



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Omitted Membership Service/TSERS/LGERS.  
**Bill Number:** House Bill 1074 (First Edition)  
**Sponsor(s):** Representatives Belk, Gill, Martin, and Hurley

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 1074, 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> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <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

All sections have potential actuarial impacts on retirement systems.

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

Section 1: Allows a TSERS or LGERS employee who was classified as part-time to request written notification of his hours worked in the preceding 12 months from his employer. If the employee was reported as part-time in error and pays a lump sum equal to the employee contributions for the related service within one year, then the employer is required to pay the employer contributions related to that service to complete the purchase.

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 or LGERS using the valuation assumptions. G.S. 120-

114(g) requires actuarial notes on bills modifying service purchases to contain an estimate of the impact measured using Treasury Bond yields and cost-of-living adjustment and salary increase assumptions consistent with those yields. Both actuaries estimate that this section will also have no material impact on this alternative basis.

## 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, 2018 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

| Membership Statistics (as of 12/31/2018 unless otherwise noted, M = millions) |           |          |       |      |
|---|-----------|----------|-------|------|
|   | TSERS     | LGERS    | CJRS  | LRS  |
| Active Members  |           |          |       |      |
| Count   | 304,575   | 129,986  | 557   | 170  |
| General Fund Compensation   | \$11,166M |          | \$77M | \$4M |
| Valuation Compensation (Total)  | \$15,623M | \$6,772M | \$76M | \$4M |
| Average Age   | 45        | 44       | 55    | 61   |
| Average Service   | 10.8      | 10.0     | 13.3  | 7.3  |
| Inactive Members  |           |          |       |      |
| Count   | 168,755   | 73,835   | 48    | 92   |
| Retired Members   |           |          |       |      |
| Count   | 222,084   | 72,087   | 707   | 289  |
| Annual Benefits   | \$4,669M  | \$1,400M | \$45M | \$2M |
| Average Age   | 71        | 69       | 73    | 77   |
| New Retirees During 2019  | 11,000    | 4,500    | 40    | 15   |

| Financial Statistics (as of 12/31/2018 unless otherwise noted, M = millions) |           |           |        |       |
|--|-----------|-----------|--------|-------|
|  | TSERS     | LGERS     | CJRS   | LRS   |
| Accrued Liability (AL)   | \$82,106M | \$29,223M | \$703M | \$30M |
| Actuarial Value of Assets (AVA)  | \$70,959M | \$26,307M | \$602M | \$28M |
| Market Value of Assets (MVA)   | \$67,536M | \$25,045M | \$573M | \$27M |
| Unfunded Accrued Liability (AL - AVA)  | \$11,147M | \$2,916M  | \$100M | \$2M  |
| Funded Status (AVA / AL)   | 86%       | 90%       | 86%    | 92%   |

|   |               |                  |               |        |
|---|---------------|------------------|---------------|--------|
| Required Employer Contribution for FY 2020-21 (as % of pay)   | 14.78%        | 10.15% (non-LEO) | 36.44%        | 27.30% |
| Salary Increase Assumption (includes 3.50% inflation and productivity)  | 3.50% - 8.10% | 3.50% - 7.75%    | 3.50% - 5.50% | 5.50%  |
| 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                  |                                  |                                  |                                      |                               |
|-------------------------------------|----------------------------------|----------------------------------|--------------------------------------|-------------------------------|
|                                     | <u>TSERS</u>                     | <u>LGERS</u>                     | <u>CJRS</u>                          | <u>LRS</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 | 4.02% x Service x Highest Pay |
| 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                          | 65/5                          |
| Employee contribution (as % of pay) | 6%                               | 6%                               | 6%                                   | 7%                            |

For the measurement required in G.S. 120-114(g), both actuaries assumed a 3.02% 30-year Treasury Bond yield. Hartman & Associates used a cost-of-living adjustment assumption of 0.5% and a 2% wage inflation assumption.

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

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N/A.

## DATA SOURCES

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Cavanaugh Macdonald Consulting, LLC, "Omitted Membership Service TSERS/LGERS – House Bill 1074", May 21, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1074: Omitted Membership Service in TSERS and LGERS", May 19, 2020, original of which is on file in the General Assembly's Fiscal Research Division.

## **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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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**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

## **ESTIMATE PREPARED BY**

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## **ESTIMATE APPROVED BY**

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May 27, 2020



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