



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: COVID-19 Time Sensitive Matters.
Bill Number: House Bill 1043 (First Edition)
Sponsor(s): Representatives Bell, Jackson, and Lewis

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1043, V. 1 (\$ in thousands)

	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>
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.				
Local Impact					
Local Governments	No estimate available. See Actuarial Impact Summary.				
TOTAL LOCAL EXPENDITURES	No estimate available. See Actuarial Impact Summary.				

ACTUARIAL IMPACT SUMMARY

Sections 20 and 21 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), and Disability Income Plan (DIP)

Section 20: Allows the Director of the Retirement Systems Division to make interim determinations that a member is eligible for disability benefits under TSERS, LGERS, CJRS, LRS, or DIP until August 1, 2020. 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, LGERS, CJRS, LRS, or DIP.

Section 21: Modifies retiree return-to-work laws in TSERS and LGERS by reducing the six month separation period in TSERS to one month for work performed before August 1, 2020 by those who

retired prior to April 1, 2020, exempting earnings between March 10 and August 1, 2020 from the TSERS and LGERS retiree earnings limits, and specifying that law enforcement special separation allowance benefits will not be impacted by work performed between March 10 and August 1, 2020.

Cavanaugh Macdonald estimates that the contribution rate will increase by 0.01% of payroll for every \$1.6 million of TSERS payroll (roughly 30 annual positions) or \$0.7 million of LGERS payroll (roughly 13 annual positions) replaced by rehired retirees. Cavanaugh Macdonald did not estimate the amount of payroll that would in fact be replaced by rehired retirees. The significant uncertainty in this amount is the reason that no estimate is available in the Summary Table.

Hartman & Associates estimates that this section will not have a material financial impact due to the limited timeframe and the application of the separation period change to only those retired prior to April 1.

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, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>DIP</u>
Active Members				
Count	304,554	128,779	562	325,236
General Fund Compensation	\$11,046M		\$76M	\$12,296M
Valuation Compensation (Total)	\$15,059M	\$6,453M	\$76M	\$17,085M
Average Age	45	44	55	Not avail.
Average Service	10.8	10.1	13.5	Not avail.
Inactive Members				
Count	160,087	68,243	44	0
Retired Members				
Count	215,008	68,766	682	6,594
Annual Benefits	\$4,521M	\$1,324M	\$43M	\$78M
Average Age	71	69	73	Not avail.
New Retirees During 2018	11,200	4,400	30	500

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>DIP</u>
Accrued Liability (AL)	\$79,209M	\$27,746M	\$682M	\$383M
Actuarial Value of Assets (AVA)	\$69,568M	\$25,521M	\$587M	\$424M
Market Value of Assets (MVA)	\$70,608M	\$25,918M	\$596M	\$417M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$2,225M	\$95M	(\$41M)
Funded Status (AVA / AL)	88%	92%	87%	111%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	8.00% (non-LEO)	33.60%	0.10%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	3.50% - 8.10%
Assumed Rate of Investment Return: 7.00%				3.75%
Cost Method: Entry Age Normal				Aggregate
Amortization: 12 year, closed, flat dollar				Not applicable
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>	<u>CJRS</u>	<u>DIP</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	65% of base salary up to a maximum of \$3,900 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	Any/5
Employee contribution (as % of pay)	6%	6%	6%	0%

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, "Bill Draft 2019-STfzp-47A [v.3]", April 27, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Draft Bill 2019-STfzp-47A [v.3]: An Act to Make Various Changes to the Law Related to the COVID-19 Public Health Crisis (Sections 19, 20, and 21)", April 24, 2020, 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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April 28, 2020



Signed copy located in the NCGA Principal Clerk's Offices

