



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: House Bill 284 (First Edition)

SHORT TITLE: 25-Year LEO Retirement Option.

SPONSOR(S): Representatives Murphy, McNeill, Rogers, and Malone

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS) and Local Governmental Employees' Retirement System (LGERS)

BILL SUMMARY:

Section 1: Allows State agencies and local governments to offer separation buyouts to law enforcement officers (LEOs) who leave employment prior to reaching eligibility for the special separation allowance. The special separation allowance is a benefit under current law paid by the agency or local government between unreduced retirement and age 62. The buyout cannot exceed the total that would otherwise be paid in special separation allowance payments.

Section 2: Allows the Transfer Benefit under both TSERS and LGERS to be funded with employer contributions paid directly to the Retirement System. Currently, the Transfer Benefit can only be funded with assets in an employee's qualified retirement account. The Transfer Benefit allows the member to establish a separate lifetime monthly benefit determined using the amount transferred, yields on U.S. Treasury Bonds, and mortality tables based on actual experience.

Section 3: Allows LEOs in TSERS and LGERS to retire with reduced benefits at any age with 25 years of service. If the retirement occurs prior to age 50, the benefit is reduced by the lesser of:

- a) 4% times 55 minus age at retirement
- b) 5% times 30 minus service at retirement plus 4% times 50 minus age at retirement

The bill does not change the law for retirement after age 50. The following table further summarizes the conditions for unreduced and reduced retirement:

	<u>Current Law</u>	<u>HB 284</u>
Unreduced for LEOs	Age 55 w/ 5 years of service Any age w/ 30 years	Unchanged
Reduced for LEOs	Age 50 w/ 15 years of service	Age 50 w/ 15 years of service Any age w/ 25 years
Unreduced for non-LEOs	Age 65 w/ 5 years of service Age 60 w/ 25 years Any age w/ 30 years	Unchanged
Reduced for non-LEOs	Age 50 w/ 20 years of service Age 60 w/ 5 years	Unchanged

Section 4: Authorizes the Retirement Systems Division of the Department of State Treasurer to use TSERS and LGERS assets to pay the costs of administering the changes in the bill.

EFFECTIVE DATE: Sections 2 and 3 are effective January 1, 2018. The remainder of the bill is effective when it becomes law.

ESTIMATED IMPACT ON STATE:

Both Conduent, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, state that the impact of Section 1 cannot be estimated because there is no way to know how many governments will offer separation buyouts and the impact that may have on retirement incidence.

Both actuaries estimate that sections 2 and 3 of the bill will have no material impact on the contribution rates or liabilities of either TSERS or LGERS.

The Retirement Systems Division reported to Conduent that implementation of this benefit enhancement may be a significant administrative burden that will require a number of changes to the ORBiT recordkeeping software. Section 4 of the bill allows the Division to use retirement assets to cover these costs.

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, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	305,291	124,974
General Fund Compensation	\$10,185M	
Valuation Compensation (Total)	\$13,897M	\$5,869M
Average Age	45	44

Average Service	10.7	10.2
Inactive Members		
Count	143,214	59,289
Retired Members		
Count	201,522	63,110
Annual Benefits	\$4,202M	\$1,182M
Average Age	71	68
New Retirees During 2016	11,100	4,100

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$71,522M	\$24,360M
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M
Market Value of Assets (MVA)	\$62,669M	\$22,404M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M
Funded Status (AVA / AL)	93%	97%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%
Assumed Rate of Investment Return: 7.25%		
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 David Vanderweide.

SOURCES OF DATA:

Conduent, "25-Year LEO Retirement Option – House Bill 284", March 24, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 284: An Act to Allow Law Enforcement Officers Who Are Members of the TSERS or LGERS to Retire After Achieving 25 Years of Service, to Allow for Separation Buyouts, and to Allow Transfers Under the Special Retirement Allowance to be

Paid with Employer Contributions”, March 9, 2017, 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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DATE: March 27, 2017



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