substitute to Senate Bill 117 S117-CSTVp-29 [v.13]: An Act Prohibiting Receipt of Benefits From the CJRS for Judges Who Have Been Impeached or Removed From Office, to Amend Felony Forfeiture Statutes, to Clarify Anti-Pension-Spiking Benefit Cap, and Make other Technical and Substantive Changes to the Retirement Systems", November 29, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Conduent, "Permit Municipal Charter School/Certain Towns – House Bill 514", May 30, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 514, Third Edition: An Act to Permit Certain Towns to Operate Charter Schools", May 30, 2018, 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  
December 5, 2018



**Signed copy located in the NCGA Principal Clerk's Offices**