



NORTH CAROLINA GENERAL ASSEMBLY

2021 Session

Legislative Actuarial Note - Retirement

Short Title: 2022 Appropriations Act.
Bill Number: House Bill 103 (Fourth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 103, V.4 (\$ in thousands)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
State Impact					
General Fund	36,046	-	-	-	-
Highway Fund	1,143	-	-	-	-
Other/Receipts	18,040	-	-	-	-
TOTAL STATE EXPENDITURES	55,229	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Section 39.20 has an actuarial impact on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS)

Section 39.20: Grants an additional one-time cost-of-living supplement of one percent (1.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2022. The supplement will be paid in a lump sum on or before October 31, 2022. This supplement is in addition to the three percent (3.0%) supplement already enacted in Session Law 2021-180 and scheduled to be paid at the same time.

Cavanaugh Macdonald, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in FY 2022-23:

<u>System</u>	<u>Cavanaugh Macdonald</u>	<u>Hartman & Associates</u>
TSERS	0.31% of pay	0.32% of pay
CJRS	0.66% of pay	0.66% of pay
LRS	0.64% of pay	0.63% of pay

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2022-23 because the additional contributions during the fiscal year are estimated to offset the additional benefits paid out.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of Section 39.20 and contribute the amount recommended by the actuary to properly fund existing benefits.

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, 2020 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2020 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members			
Count	302,771	558	170
General Fund Compensation	\$11,444M	\$83M	\$4M
Valuation Compensation (Total)	\$16,446M	\$80M	\$4M
Average Age	46	55	59
Average Service	11.0	13.2	6.7
Inactive Members			
Count	190,875	52	110
Retired Members			
Count	233,751	761	286
Annual Benefits	\$4,928M	\$49M	\$2M
Average Age	72	74	78
New Retirees During 2021	11,800	50	15

Financial Statistics (as of 12/31/2020 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$89,809M	\$796M	\$30M
Actuarial Value of Assets (AVA)	\$77,922M	\$661M	\$29M
Market Value of Assets (MVA)	\$81,969M	\$695M	\$31M
Unfunded Accrued Liability (AL - AVA)	\$11,887M	\$135M	\$1M
Funded Status (AVA / AL)	87%	83%	98%
Required Employer Contribution for FY 2022-23 (as % of pay)	17.07%	38.99%	23.97%

Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 4.75%	3.25%
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>CJRS</u>	<u>LRS</u>
Formula	1.82% 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	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	7%

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, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", February 11, 2022, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% Non-Recurring Supplement for Retirees in the TSERS, LGERS, CJRS, and LRS", April 28, 2022, 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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Signed copy located in the NCGA Principal Clerk's Offices